

MoSys, Inc.
Form 10-K
March 14, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Part IV](#)

[MOSYS, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the Fiscal Year December 31, 2013 or

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

Commission file number: 000-32929

MOSYS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0291941
(IRS Employer
Identification Number)

3301 Olcott Street
Santa Clara, California 95054
(Address of principal executive offices)
(408) 418-7500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.01 per share

Name of each exchange on which registered
Global Select Market of the NASDAQ
Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

Edgar Filing: MoSys, Inc. - Form 10-K

Title of each class

Name of each exchange on which registered

Series AA Preferred Stock, par value \$0.01 per share

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the registrant, as of June 30, 2013 was \$187,432,524 based upon the last sale price reported for such date on the Global Select Market of the NASDAQ Stock Market. For purposes of this disclosure, shares of common stock held by persons who beneficially own more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

As of March 1, 2014, 49,165,240 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be delivered to stockholders in connection with the registrant's 2014 Annual Meeting of Stockholders to be held on or about June 3, 2014 are incorporated by reference into Part III of this Form 10-K. The registrant intends to file its proxy statement within 120 days after its fiscal year end.

Table of Contents

**ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2013**

TABLE OF CONTENTS

		<u>Part I</u>	
<u>Item 1.</u>	<u>Business</u>		<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>		<u>15</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>		<u>26</u>
<u>Item 2.</u>	<u>Properties</u>		<u>26</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>		<u>26</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>		<u>26</u>
		<u>Part II</u>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>		<u>27</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>		<u>28</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		<u>30</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>		<u>39</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>		<u>40</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>		<u>41</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>		<u>41</u>
<u>Item 9B.</u>	<u>Other Information</u>		<u>42</u>
		<u>Part III</u>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>		<u>43</u>
<u>Item 11.</u>	<u>Executive Compensation</u>		<u>43</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>		<u>43</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>		<u>43</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>		<u>43</u>
		<u>Part IV</u>	
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>		<u>44</u>
	<u>Signatures</u>		<u>48</u>

Table of Contents

Part I

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which include, without limitation, statements about the market for our products, technology, our strategy, competition, expected financial performance and other aspects of our business identified in this Annual Report, as well as other reports that we file from time to time with the Securities and Exchange Commission. Any statements about our business, financial results, financial condition and operations contained in this Annual Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "expects," "intends," "plans," "projects," or similar expressions are intended to identify forward-looking statements. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the risk factors described in Part I, Item 1A, "Risk Factors," and elsewhere in this report. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law, even as new information becomes available or other events occur in the future.

MoSys®, 1T-SRAM® and Bandwidth Engine® are registered trademarks of MoSys, Inc. GigaChip and LineSpeed are trademarks of MoSys, Inc.

Item 1. Business

Overview

MoSys, Inc., together with its subsidiaries ("MoSys," the "Company," "we," "our" or "us"), is a fabless semiconductor company focused on the development and sale of integrated circuits, or ICs, for the high-speed networking, communications, storage and computing markets. Our technology delivers time-to-market, performance, power and economic benefits for system original equipment manufacturers, or OEMs. We have developed a family of ICs, called Bandwidth Engine, which combines our proprietary 1T-SRAM high-density embedded memory and high-speed 10 gigabits per second, or Gbps, and higher serial interface, or I/O, with our intelligent access technology and a highly efficient interface protocol. As the bandwidth requirements and amount of packet processing increase in high-speed networking systems, critical memory access bottlenecks can occur. Our Bandwidth Engine IC, with its combination of serial I/O, high-speed memory, and efficient, intelligent access, drastically increases memory accesses per second, removing these bottlenecks. In March 2013, we announced another IC product line under the LineSpeed product name. LineSpeed ICs are non-memory, high-speed SerDes I/O devices with gearbox and retimer functionality, which convert lanes of data received on line cards into different configurations and/or ensure signal integrity. These ICs are designed for next-generation ethernet and optical transport network applications. Historically, our primary business was the design, development, marketing, sale and support of differentiated intellectual property, or IP, including embedded memory and high-speed parallel and serial I/O used in advanced systems-on-chips, or SoCs. Currently, we are focused on developing differentiated IP-rich IC products and are dedicating substantially all of our research and development, marketing and sales budget to these IC products.

