
**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 September 30, 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 October 31, 2010, the number of outstanding shares of the registrant's common stock, \$0.001 par value, was 50,113,655.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MIPS TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2010 (unaudited)	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,633	\$ 31,625
Short-term investments	22,573	20,736
Accounts receivable, net	4,580	7,527
Prepaid expenses and other current assets	1,614	819
Total current assets	71,400	60,707
Equipment, furniture and property, net	2,204	2,093
Intangible assets, net	247	275
Goodwill	565	565
Other assets	5,826	7,267
Total Assets	\$ 80,242	\$ 70,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,789	\$ 1,529
Accrued liabilities	9,006	13,911
Deferred revenue	2,551	3,217
Total current liabilities	13,346	18,657
Long-term liabilities:		
Other long-term liabilities	4,767	6,116
Total long-term liabilities	4,767	6,116
Liabilities of discontinued operations	—	26
Stockholders' equity:		
Common stock, \$0.001 par value: 250,000,000 shares authorized at September 30, 2010 and June 30, 2010; and 47,858,883 and 46,070,714 shares outstanding at September 30, 2010 and June 30, 2010, respectively, net of 61,099 and 59,876 reacquired shares at September 30, 2010 and June 30, 2010, respectively	47	46
Preferred stock, \$0.001 par value; 50,000,000 shares authorized; none issued and outstanding	—	—
Additional paid-in-capital	273,076	264,794
Accumulated other comprehensive income	597	475
Accumulated deficit	(211,591)	(219,207)
Total stockholders' equity	62,129	46,108
Total Liabilities and Stockholders' Equity	\$ 80,242	\$ 70,907

See accompanying notes.

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

	Three Months Ended September 30,	
	2010	2009
Revenue:		
Royalties	\$ 13,614	\$ 9,750
License and contract revenue	8,925	5,230
Total revenue	<u>22,539</u>	<u>14,980</u>
Operating Expenses:		
Cost of sales	586	146
Research and development	5,861	5,756
Sales and marketing	3,913	3,399
General and administrative	3,152	3,129
Total operating expenses	<u>13,512</u>	<u>12,430</u>
Operating income	9,027	2,550
Other income (expense), net	(64)	(151)
Income before income taxes	8,963	2,399
Provision for income taxes	1,347	1,804
Net income	<u>\$ 7,616</u>	<u>\$ 595</u>
Net income per share, basic	<u>\$ 0.16</u>	<u>\$ 0.01</u>
Net income per share, diluted	<u>\$ 0.16</u>	<u>\$ 0.01</u>
Common shares outstanding, basic	<u>46,864</u>	<u>45,075</u>
Common shares outstanding, diluted	<u>48,917</u>	<u>45,817</u>

See accompanying notes.

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Three Months Ended September 30,	
	2010	2009
Operating activities:		
Net income	\$ 7,616	\$ 595
Adjustments to reconcile net income to cash provided by operations:		
Depreciation	247	440
Stock-based compensation	894	933
Amortization of intangible assets	28	28
Excess tax benefits from stock based compensation	(382)	—
Other non-cash charges	243	14
Changes in operating assets and liabilities:		
Accounts receivable, net	2,948	(1,215)
Prepaid expenses and other current assets	(399)	585
Other assets	1,442	867
Accounts payable	210	365
Accrued liabilities	(4,650)	560
Deferred revenue	(737)	339
Long-term liabilities	(1,305)	(521)
Net cash provided by operating activities – continuing operations	6,155	2,990
Net cash used in operating activities – discontinued operations	—	(1,382)
Net cash provided by operating activities	6,155	1,608
Investing activities:		
Purchases of marketable securities	(10,253)	—
Proceeds from sale and maturity of marketable securities	8,246	—
Capital expenditures	(133)	(579)
Net cash used in investing activities	(2,140)	(579)
Financing activities:		
Net proceeds from issuance of common stock	6,553	113
Excess tax benefits from stock based compensation	382	—
Repayments of debt	—	(2,173)
Net cash provided by (used in) financing activities	6,935	(2,060)
Effect of exchange rates on cash	58	19
Net increase (decrease) in cash and cash equivalents	11,008	(1,012)
Cash and cash equivalents, beginning of period	31,625	44,507
Cash and cash equivalents, end of period	42,633	43,495
Supplemental disclosure of cash transaction:		
Release of restricted cash by escrow agent to former shareholders of Chipidea	\$ —	\$ 4,509

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. (MIPS) is a leading provider of industry-standard processor architectures and cores that power some of the world's most popular home entertainment, communications, networking and portable multimedia products. 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, 2010 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, 2010, included in our 2010 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 unaudited 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.

Revenue Recognition.

Royalty Revenue.

We classify all revenue that involves the sale of a licensee's products as royalty revenue. Royalty revenue is recognized in the quarter in which we receive a report from a licensee detailing the shipments of products incorporating our IP components, which is generally in the quarter following the licensee's sale of the product to its customer. Royalties are calculated either as a percentage of the revenue received by the seller on sales of such products or on a per unit basis, as specified in our agreement with the licensee. We periodically engage a third party to perform royalty audits of our licensees, and if these audits indicate any over- or under-reported royalties, we account for the results when they are resolved.

License and Contract Revenue.

We generally derive revenue from license fees for the transfer of proven and reusable IP components on currently available technology. We enter into licensing agreements that provide licensees the right to incorporate our IP components in their products with terms and conditions that have historically varied by licensee. Each of these types of contracts includes a nonexclusive license for the underlying IP. Fees for contracts for currently available technology include: license fees relating to our IP, including processor designs; maintenance and support, typically for one year; and royalties payable following the sale by our licensees of products incorporating the licensed technology. Generally, our customers pay us a single upfront fee that covers the license and first year maintenance and support. Our deliverables in these arrangements include (a) processor designs and related IP and (b) maintenance and support.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, "Revenue Arrangements with Multiple Deliverables" ("ASU 2009-13"). The standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. We adopted the provisions of ASU 2009-13 as of the beginning of fiscal 2011 for licenses that originate or are materially modified customer arrangements originating after July 1, 2010.

The amount of license and contract revenue we recognize in a given period is affected by our judgment as to whether an arrangement includes multiple deliverables and, if so, our determinations surrounding whether VSOE exists. In circumstances when VSOE does not exist, we then apply judgment with respect to whether we can obtain TPE. Generally, we are not able to determine TPE because our go-to-market strategy typically differs from that of our peers. When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. In determining BESP, we apply significant judgment as we weigh a variety of factors, based on the facts and circumstances of the arrangement. We typically arrive at BESP for license and contract revenue by considering historical and current evidence of pricing including bundled pricing practices, selling region, license term and number of uses allowed. The adoption of ASU 2009-13 had no material effect to our financial results.

License and contract revenue from currently available technology is recorded as revenue upon the execution of the license agreement when there is persuasive evidence of an arrangement, fees are fixed or determinable, delivery has occurred and collectability is reasonably assured. We assess the credit worthiness of each customer when a transaction under the agreement occurs. If collectability is not considered reasonably assured, revenue is recognized when the fee is collected. Other than maintenance and support, there is no continuing obligation under these arrangements after delivery of the IP.

Contracts relating to technology under development also can involve delivery of a license to intellectual property, including processor designs. However, in these arrangements we undertake to provide best-efforts engineering services intended to further develop technology that has yet to be developed into a final processor design. Rather than paying an upfront fee to license completed technology, customers in these arrangements pay us milestone fees as we perform the engineering services. If the development work results in completed technology in the form of a processor design and related intellectual property, the customer is granted a license to such completed technology at no additional fee. These contracts typically include the purchase of first year maintenance and support commencing upon the completion of a processor design and related intellectual property for an additional fee, which fee is equal to the renewal rate specified in the arrangement. The licensee is also obligated to pay us royalties following sale of products incorporating the licensed technology. We continue to own the intellectual property that we develop and we retain the fees for engineering services regardless of whether the work performed results in a completed processor design. Fees for engineering services in contracts for technology under development are recognized as revenue as the services are performed; however, we limit the amount of revenue recognized to the aggregate amount received or currently due pursuant to the milestone terms. As engineering activities are best-efforts and at-risk and because the customer must pay an additional fee for the first year of maintenance and support if the activities are successful, the maintenance and support is a contingent deliverable that is not accounted for upfront under contracts relating to technology under development.