Our future success and ability to achieve and maintain profitability will be dependent on the marketing and sales of our IC products into networking, communications and other markets requiring high-bandwidth memory access. Since the beginning of 2010, we have invested an increasing amount of our research and development resources towards development of our ICs, and as of the end of 2012 had ceased our efforts to actively market our IP and establish license agreements for customers' new SoC development projects. However, we have made opportunistic sales of some of our IP. For instance, in December 2011, we sold a number of patents in an arrangement that provided \$35 million

Table of Contents

in cash with no equity dilution to the Company and, in March 2012, we sold a portion of our SerDes technology and supporting workforce for approximately \$4.3 million.

Due to the shift in our engineering and research and development focus and the decline in major consumer electronics applications utilizing customized versions of our 1T-SRAM technology, the competitiveness of, and demand for, our IP have declined since the beginning of 2011. While, we expect royalty revenue to continue to represent a significant portion of our revenues in 2014, albeit at a reduced level, we expect our revenue to transition to predominately IC product sales in 2014. To date, we have not generated significant revenue from sales of our IC products, and revenue from IP licensing and royalties represented the majority of our revenues for 2013. We are currently supporting existing design win customers and actively pursuing additional design wins for the use of our ICs in networking and communication equipment. We have established initial pricing of our IC products ordered to date, but longer-term volume prices will be subject to negotiations with our customers and may vary substantially from these initial prices.

Industry Background

The amount of data being transferred by networking, storage and computing systems is increasing rapidly, primarily driven by the growth of the Internet and demand for real-time processing of bandwidth intensive applications, such as video-on-demand, Internet protocol TV, peer-to-peer and cloud computing, web2.0 applications, 3G/4G wireless, voice-over-Internet protocol, and many others. In order to meet these demands, the network backbone, access, storage and data center infrastructure must scale in bandwidth and processing capability. In addition, system designers face the challenge of increasing the throughput of all subsystems for a variety of applications, such as video games, medical record and imaging transfers, and file sharing. These increased demands strain communication between onboard IC devices, limiting the data throughput in network switches and routers and the network backbone. To meet this demand, carrier and enterprise networks are undergoing significant changes and, most significantly, are migrating to packet-based Ethernet networks that enable higher throughput, lower cost and uniform technology across access, core and metro network infrastructure. These networks are now being designed to deliver voice, video and high-speed Internet access on one converged, efficient and flexible network. These trends require networking systems, especially the high-speed switches and routers that primarily comprise these networks, to comply with evolving market requirements and be capable of providing new services, better quality of service while supporting new protocols and standards. To support these trends, the next generations of networking systems must offer higher levels of packet forwarding rates, bandwidth density and be optimized to enable higher-density, lower power data path connectivity. This in turn necessitates new generations of packet processors and improved memory subsystems to enable system performance in support of these increased demands.

The OEM companies that produce networking and communications systems include Alcatel-Lucent, Brocade Communications Systems, Inc., Cisco Systems, Inc., Tel. LM Ericsson, Fujitsu Ltd., Hitachi Ltd., Huawei Technologies, Juniper Networks, Inc., Nokia Siemens Networks, and ZTE Corporation, as well as many other smaller suppliers. The networking and communications systems in the network backbone that must operate at higher speed and performance levels include the following types of routers, switches and other appliances: core, carrier Ethernet, edge, metro Ethernet, optical transport and service. In addition, networking and communications systems that sit on the edge of data centers, such as edge routers, aggregation switches and load-balancing and security appliances, must also operate at higher speed and performance levels. These networking and communications systems are typically built as a modular, multi-slot chassis that consists of several line cards with many network ports per line card or as a stand-alone, fixed configuration, flat frame containing multiple network line cards. These systems and their component line cards will generally need to support aggregate rates above 100 Gbps to meet the continued growth in network traffic. The type and number of semiconductors included on the line cards depend on the capacity, port type and target functionality of