When we provide engineering services involving design and development of customized specifications, we recognize revenue on a percentage of completion basis from the signing of the agreement through the completion of all outstanding development obligations. The amount of revenue recognized is based on the total license fees under the license agreement and the percentage of completion is measured by the actual costs incurred to date on the project compared to the total estimated project cost. Revenue is recognized only when collectability is probable. The estimates of project costs are based on the IP specifications and prior experience with the same or similar IP development and are reviewed and updated regularly. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined. Licensing of existing IP that does not require any configuration is recognized upon delivery of the IP and when all other revenue recognition criteria have been met. Direct costs incurred in the design and development of the IP under these arrangements is included in cost of contract revenue.

Maintenance and Support.

Certain arrangements include maintenance and support obligations. Under such arrangements, we provide unspecified upgrades, bug fixes and technical support. No other upgrades, products or other post-contract support are provided. These arrangements are generally renewable annually by the customer. Maintenance and support revenue is recognized at its fair value ratably over the period during which the obligation exists, typically 12 months.

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 as short-term investments. The fair value of cash and cash equivalents approximates their carrying value at September 30, 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). 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). 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. 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. In addition, we consider: 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) if we intend to hold the security, whether or not we expect to recover the entire amortized cost basis of the security. If any loss on investment is believed to be other-than-temporary, a charge will be recognized. Due to the high credit quality and short term nature of our investments, there have been no other-than-temporary impairments recorded to date.

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

	Three Months Ended September 30,	
	2010	2009
Numerator:		
Net income	\$ 7,616	\$ 595
Denominator:		
Weighted-average shares of common stock outstanding	46,864	45,075
Effect of dilutive securities-employee stock options and shares subject to repurchase	2,053	742
Shares used in computing diluted net income per share	48,917	45,817
Net income per share, basic	\$ 0.16	\$ 0.01
Net income per share, diluted	\$ 0.16	\$ 0.01
Potentially dilutive securities excluded from diluted net income per share because they are anti-dilutive (A)	3,989	9,426

- (A) For the three months ended September 30, 2010 and 2009, we excluded approximately 4.0 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.

Note 3. Comprehensive Income

Total comprehensive income includes net income and other comprehensive income, which primarily comprises adjustments from foreign currency adjustments and changes in unrealized gains (losses) on short-term investments. Total comprehensive income for the first quarter of fiscal 2010 was \$7.7 million and total comprehensive income for the comparable period in the prior year was \$0.7 million.

Note 4. Fair Value

We invest 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 or at least annually in the case of goodwill.

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 September 30, 2010 or June 30, 2010.

The following table presents our cash equivalents and short-term investments by the above pricing levels as of September 30, 2010 (in thousands):

	Fair value measurement at reporting dates using			
	Total	Quoted Price in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Money Market Funds (1)	\$ 20,255	\$ 20,255	\$ —	\$ —
Commercial Paper	2,198	—	2,198	—
Corporate Bonds	7,496	—	7,496	—
Government Agency	11,486	—	11,486	—
Time Deposits	1,000	—	1,000	—
Marketable Equity Securities	393	393	—	—
Total Short-term Investments	\$ 22,573	\$ 393	\$ 22,180	\$ —

(1) At September 30, 2010, \$20.3 million of money market funds was included in cash and cash equivalents in our condensed consolidated balance sheet.

Available-for-sale securities, all of which were classified as short-term investments, held by the Company as of September 30, 2010 were as follows (in thousands):

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate Bonds	\$ 7,493	\$ 6	\$ (3)	\$ 7,496
Commercial Paper	2,198	—	—	2,198
Government Agency	11,481	5	—	11,486
Time Deposits	1,000	—	—	1,000
Marketable Equity Securities	305	88	—	393
Total Short-term Investments	\$ 22,477	\$ 99	\$ (3)	\$ 22,573

The following table presents our cash equivalents and short-term investments by the above pricing levels as of June 30, 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	\$ 10,007	\$ 10,007	\$ —	\$ —
Commercial Paper	999	—	999	—
Total cash equivalents	\$ 11,006	\$ 10,007	\$ 999	\$ —
Commercial Paper	\$ 1,000	\$ —	\$ 1,000	\$ —
Corporate Bonds	6,874	—	6,874	—
Treasury Bills	4,495	4,495	—	—
Government Agency	6,979	—	6,979	—
Domestic Time deposits	1,000	—	1,000	—
Marketable equity securities	388	388	—	—
Total short-term investments	\$ 20,736	\$ 4,883	\$ 15,853	\$ —

Available-for-sale securities, of which \$1.0 million was classified as cash equivalents and \$20.7 million was classified as short-term investments, held by the Company as of June 30, 2010 were as follows (in thousands):

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate Bonds	\$ 6,882	\$ —	\$ (8)	\$ 6,874
Commercial Paper	1,999	—	—	1,999
Treasury Bills	4,492	3	—	4,495
Government Agency	6,977	2	—	6,979
Domestic Time deposits	1,000	—	—	1,000
Marketable Equity securities	306	82	—	388
Total available-for-sale securities	\$ 21,656	\$ 87	\$ (8)	\$ 21,735

All contractual maturities of the Company's available-for-sale marketable securities at September 30, 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 2010 and in the first three months of fiscal 2011.

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

	September 30, 2010	June 30, 2010
Gross Carrying Value	\$ 1,100	\$ 1,100
Accumulated Amortization	(853)	(825)
Net Carrying Value	<u>\$ 247</u>	<u>\$ 275</u>

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

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

	in thousands
Fiscal Year	
Remaining 2011	\$ 82
2012	110
2013	55
Total	<u>\$ 247</u>

Note 6. Discontinued Operations

On May 7, 2009, we entered into a simultaneous sale and close agreement with Synopsys, Inc. (Synopsys) 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 the sale of our Analog Business Group (ABG) to Synopsys, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify Synopsys against certain breaches of representations and warranties and other liabilities. Our potential liability to Synopsys 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. To date, we have not incurred any losses in respect of claims asserted by Synopsys in connection with this transaction. However, there can be no assurance that we will not incur future liabilities to Synopsys in connection with this transaction, or that the amount of such liabilities will not be material. In May 2010, Synopsys delivered a letter to MIPS asserting breaches of certain representations and warranties and requesting compensation in an aggregate amount of approximately \$3.7 million. We responded to Synopsys in June 2010 and denied all claims set forth in the May 2010 letter. In July 2010, Synopsys responded to our letter. General discussions between the parties have commenced; however, there can be no assurance that the current dispute can be resolved on terms that are acceptable to us.

At June 30, 2010, we had liability of \$26,000 relating to discontinued operations consisted of remaining administrative costs relating to the closure of certain foreign operations. There is no remaining liability outstanding as of September 30, 2010. There were no discontinued operation activities recorded in the Statement of Income in the first quarter of fiscal 2011 or 2010.

Note 7. Debt

Revolving Credit Agreement. On September 20, 2010, our revolving line of credit which enabled us to borrow up to \$10 million from Silicon Valley Bank expired with no balance due. Loans under this facility would be secured by virtually all of our assets with the exception of IP, and the facility contains affirmative and negative covenants that imposed restrictions on the operation of our business. As of June 30, 2010, we were in compliance with the debt covenants. There was no debt covenant at September 30, 2010. The revolving credit agreement interest was at SVB's prime rate plus 0.25% as defined in the credit facility agreement. SVB's prime rate at June 30, 2010 was 4.0%.

Note 8. Restructuring

In our first quarter of fiscal 2011, we completed all the payments of the \$0.7 million restructuring liability that we incurred in our fourth quarter of fiscal 2010, which related to severance and benefit costs.

There was no restructuring activity in the first quarter of fiscal 2011 and 2010.

Note 9. Equipment, Furniture and Property

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

	September 30, 2010	June 30, 2010
Equipment	\$ 9,145	\$ 9,343
Furniture and fixtures	2,068	2,119
Leasehold improvements	639	632
	11,852	12,094
Accumulated depreciation and amortization	(9,648)	(10,001)
Equipment, furniture and property, net	<u>\$ 2,204</u>	<u>\$ 2,093</u>

Note 10. Other Long-Term Assets

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

	September 30, 2010	June 30, 2010
Investment in other company	\$ 363	\$ 368
Long-term engineering design software licenses	3,952	4,928
Cash surrender value of insurance contracts tied to our deferred compensation plan	1,225	1,677
Other	286	294
Total other assets	<u>\$ 5,826</u>	<u>\$ 7,267</u>

Note 11. Accrued and Other Long-Term Liabilities

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

	September 30, 2010	June 30, 2010
Accrued compensation and employee-related expenses	\$ 3,543	\$ 6,530
Income taxes payable	1,175	1,920
Accrued restructuring	—	696
Obligations related to engineering design software licenses	2,652	2,752
Other accrued liabilities	1,636	2,013
Total accrued liabilities	<u>\$ 9,006</u>	<u>\$ 13,911</u>

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

	September 30, 2010	June 30, 2010
Deferred compensation	\$ 1,345	\$ 1,770
Long-term income tax liability	1,164	1,146
Long-term obligations related to engineering design software licenses	—	867
Long-term deferred revenue	1,923	1,993
Other	335	340
Total long-term liabilities	<u>\$ 4,767</u>	<u>\$ 6,116</u>

Note 12. Commitments and Contingencies

Purchase Commitments with Suppliers. Unconditional commitments for purchases of products or services to be received in future periods totaled \$2.9 million at September 30, 2010, of which \$2.5 million is due by September 30, 2011 and \$0.1 million is due annually in each of the subsequent four fiscal years. These commitments are exclusive of engineering design software license contracts of \$2.7 million that are reflected in the Company's accrued liabilities (see Note 11).

Operating Lease Commitments. At September 30, 2010, the Company's future minimum payments for operating lease obligations are as follows:

	In thousands
Fiscal Year	
Remaining 2011	\$ 875
2012	904
2013	732
2014	711
2015	728
Thereafter	686
Total	<u>\$ 4,636</u>

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

In connection with the sale of our Analog Business Group to Synopsys in May 2009, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify Synopsys against certain breaches of representations and warranties and other liabilities. Our potential liability to Synopsys 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. To date, we have not incurred any losses in respect of claims asserted by Synopsys in connection with this transaction. However, there can be no assurance that we will not incur future liabilities to Synopsys in connection with this transaction, or that the amount of such liabilities will not be material. In May 2010, Synopsys delivered a letter to MIPS asserting breaches of certain representations and warranties and requesting compensation in an aggregate amount of approximately \$3.7 million. We responded to Synopsys in June 2010 and denied all claims set forth in the May 2010 letter. In July 2010, Synopsys responded to our letter. General discussions between the parties have commenced; however, there can be no assurance that the current dispute can be resolved on terms that are acceptable to us.

Note 13. Stock-Based Compensation

The following table shows total stock-based employee compensation expense included in the condensed consolidated statements of operations for the three months ended September 30, 2010 and 2009 (in thousands):

	Three months ended September 30,	
	2010	2009
Operating expenses:		
Research and development	\$ 291	\$ 393
Sales and Marketing	231	236
General and administrative	372	304
Total stock-based compensation expense	\$ 894	\$ 933

In the three months ended September 30, 2010 and September 30, 2009, we issued 1,788,169 and 67,771 shares, respectively, of common stock for employee restricted stock awards and stock option exercises, respectively.

In fiscal 2010, we issued 570,386 shares of common stock upon stock option exercise purchases.

Stock Options

The following are significant weighted average assumptions used for estimating the fair value of the activity under our stock option plans:

	Employee Stock Options for three months ended September 30,		Employee Stock Purchase Plan for three months ended September 30,	
	2010	2009	2010	2009
Expected volatility	0.61	0.63	0.45	0.98
Risk-free interest rate	1.09%	2.00%	0.22%	0.35%
Expected dividends	0.00%	0.00%	0.00%	0.00%
Expected life (in years)	4.20	4.20	0.50	0.50
Grant date fair value	\$ 3.00	\$ 1.67	\$ 1.41	\$ 1.34

Restricted Stock Units and Awards

For the three months ended September 30, 2010 and September 30, 2009, we granted 239,930 and 10,000 restricted stock units, respectively, with an average grant date fair value of \$6.07 and \$3.41, respectively.

Note 14. Income Taxes

We recorded an income tax expense of \$1.3 million for the three-month period ended September 30, 2010 and an income tax expense of \$1.8 million for the comparable period in fiscal 2010. 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 2011 consists of U.S. income tax, partially offset by foreign tax credits from withholding taxes and tax benefits from employee stock option exercises. Our estimated annual income tax for fiscal 2010 consists of U.S. state, foreign income taxes, and withholding taxes; U.S. federal income tax has been offset by tax loss carry forwards and foreign tax credits. Included in the fiscal 2010 income 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 is available. However, our U.S. foreign tax credit was subject to a valuation allowance consistent with the other U.S. deferred tax assets. The tax expense recognized for the quarter ended September 30, 2010 is lower than that of the same period of fiscal 2010 primarily due to tax benefits received from employee stock option exercises.

There were no material changes to our reserves for unrecognized tax benefits in our quarter ended September 30, 2010. The total amount of gross unrecognized tax benefits as of September 30, 2010 and June 30, 2010 was approximately \$4.3 million. 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 September 30, 2010 and June 30, 2010 was approximately \$0.2 million. Also, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$1.5 and \$1.1 million as of September 30, 2010 and June 30, 2010, respectively.

Although we file tax returns in several overseas tax jurisdictions, our major tax jurisdiction is the United States where we file U.S. federal and state returns. Our fiscal 2007 and subsequent tax years remain subject to examination by the IRS for U.S. federal tax purposes. The Company does not expect any significant change in the total amount of uncertain tax benefits in the next 12 months.

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

MIPS Technologies, Inc. is a leading provider of industry-standard processor architectures and cores that power some of the world's most popular home entertainment, communications, networking and portable multimedia products. 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.

Supported by improved license fee momentum, we reported first quarter fiscal 2011 revenue of \$22.5 million, representing a 50% increase compared to first quarter of fiscal 2010. Royalty revenue in the first quarter of fiscal 2011 was \$13.6 million, a 40% increase compared to the first quarter of fiscal 2010. Total royalty units reported in the first quarter of fiscal 2011 were 157 million, a 47% increase from our first quarter of fiscal 2010. As our royalty revenue is reported one quarter in arrears, shipments and revenue reported in our first quarter of fiscal 2011 represented our customer shipments from the quarter ended June 30, 2010. This quarter's royalty units represent the fourth consecutive quarter of record unit shipments. License and contract revenue in the first quarter of fiscal 2011 was \$8.9 million, a 71% increase compared to the first quarter of fiscal 2010. The increase in the license revenue was primarily driven by increased customer demand in particular for our M14K core family, which was released in the third quarter of fiscal 2010, as well as our 1074K core, which was released in the first quarter of fiscal 2011.

Our operating income for the first quarter of fiscal 2011 increased to \$9.0 million from \$2.5 million in our first quarter of fiscal 2010. The increase in operating performance for our first quarter of fiscal 2011 compared to the same quarter of fiscal 2010 was mainly due to the increase in royalty and license revenue.

We recorded a tax provision of \$1.3 million in the quarter ended September 30, 2010 consisting mainly of U.S. state, foreign income taxes and withholding taxes.

Our cash, cash equivalents and short term investments as of September 30, 2010 were \$65.2 million compared to \$52.4 million at June 30, 2010. The increase in cash, cash equivalents and short term investments was primarily a result of cash provided from operations and stock option exercises.

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 the sale of our Analog Business Group (ABG) to Synopsys, Inc. (Synopsys) in May 2009, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify Synopsys against certain breaches of representations and warranties and other liabilities. Our potential liability to Synopsys 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. To date, we have not incurred any losses in respect of claims asserted by Synopsys in connection with this transaction. However, there can be no assurance that we will not incur future liabilities to Synopsys in connection with this transaction, or that the amount of such liabilities will not be material. In May 2010, Synopsys delivered a letter to MIPS asserting breaches of certain representations and warranties and requesting compensation in an aggregate amount of approximately \$3.7 million. We responded to Synopsys in June 2010 and denied all claims set forth in the May 2010 letter. In July 2010, Synopsys responded to our letter. General discussions between the parties have commenced; however, there can be no assurance that the current dispute can be resolved on terms that are acceptable to us.

At June 30, 2010, we had liability of \$26,000 relating to discontinued operations consisted of remaining administrative costs relating to the closure of certain foreign operations. There is no remaining liability outstanding as of September 30, 2010. There were no discontinued operation activities recorded in the Statement of Income in the first quarter of fiscal 2011 or 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 periods ended September 30, 2010 and September 30, 2009 was as follows (in thousands, except percentages):

	Three Months Ended September 30,		
	2010	2009	Change in Percent
Revenue			
Royalties	\$ 13,614	\$ 9,750	40%
<i>Percentage of Total Revenue</i>	60%	65 %	
License and Contract Revenue	\$ 8,925	\$ 5,230	71%
<i>Percentage of Total Revenue</i>	40%	35 %	
Total Revenue	<u>\$ 22,539</u>	<u>\$ 14,980</u>	

Royalties. The increase in royalty revenue in the first quarter of fiscal 2011 from the comparable period in fiscal 2010 is primarily due to increase in unit volumes shipped by our royalty paying licensees. Total royalty units reported by our customers in the first quarter of fiscal 2011 were 157 million, a 47% increase from our first quarter of fiscal 2010.

License and Contract Revenue. The increase of 71% in license and contract revenue in the first quarter of fiscal 2011 from the comparable period in fiscal 2010 was due to more licenses and a higher average selling price of licenses as compared to fiscal 2010. There were 10 new license agreements executed in the first quarter of fiscal 2011 compared to 6 in the first quarter of fiscal 2010. The increase in the number of license agreements resulted from increased customer demand, particularly for our M14K core family, which was released in the third quarter of fiscal 2010, as well as our 1074K core, which was released in the first quarter of fiscal 2011. Our average license price increased primarily as a result of the sale of more high-end cores as well as the sale of one significant architectural license renewal.

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 can be up to 16 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 \$5.2 million in first quarter of fiscal 2011 and \$2.2 million in the first quarter of fiscal 2010.

Cost and Expenses

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

	Three Months Ended September 30,		
	2010	2009	Change in Percent
Cost and Expenses			
Cost of Sales	\$ 586	\$ 146	301%
Research and Development	\$ 5,861	\$ 5,756	2%
Sales and Marketing	\$ 3,913	\$ 3,399	15%
General and Administrative	\$ 3,152	\$ 3,129	1%

Cost of Sales. Cost of sales primarily includes labor and overhead related costs for contracts with engineering service requirements, material costs and costs associated with acquired third party software used in our products.

The increase in cost of sales in the first quarter of fiscal 2011 compared to the same period of the previous year was due to additional engineering labor and overhead costs associated with a larger customer project that commenced in the fourth quarter of 2010.

Research and Development. Research and development expenses include salaries and contractor and consultant fees, as well as costs related to workstations, software, and computer aided design tools utilized in the development of new technologies. 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 \$0.1 million increase in research and development expense for first quarter of fiscal 2011 over the comparable period in fiscal 2010 was primarily due to a \$0.3 million increase in consulting related expenses resulting from additional product development efforts and a \$0.4 million increase in bonus accrual resulting from the company exceeding certain financial targets in the first quarter of fiscal 2011. These increases in expense were partially offset by \$0.4 million of engineering labor and overhead costs being classified as cost of sales rather than research and development expense due to larger customized customer projects, lower depreciation expense by \$0.1 million with more equipment fully depreciated, and lower stock compensation expense by \$0.1 million resulting from lower average grant date fair value of options as compared to prior years.

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

The \$0.5 million increase in sales and marketing expense for first quarter of fiscal 2011 over the comparable period in fiscal 2010 was primarily due to a \$0.3 million increase in commissions and bonus accrual resulting from the company exceeding certain financial targets in the first quarter of fiscal 2011 and a \$0.2 million increase in consulting and outside services expenses with significant focus on Android and mobile related end applications.

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 financial audit fees.

Our general and administrative expense in the first quarter of fiscal 2011 was relatively flat compared to the comparable period in fiscal 2010.

Other Income (Expense), Net. Other Income (Expense), net decreased by \$0.1 million for first quarter of fiscal 2011 over the comparable period in fiscal 2010 due to \$0.1 million of decreased interest expense as our outstanding debt balances were repaid in the fourth quarter of fiscal 2010.

Income Taxes. We recorded an income tax expense of \$1.3 million for the three months ended September 30, 2010 and an income tax expense of \$1.8 million for the comparable period in fiscal 2010. We continue to recognize a valuation allowance against our net U.S. deferred tax assets as we believe that it is more likely than not that these deferred tax assets will not be recognized.

Our estimated annual income tax for fiscal 2011 primarily consists of U.S. income tax, partially offset by foreign tax credits from withholding taxes and tax benefits from employee stock option exercises. Our estimated annual income tax for fiscal 2010 primarily consists of U.S. state, foreign income taxes, and withholding taxes; U.S. federal income tax has been offset by tax loss carry forwards and foreign tax credits. Included in the fiscal 2010 income 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 is available. However, our U.S. foreign tax credit was subject to a valuation allowance consistent with the other U.S. deferred tax assets. The tax expense recognized for the quarter ended September 30, 2010 is lower than that of the same period of fiscal 2010 primarily due to tax benefits from employee stock option exercises.

Liquidity and Capital Resources

At September 30, 2010, we had cash, cash equivalents and short term investments of \$65.2 million, an increase of approximately \$12.8 million from June 30, 2010. Our cash and cash equivalents increased by \$11.0 million, primarily as a result of cash provided from operations and stock option exercises, offset by net purchases of marketable securities. We allowed our revolving credit facility to expire during the first quarter of fiscal 2011 without being renewed.

Operating Activities

Net cash provided by operating activities was \$6.2 million for the three months ended September 30, 2010. The cash generated from operations was primarily a result of our positive net income net of non-cash expenses partially offset by net changes in our asset and liability balances. Our net income included the effects of non-cash charges of \$0.9 million from stock compensation expense and \$0.3 million in depreciation and amortization of intangible assets. In addition, cash generated from operating activities increased primarily as a result of (i) a \$1.0 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, (ii) a \$2.9 million decrease in accounts receivable, reflecting timing of customer billings and payments received and (iii) a \$0.2 million increase in accounts payable, due to the timing of vendor payments. These increases were offset by cash used as a result of (i) a \$1.3 million decrease in long term liabilities, primarily reflecting timing of engineering design software license payments and (ii) a \$4.7 million decrease in accrued liabilities, primarily due to the payment of our fiscal 2010 bonus and commissions in the first quarter of fiscal 2011.

Net cash provided by operating activities was \$1.6 million for the quarter ended September 30, 2009. The cash generated from operating activities included \$3.0 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 \$0.9 million from stock compensation expense and \$0.5 million in depreciation and amortization of intangible assets. In addition, cash generated from continuing operations increased primarily as a result of (i) a \$1.4 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 \$0.9 million increase in accounts payable and accrued liabilities, primarily reflecting a \$1.0 million withholding tax accrual in connection with change in our foreign legal structure. Those generators of cash were partially offset by an increase in accounts receivable of \$1.2 million, reflecting the timing of license sales and customer payments. 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.

Investing Activities

Net cash used in investing activities was \$2.1 million for the three months ended September 30, 2010 as a result of usage of \$2.0 million from the net purchases of available-for-sale securities and \$0.1 million used to purchase property, furniture and equipment.

Net cash used in investing activities was \$0.6 million for the three month period ended September 30, 2009 as a result of capital expenditures in the quarter.

Financing Activities

Net cash provided by financing activities was \$6.9 million for the three months ended September 30, 2010. This cash generated from financing activities resulted from \$6.6 million from stock option exercises and \$0.3 million of cash provided by excess tax benefits from options exercised.

Net cash used in financing activities was \$2.1 million for the three months ended September 30, 2009. Net cash used of \$2.2 million related to the principal payments of our debt. In addition, we received \$0.1 million from the issuance of common stock options exercises.

Liquidity

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

- general economic and political conditions and specific conditions in the markets we address, including the continuing volatility in the technology sector and semiconductor industry, the recent global economic recession, trends in the semiconductor markets in various geographic regions, including seasonality in sales of consumer products into which our products are incorporated;
- our ability to continue to generate cash flow from operations;
- litigation expenses, settlements and judgments;
- required levels of research and development and other operating costs;
- changes in our compensation policies;
- the issuance of restricted stock units and the related cash payments we make for withholding taxes due from employees in future years;
- the level of exercises of stock options and stock purchases under our employee stock purchase plan;
- the timing and payment of taxes in connection with changing the legal structure of our foreign operations;
- significant payments to suppliers including Computer Aided Design (CAD) system vendors required under long term purchase agreements as these payments vary and can be up to \$1.0 million per quarter;
- the costs associated with capital expenditures.

Our investment policy requires all investments with original maturities at the time of investment of up to 6 months to be rated 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 seek to 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.

We believe that we have sufficient cash 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 September 30, 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)	\$ 4,636	\$ 875	\$ 1,636	\$ 2,125	\$ —
Purchase obligations (2)	5,599	5,249	150	200	—
Other long-term liabilities and obligations (3)	1,345	—	1,345	—	—
Total	<u>\$ 11,580</u>	<u>\$ 6,124</u>	<u>\$ 3,131</u>	<u>\$ 2,325</u>	<u>\$ —</u>

- (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 \$5.6 million at September 30, 2010 increased from our purchase obligations as of June 30, 2010 by \$0.1 million. Of the total, \$2.7 million of the obligations relate to engineering design software license contracts that are reflected in the Company's accrued liabilities. The remaining \$2.9 million of purchase obligations includes \$2.5 million is due by September 30, 2011 and \$0.1 million is due annually in each of the subsequent four fiscal years.
- (3) 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 \$1.2 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 2010 Form 10-K, except for the following policy:

Revenue Recognition.

Royalty Revenue.

We classify all revenue that involves the sale of a licensee's products as royalty revenue. Royalty revenue is recognized in the quarter in which a report is received from a licensee detailing the shipments of products incorporating our IP components, which is generally in the quarter following the sale of the licensee's product to its customer. Royalties are calculated either as a percentage of the revenue received by the seller on sales of such products or on a per unit basis. We periodically engage a third party to perform royalty audits of our licensees, and if these audits indicate any over- or under-reported royalties, we account for the results when they are resolved.

License and Contract Revenue.

We generally derive revenue from license fees for the transfer of proven and reusable IP components on currently available technology. We enter into licensing agreements that provide licensees the right to incorporate our IP components in their products with terms and conditions that have historically varied by licensee. Each of these types of contracts includes a nonexclusive license for the underlying IP. Fees for contracts for currently available technology include: license fees relating to our IP, including processor designs; maintenance and support, typically for one year; and royalties payable following the sale by our licensees of products incorporating the licensed technology. Generally, our customers pay us a single upfront fee that covers the license and first year maintenance and support. Our deliverables in these arrangements include (a) processor designs and related IP and (b) maintenance and support.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13, "Revenue Arrangements with Multiple Deliverables" ("ASU 2009-13"). The standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. We adopted the provisions of ASU 2009-13 as of the beginning of fiscal 2011 for licenses that originate or are materially modified customer arrangements originating after July 1, 2010.

The amount of license and contract revenue we recognize in a given period is affected by our judgment as to whether an arrangement includes multiple deliverables and, if so, our determinations surrounding whether VSOE exists. In circumstances when VSOE does not exist, we then apply judgment with respect to whether we can obtain TPE. Generally, we are not able to determine TPE because our go-to-market strategy typically differs from that of our peers. When we are unable to establish selling price using VSOE or TPE, we use BESP in our allocation of arrangement consideration. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold separately. In determining VSOE, we require that a substantial majority of the selling prices for a product or service fall within a reasonably narrow pricing range. In determining BESP, we apply significant judgment as we weigh a variety of factors, based on the facts and circumstances of the arrangement. We typically arrive at BESP for license and contract revenue by considering historical and current evidence of pricing including bundled pricing practices, selling region, license term and number of uses allowed. The adoption of ASU 2009-13 had no material effect to our financial results.

License and contract revenue from currently available technology is recorded as revenue upon the execution of the license agreement when there is persuasive evidence of an arrangement, fees are fixed or determinable, delivery has occurred and collectability is reasonably assured. We assess the credit worthiness of each customer when a transaction under the agreement occurs. If collectability is not considered reasonably assured, revenue is recognized when the fee is collected. Other than maintenance and support, there is no continuing obligation under these arrangements after delivery of the IP.

Contracts relating to technology under development also can involve delivery of a license to intellectual property, including processor designs. However, in these arrangements we undertake to provide best-efforts engineering services intended to further develop technology that has yet to be developed into a final processor design. Rather than paying an upfront fee to license completed technology, customers in these arrangements pay us milestone fees as we perform the engineering services. If the development work results in completed technology in the form of a processor design and related intellectual property, the customer is granted a license to such completed technology at no additional fee. These contracts typically include the purchase of first year maintenance and support commencing upon the completion of a processor design and related intellectual property for an additional fee, which fee is equal to the renewal rate specified in the arrangement. The licensee is also obligated to pay us royalties following sale of products incorporating the licensed technology. We continue to own the intellectual property that we develop and we retain the fees for engineering services regardless of whether the work performed results in a completed processor design. Fees for engineering services in contracts for technology under development are recognized as revenue as the services are performed; however, we limit the amount of revenue recognized to the aggregate amount received or currently due pursuant to the milestone terms. As engineering activities are best-efforts and at-risk and because the customer must pay an additional fee for the first year of maintenance and support if the activities are successful, the maintenance and support is a contingent deliverable that is not accounted for upfront under contracts relating to technology under development.

When we provide engineering services involving design and development of customized specifications, we recognize revenue on a percentage of completion basis from the signing of the agreement through the completion of all outstanding development obligations. The amount of revenue recognized is based on the total license fees under the license agreement and the percentage of completion is measured by the actual costs incurred to date on the project compared to the total estimated project cost. Revenue is recognized only when collectability is probable. The estimates of project costs are based on the IP specifications and prior experience with the same or similar IP development and are reviewed and updated regularly. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined. Licensing of existing IP that does not require any configuration is recognized upon delivery of the IP and when all other revenue recognition criteria have been met. Direct costs incurred in the design and development of the IP under these arrangements is included in cost of contract revenue.

Maintenance and Support.

Certain arrangements include maintenance and support obligations. Under such arrangements, we provide unspecified upgrades, bug fixes and technical support. No other upgrades, products or other post-contract support are provided. These arrangements are generally renewable annually by the customer. Maintenance and support revenue is recognized at its fair value ratably over the period during which the obligation exists, typically 12 months.

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 2010 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 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, from time to time, the semiconductor industry has experienced significant downturns 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, and contract revenues depend on the willingness of our potential customers to invest in new products, and both our royalty revenue and our contract revenue 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, recent economic volatility could lead to a number of follow-on effects 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 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.

Revenue from our five largest customers represented 50% and 44% of our net revenue in the quarters ended September 30, 2010 and 2009, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue for the foreseeable future. Our largest customers, and their respective contributions to our net revenue, have varied from time to time and will probably continue to vary.

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

- our agreements with our customers typically do not provide for minimum royalties;
- 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 the 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 stock price is volatile. The market price of our common stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations. From January 1, 2008 through September 30, 2010 our common stock has traded at prices as low as \$1.00 and as high as \$10.13 per share. Fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control.

In addition, the market prices of securities of Internet-related, semiconductor and other technology companies have been and remain volatile. The market prices of securities of many technology companies have fluctuated significantly for reasons frequently unrelated to the operating performance of the specific companies. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of our common stock will likely decline. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid.

Due to the nature of our compensation programs, most of our executive officers sell shares of our common stock each quarter or otherwise periodically. Sales of shares by our executive officers may not be indicative of their respective opinions of our performance at the time of sale or of our potential future performance. Nonetheless, the market price of our stock may be affected by sales of shares by our executive officers.

Our financial results are subject to significant fluctuations that could adversely affect our stock price. Our 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, mobile, 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, mobile, wireless, connectivity and business product manufacturers, adopting our technology and using it in the products they sell. Our contract revenue decreased by 23%, 8% and 9% in fiscal 2008, 2009 and 2010 respectively as compared to the prior fiscal year. However, our contract revenue increased by 71% in the first quarter of fiscal 2011 as compared to the same period of fiscal 2010. 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 can be up to 16 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 54% in fiscal 2008, 32% in fiscal 2009 and 51% in fiscal 2010 of our total license and contract revenue. Additionally, contract revenue from unlimited use license agreements was \$5.2 million in the first quarter of fiscal 2011 as compared with \$2.2 million in the first quarter of 2010. 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 first quarters of fiscal 2011 and 2010, 52% and 56% of our net revenue, respectively, was derived from sales to customers outside the United States. In addition, we have sales and operations in China 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 depends, 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, mobile, 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, mobile, wireless, connectivity and business products markets;
- the emergence of new standards in the semiconductor industry and for digital consumer, mobile, 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 depend on our key personnel to succeed. Our success depends to a significant extent on the continued contributions of our key management, technical, sales and marketing personnel, many of whom are highly skilled and difficult to replace. If we are unable to attract, retain and motivate such personnel in sufficient numbers and on a timely basis, we may experience difficulty in implementing our current business and product plans. In that event, we may be unable to successfully meet competitive challenges or to exploit potential market opportunities, which could adversely affect our business and results of operations. In addition, we cannot assume that we will retain our other key officers and employees. Competition for qualified personnel, particularly those with significant experience in the semiconductor and processor design industries, remains intense.

We rely on the efforts of third parties to enhance our technology offerings, and an inability to develop or maintain relationships with these parties 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. Furthermore, 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 handset 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.

Our business depends 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 licensees incorporating our technology into their products, bringing those products to market, and the success of those products in the market. In the case of our semiconductor licensees, the amount of such sales is further dependent upon the sale of the products by their customers into which our licensees' 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 licensee and 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 licensees 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 licensee'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, 2010). 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. In addition, it is standard practice for us to include some form of indemnification of our licensees in our core and architecture license agreements. 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 or claim for indemnification 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 the sale of our Analog Business Group to Synopsys, Inc. (Synopsys) in May 2009, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify Synopsys against certain breaches of representations and warranties and other liabilities. Our potential liability to Synopsys 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. To date, we have not incurred any losses in respect of claims asserted by Synopsys in connection with this transaction. However, there can be no assurance that we will not incur future liabilities to Synopsys in connection with this transaction, or that the amount of such liabilities will not be material.

In May 2010, Synopsys delivered a letter to MIPS asserting breaches of certain representations and warranties and requesting compensation in an aggregate amount of approximately \$3.7 million. We responded to Synopsys in June 2010 and denied all claims set forth in the May 2010 letter. In July 2010, Synopsys responded to our letter. General discussions between the parties have commenced; however, there can be no assurance that the current dispute can be resolved on terms that are acceptable to us.

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 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.

ITEM 6. EXHIBITS

(a) Exhibits

- 3.1 Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on August 18, 2010).
- 10.1 Performance-Based Bonus Plan for Executives (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 18, 2010).
- [10.2 Letter Agreement and Transition Agreement dated June 23, 2010 between MIPS Technologies, Inc. and Sandy Creighton.](#)
- [10.3 Consulting Agreement dated June 23, 2010 between MIPS Technologies, Inc. and Sandy Creighton.](#)
- [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.



June 23, 2010

Hand Delivered
Personal and Confidential

Ms. Sandy Creighton

Re: **Letter Agreement and Delivery of Transition Documents**

Dear Sandy:

As we have discussed, the attached transition agreement (the "Transition Agreement") sets forth the terms and conditions of your transition from employment with MIPS Technologies, Inc. (the "Company"), and this letter, the Transition Agreement, including Attachment A to the Transition Agreement ("Attachment A"), and the attached consulting agreement ("Consulting Agreement") and collectively with this letter and the Transition Agreement, the "Transition Documents") constitute the entire agreement between you and the Company relating to this transition. You are advised by the Company to carefully review and consider the Transition Documents, and to consult with an attorney of your own choosing, so you can decide whether or not to sign the Transition Documents.

Your last day of employment with the Company will be August 12, 2010 (the "Separation Date"). We understand that conditional upon your receipt of the Company executed Transition Documents, you will resign your positions as Vice President of Corporate Administration, Assistant Secretary and as a designated Section 16 officer effective June 23, 2010. If you agree to the terms and conditions set forth in the Transition Documents, please: (i) sign this letter and return it to the Company, (ii) sign Attachment A on or before the Separation Date and return it to the Company, (iii) sign the Transition Agreement at any time between the Separation Date and September 26, 2010, and return it to the Company, and (iv) sign the Consulting Agreement on or before August 13, 2010 and return it to the Company. Please return all signed Transition Documents to Trish Leeper at MIPS Technologies, Inc., 955 East Arques Avenue, Sunnyvale, CA 94085-4521.

The Company agrees to the terms set forth in the Transition Documents and a representative of the Company has already signed this letter, the Transition Agreement, and the Consulting Agreement on behalf of the Company. This letter may only be modified in a written agreement signed by you and a duly authorized officer of the Company.

We wish you much success in your future endeavors.

Sincerely,

/s/ SANDEEP VIJ

Sandeep Vij
President & CEO

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

By signing this letter agreement, I acknowledge and agree that:

- (1) I have had the opportunity to review the Transition Documents;
- (2) I understand the terms and conditions of the Transition Documents;
- (3) I knowingly and voluntarily agree to all the terms and conditions set forth in the Transition Documents;
- (4) I have been advised by the Company to consult with an attorney of my own choosing, to help me decide whether or not to sign the Transition Documents;
- (5) I will sign Attachment A on or before the Separation Date and promptly return it to the Company;
- (6) I will sign the Transition Agreement on the Separation Date or at some point between the Separation Date and September 26, 2010, and promptly return it to the Company; and
- (7) I will sign the Consulting Agreement on or before August 13, 2010 and promptly return it to the Company.

Date: July 8, 2010

Signature: /s/ SANDY CREIGHTON

Name: Sandy Creighton

Ms. Sandy Creighton Transition Documents



June 23, 2010

Hand Delivered
Personal and Confidential

Ms. Sandy Creighton

Re: **Transition Agreement**

Dear Sandy:

This letter sets forth our mutual agreement (the "Agreement") with respect to the terms of your transition from employment with MIPS Technologies, Inc. ("MIPS" or "Company"), and upon your signature, constitutes the Agreement between you and MIPS relating to this separation. Accordingly, it is understood and agreed as follows:

Your last day of employment with the Company will be August 12, 2010 (the "Separation Date"). PLEASE NOTE: The *earliest* date that you can sign this Agreement is your Separation Date. The *latest* date that you can sign it is September 26, 2010. On the Separation Date the Company shall provide to you, subject to all customary withholdings, your salary through and including the Separation Date. The Company will pay your vacation balance that has accrued through and including the Separation Date, if any. Except for your bonus for fiscal year 2010 under the Performance-Based Bonus Plan for Executives (which if not paid by the Separation Date will be paid in due course), you will not be eligible for any payment under any bonus plan.

If you sign and do not revoke this Agreement and you continue working diligently up to and including the Separation Date, MIPS agrees to pay you: (i) a lump sum payment in the gross amount of \$286,000.00 less applicable withholdings; and (ii) a lump sum payment sufficient to cover twelve (12) months of COBRA premium to continue your existing coverage in the MIPS-sponsored group health benefit plans ("Separation Payment"). It is understood and agreed that you will be responsible for the election and payment of any COBRA benefit continuation coverage after August 31, 2010.

Effective upon your Separation Date, you resign any position you may hold as an employee, officer or director of the Company or of any subsidiary or affiliate of the Company. In this regard, you agree to execute documents evidencing such resignations as required by local laws and as reasonably requested by the Company.

You acknowledge that the Separation Payment is in addition to wages or other compensation or benefits that may be owed to you by the Company. In consideration and in exchange for the Company paying you the Separation Payment, you agree, on behalf of yourself, your heirs, executors, administrators and assigns, as follows:

1. You have received all wages earned by you, including unused paid vacation time accrued, through the termination of your employment with the Company. You also have received all the leave and leave benefits and protections for which you are eligible pursuant to the Family and Medical Leave Act,

Ms. Sandy Creighton Transition Documents

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the California Family Rights Act, or otherwise; and have not suffered any on-the-job injury for which you have not already filed a claim. You acknowledge that, except as set forth in this Agreement or expressly provided in any written Company employee benefit plan, you are not entitled to and will not receive any additional compensation or severance benefits after the Separation Date.

2. You have returned to the Company all items of property provided by the Company for your use, and items paid for by the Company and provided for your use, during your employment with the Company including but not limited to all access cards, keys, identification badges, cell phones, pagers, laptop computers and other equipment and related laptop computer items. On the Separation Date, your voicemail, email and site access privileges will end, except to the extent permitted under a separate Consulting Agreement.
3. You have returned to the Company or destroyed all documents and materials created or received by you in the course and scope of your employment with the Company (including any documents or materials on any home computer), whether in paper or electronic or other form and including copies, summaries and excerpts thereof, except your personal copies of documents evidencing your hire, rate of compensation, benefits, any stock options or other equity awards, the letter notifying you of your separation, this Agreement, the Consulting Agreement and the Confidential Information and Inventions Agreement you signed in connection with your hire by MIPS ("CIIA").
4. In order for you to receive the Separation Payment, you understand that you must: (i) sign and deliver this Agreement to the Company, and it must become effective and enforceable after the applicable revocation time period set forth in Paragraph 12.g. below, (ii) continue to work diligently up to and including the Separation Date, (iii) attend an exit interview with Human Resources on or before your Separation Date, and (iv) sign and deliver the enclosed Employment Termination Certificate ("Attachment A"). The Separation Payment will be paid within 14 calendar days of the date the Agreement becomes effective and enforceable as set forth in Paragraph 12.h. below.
5. You agree that you fully and forever waive, release, acquit and discharge the Company and any and all past, current and future parent, subsidiary and affiliated companies, predecessors and successors thereto, as well as their respective officers, directors, agents, employees, affiliates, insurers, representatives, shareholders and assigns (collectively, the "Releasees"), from any and all claims, actions, charges, complaints, grievances and causes of action of whatever nature, *whether now known or unknown*, that arise from or relate to events, acts or omissions occurring on or prior to the date you sign this Agreement.

This general release includes, but is not limited to: (a) all claims arising out of or in any way related to your employment with the Company or the termination of that employment, (b) all claims related to your compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (c) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (d) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (e) all federal, state, and local statutory claims, including, but not limited to, claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal American with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended), and analogous state statutes and local enactments (including, without limitation, the California Fair Employment and Housing Act).

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Nothing in this Agreement shall release: (a) any claims that may arise after the date you sign this Agreement; (b) any rights you have under this Agreement, (c) any rights you have to indemnification under applicable law or the Indemnification Agreement that you have entered into with the Company, or (d) any rights which may not be waived as a matter of law. In addition, nothing in this Agreement shall prevent you from filing with, cooperating with, testifying before, or participating in any investigation or proceeding before the Equal Employment Opportunity Commission, the Department of Labor, or any analogous state agency, except that you acknowledge and agree that you shall not be entitled to receive any monetary benefits in connection with any such claim, charge, or proceeding with regard to any claim released in this Agreement.

In furtherance of your intent to waive and release all claims "*whether now known or unknown*," you specifically waive the rights and benefits conferred upon you by California Civil Code Section 1542 ("Section 1542") or, if not applicable to you, any applicable state law that is comparable to Section 1542. You understand that Section 1542 states as follows (parentheticals added):

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR (I.E., YOU) DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR (I.E., THE COMPANY).

You understand that this means that, if you later discover facts different from or in addition to those that you now know or believe to be true, that the waivers and releases of this Agreement shall be and remain in full force and effect in all respects notwithstanding such different or additional facts or your later discovery of such facts.

6. You agree to cooperate with the Company, diligently and in good faith, up to and including the ninety (90) day period after the Separation Date, by providing information that may be requested by the Company about your pending work and work information so that it may be properly transitioned to others within the Company. You agree that you will not voluntarily provide assistance, information or advice, directly or indirectly (including through agents or attorneys), to any person or entity in connection with any claim or cause of action of any kind brought against the Company, nor shall you induce or encourage any person or entity to bring such claims. However, it will not violate this Agreement if you testify truthfully when required to do so by a valid subpoena or under similar compulsion of law. Further, you agree to voluntarily cooperate with the Company if you have knowledge of facts relevant to any threatened or pending litigation against the Company by making yourself reasonably available without further compensation for interviews with the Company's counsel, for preparing for and providing deposition testimony, and for preparing for and providing trial testimony.
7. You agree that neither the fact nor any aspect of this Agreement is intended, or should be construed at any time, to be an admission of liability or wrongdoing by any of the Releasees.
8. You agree that you will not make any negative or disparaging statements or comments, either as fact or as opinion, about the Releasees including, but not limited to, the services, business, market position, performance and other similar information concerning the Company, provided however that you may respond accurately and fully to any question, inquiry or request for information when required by legal process.
9. You agree that this Agreement may be filed by the Company with the Securities and Exchange Commission.

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10. You agree that if any provision, or portion of a provision, of this Agreement is, for any reason, held to be unenforceable, such unenforceability will not affect any other provision (or portion of a provision) and this Agreement shall be construed as if such unenforceable provision (or portion of provision) had never been contained herein.
11. You represent that you have, at all times during your employment with the Company, complied with your obligations under your CIAA, and you understand and acknowledge that, even if you did not sign this Agreement, you would still be bound by obligations after your Separation Date under your CIAA in accordance with its terms.
12. You understand that:
- (a) You are knowingly and voluntarily waiving and releasing any rights that you may have under the Age Discrimination in Employment Act of 1967 (as amended) (the "ADEA").
 - (b) You acknowledge that the consideration given for your waiving and releasing any rights that you may have under the ADEA is in addition to anything of value to which you were already entitled.
 - (c) You further acknowledge that your waiver and release of any rights you may have under the ADEA does not apply to any rights or claims that arise after the date you sign this Agreement.
 - (d) The *earliest* date that you can sign this Agreement is your Separation Date.
 - (e) The last date you can sign this Agreement is September 26, 2010 ("Agreement Deadline").
 - (f) During the time period leading up to the Agreement Deadline, you are advised by MIPS: (i) to carefully consider this Agreement and Attachment A hereto and (ii) to consult with an attorney of your own choosing, so you can decide whether or not to sign this Agreement and (iii) if you decide to sign this Agreement, to sign as required above and promptly return it to the Company as provided below.
 - (g) For seven (7) days after the date you actually sign this Agreement, you may revoke it. If you revoke this Agreement, you must deliver written notice of your revocation to Trish Leeper at the address in Paragraph 12(h) below, no later than the seventh day after the date you had signed this Agreement.
 - (h) The Effective Date of this Agreement will be the eighth (8th) day after the date you have signed it, provided that you have returned to the Company your signed agreement and you have not revoked it. This Agreement, as signed by you, and any revocation pursuant to Paragraph 12(g) above, should be delivered by U.S. mail, hand or overnight delivery or facsimile to:

Trish Leeper
MIPS Technologies, Inc.
955 East Arques Avenue
Sunnyvale, CA 94085-4521
Facsimile: (408) 530-7178

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(i) You acknowledge that you received the ADEA Disclosure Statement attached hereto as Attachment B.

13. The provisions of this Agreement are severable, and if any part of it is found to be invalid or unenforceable, the other parts shall remain fully valid and enforceable. Specifically, should a court, arbitrator, or government agency conclude that a particular claim may not be released as a matter of law, it is the intention of the parties that the general release, the waiver of unknown claims and the covenant not to sue above shall otherwise remain effective to release any and all other claims.

14. In signing this Agreement and by not revoking your agreement to it, you represent and warrant that you are not relying on any statements, representations, negotiations, promises or agreements that are not expressly set forth in this Agreement or in the cover letter included with this Agreement. You understand and agree that (i) this Agreement contains your entire understanding, and the entire agreement by you, with respect to the matters covered herein; and (ii) this Agreement merges, cancels, supersedes and replaces all prior statements, representations, negotiations, promises or agreements relating to the subjects covered by this Agreement that may have been made by any of the Releasees, *except* (I)(a) the cover letter and Consulting Agreement included with this Agreement, (b) your CIAA and Employment Termination Certificate, and (c) the Indemnification Agreement that you have entered into with the Company, all of which remain in full force and effect in accordance with their terms, and (II) any debt obligation you owe to the Company. This Agreement only may be modified in a written agreement signed by you and a duly authorized officer of the Company.

15. This Agreement is entered into and governed by the laws of the State of California.

We wish you much success in your future endeavors.

Sincerely,

/s/ SANDEEP VIJ

Sandeep Vij
President & CEO

By signing this Agreement, I acknowledge that I have had the opportunity to review this Agreement carefully; that I understand the terms of the Agreement; and I knowingly and voluntarily agree to them.

Date: August 12, 2010

Signature: /s/ SANDY CREIGHTON

Name: Sandy Creighton

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**ATTACHMENT B
DISCLOSURE UNDER TITLE 29 U.S. CODE SECTION 626(f)(1)(H)**

Confidentiality Provision: *The information contained in this document is private and confidential. You may not disclose this information to anyone except your professional advisors.*

1. The severance package program applies to all MIPS Technologies, Inc. (the "Company") employees below the executive level.
2. Within the category listed above, the following criteria were used to select positions in which the employee is eligible for the severance package program: the functional organization in which each employee worked; individual employee's skills, productivity, overall performance, and length of service with the Company; and the nature of the projects each employee was handling currently. Different importance was applied to these criteria in selecting specific employees for inclusion in the reorganization, and not all criteria were used to make every selection decision.
3. All eligible employees who have attained the age of 40 years or older will have up to forty-five (45) days to review the terms and conditions of the severance package and seven (7) days to revoke the release of claims under the Age Discrimination in Employment Act of 1967, as amended. Other eligible employees will have seven (7) days to review and consider the terms and conditions of the severance package.

**UNITED STATES BASED EMPLOYEES
ELIGIBLE FOR THE TERMINATION PROGRAM**

JOB TITLE	AGE
Executive Administrator	*
Facilities & Purchasing Director	*
Marketing Manager	*
Operations Coordinator	*
Sales Director	*
Software Engineer	*
Software Engineer Manager	*
Software Manager	*
Staff DV Engineer	*
Systems Administrator	*
VP, Corporate Administration (Voluntary)	*
VP of Software	*

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**UNITED STATES BASED EMPLOYEES NOT ELIGIBLE
FOR THE TERMINATION PROGRAM**

JOB TITLE	AGE
Accountant Supervisor	*
Accounting Clerk	*
Accounts Receivable / Revenue Manager	*
Applications Engineer	*
Applications Group Mgr	*
CAD Engineer	*
CAD Engineering Manager	*
Controller	*
Design Verification Engineer	*
Director of Customer Support	*
Director Product Marketing	*
Director, Architecture	*
Director, Platform Engineering Engineer	*
Engineering Director	*
Engineering Manager	*
Executive Administrator	*
Facilities & Operations Mgr	*
Hardware Emulation Engr	*
Help Desk Technician	*
Human Resources Director	*
Human Resources Generalist	*
Inside Sales	*
IT Director	*
Linux Kernel Engineer	*
Logic Design Engineer	*
Manager, Financial Planning & Analysis	*
Principal Engineer	*
Product Delivery Engineer	*
Purchasing Clerk	*
Sales Director	*
Software Engineer	*
Software Engineer Manager	*
Solutions Architect	*
Solutions Architect, Director	*
Sr. Accountant	*
Sr. Corp Paralegal & Contracts Admin	*
Sr. Corporate Counsel	*
Sr. Marketing Communications Mgr	*
Sr. Product Marketing Manager	*
Sr. Public Relations Manager	*
Sr. Strategic Marketing Manager	*
Sr. Technical Writer	*
Sr. Windows Administrator	*
Staff Architect	*
Staff CAD Engineer	*
Staff Compiler Engineer	*
Staff Engineer	*
Staff Engineer-Simulation	*
Staff Linux Engineer	*
Staff Logic Design Engineer	*
Staff Product Support Engineer	*
Staff Software Engineer	*
Strategic Marketing Director	*
Support Engineer	*
System Administrator	*
Tax Director	*
Tech/Product Support Engineer	*
Technical Accounting Manager	*
VP & GM - FS2	*
VP Sales, Asia	*
VP, Engineering	*
Web Developer	*

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**INTERNATIONAL EMPLOYEES NOT ELIGIBLE FOR
THE TERMINATION PROGRAM**

JOB TITLE	*	AGE
Country Manager, China Sales	*	
Design Verification Engineer	*	
Engineer	*	
Engineering Director	*	
Hardware Design Engineer	*	
Marketing Manager	*	
Public Relations Manager	*	
Sales Director	*	
Sales Manager	*	
Sales Manager - Korea	*	
Software Engineer	*	
Solutions Architect	*	
Staff Engineer	*	
Taiwan Country Manager	*	
VP Sales, Europe	*	
VP Sales, Japan	*	

Ms. Sandy Creighton Transition Documents



June 23, 2010

Hand Delivered
Personal and Confidential

Ms Sandy Creighton

Re: **Consulting Agreement**


Dear Sandy:

We are very pleased that you have indicated a willingness to provide services to MIPS Technologies, Inc. (the "**Company**") to facilitate a transition after your separation from the Company. This letter sets forth the terms of the consulting arrangement (the "**Agreement**" or "**Consulting Agreement**") between you and the Company with respect to your services for the Company.

1. *Consultancy.* Commencing August 13, 2010, you agree to provide consulting services for a minimum period of twelve (12) months and thereafter on a month to month basis unless terminated by you or the Company upon thirty days written notice (the "**Consulting Period**"). During the Consulting Period, you will be paid a monthly fee of \$5,000.00 payable at the 12th day of each calendar month. Your tasks and responsibilities during the Consulting Period will be assigned by the Company and will be generally designed to facilitate the Company's transition after your separation, most particularly in the Legal and HR departments.

2. *Stock Options.* Although your employment with the Company will end on August 12, 2010, as additional enticement to enter into this Agreement, the Compensation and Nominating Committee has approved continued vesting of your stock options as set forth on Attachment A hereto by its action on June 16, 2010 to extend them through the Consulting Period conditional upon you providing continuous service by entering into this Agreement on or before August 13, 2010 and continuing to provide services hereunder as a consultant of the Company during that period. If these conditions are met, your stock options and the vesting pursuant to such options shall not terminate on August 12, 2010 but shall continue in effect and will continue to vest through the Consulting Period, such that your vesting would cease at the end of the Consulting Period and your right to exercise the vested options would continue thereafter during the post-

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termination period set forth in your stock option award documents (*i.e.*, 12 months from the end of the Consulting Period).

3. *No Other Compensation Or Benefits.* You acknowledge that, except as expressly provided in this Agreement, you will not receive from the Company any additional compensation, severance or benefits under this Agreement.

4. *Expense Reimbursements.* The Company will reimburse your reasonable expenses incurred in connection with your performance of services under this Agreement pursuant to its regular business practices. You agree that, within fifteen (15) days after the end of the Consulting Period, you will submit your final documented expense reimbursement statement reflecting all business expenses, if any, for which you seek reimbursement with respect to your services under this Agreement.

5. *Cooperation.* You will cooperate in responding to the reasonable requests of the Company. In such matters, you agree to provide the Company with reasonable advice, assistance and information. However, in the event such requests require more than sixty (60) hours of your services in any given quarter, you shall not be obligated to render such services unless and until you and the Company have mutually agreed upon appropriate additional compensation.

6. *Indemnification.* The rights and obligations of the Indemnification Agreement you entered with the Company dated January 28, 1999 will apply through the Consulting Period to your actions taken under the terms of this Consulting Agreement.

7. *Miscellaneous.* This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to its subject matters, and it supersedes any other such agreements, promises or representations, including but not limited to the Offer Letter; *provided* that your obligations under your Proprietary Information and Inventions Agreement with the Company are not modified or terminated by this Agreement. It is entered into without reliance on any agreement, promise or representation, written or oral, other than those expressly referred to herein, and it supersedes any other such agreements, promises or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. The failure to enforce any breach of this Agreement shall not be deemed to be a waiver of any other or subsequent breach. For purposes of construing this Agreement, any ambiguities shall not be construed against either party as the drafter. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable in a

Ms. Sandy Creighton Transition Documents

manner consistent with the intent of the parties insofar as possible. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the State of California as applied to contracts made and to be performed entirely within California. This Agreement may be executed in counterparts, each of which shall be deemed to be part of one original, and facsimile signatures shall be equivalent to original signatures.

If this Agreement is acceptable to you, please sign below and return the signed original to me.

Sincerely,
MIPS Technologies, Inc.
/s/ SANDEEP VIJ
Sandeep Vij
President & CEO

I have read, understand, and agree fully to the foregoing agreement:

/s/ Sandy Creighton
Sandy Creighton
Dated: August 12, 2010

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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: November 5, 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: November 5, 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 September 30, 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: November 5, 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 September 30, 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: November 5, 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.