Table of Contents

each card. Several types of semiconductors are included on each line card, including physical interface electronics, one or more packet processors and multiple memory chips. Packet processors are complex ICs developed using field programmable gate arrays, or FPGAs, application-specific integrated circuits, or ASICs, application specific standard products, or ASSPs, or network processing units, or NPUs, that perform high speed processing for functions, such as traffic shaping, metering, billing, statistics, detection and steering. Various types of memory ICs are used in order to facilitate the temporary storage and assist in the analysis and tracking of information embedded within each packet flowing through the processors. After a packet enters the line card through a physical interface, a packet or data processor helps separate the packet into smaller pieces for rapid analysis. Typically, the data is broken up into the packet header, which contains vital information on packet destination and type, such as the internet protocol address and payload, which contains the data being sent. In a basic operation, the packet header is stripped from the packet, and processed separately by the packet processing engine on the line card. The analysis of the packet header must occur at full data rates and typically requires accessing memory ICs many times. Simultaneously, the packet's payload, which may be substantially larger than the packet header, is also stored in memory ICs. Once processing is complete, the packet is re-combined to be sent from the system. Within the line card, communication between the packet processor and memory ICs occurs through either a parallel or serial interface. Combinations of physical pins on each type of chip are grouped together in a parallel or serial architecture to form a pathway, called a bus, through which information is transferred from one IC to the next.

Today, the majority of physical buses use a parallel architecture to communicate between processors and memory ICs, which means information can travel only in one direction and in one instance at a time. As processing speeds increase, in a parallel architecture the number of pins required and the speed of the bus become a limitation on system performance and capability. In a serial architecture, the number of connections is reduced substantially across fewer, higher-rate pins and data is transferred simultaneously in both directions. High speed serial bus architectures and more advanced I/O protocols must be supported by the various ICs included on the line card in order to remove the bottleneck and meet next generation bandwidth requirements.

The majority of networking systems sold and in operation today includes line cards that process data at speeds of 10 Gbps to 40 Gbps, supporting many aggregated slower ports. To accommodate the substantial and growing increase in demand for networking communications and applications, networking systems manufacturers are developing and bringing to market next-generation systems that run at aggregate speeds of 100 to 400 Gbps with plans to scale to thousands of Gbps, or Terabits, per second. Another major challenge to system designers is what we call the "memory performance barrier." Processor performance in applications such as computing and networking have continued to nearly double every 18 months, or even sooner, while the performance of memory technology has generally been able to double once every 10 years. Existing memory IC solutions based on parallel I/O architecture easily support speeds up to 40 Gbps, but are not optimal for meeting speeds of 100 Gbps and beyond due to system-level limitations for pin counts, power and performance. Traditional memory solutions currently used on line cards include both dynamic random access memory, or DRAM, and static random access memory, or SRAM, IC solutions. Line cards in networking systems use both specialized, high-performance DRAM ICs, such as reduced-latency DRAM, or RLDRAM, low-latency DRAM, or LLD RAM, and commodity DRAM, such as double data rate, or DDR ICs. In addition, networking systems use higher-performance SRAM ICs such as quad data rate, or QDR SRAM. Substantially all of these DRAM and SRAM memory ICs use parallel interfaces, which are slower than serial interfaces and will be challenged to meet the performance requirements of networking systems greater than 100 Gbps. The result is a gap between processor and memory performance. To meet the higher performance requirements being demanded by the industry, while using current components and architectural approaches, system designers must add more discrete memory ICs to the line cards and/or add more embedded memory on the packet processor. This results in higher cost and power

Table of Contents

consumption, the use of more space on the line cards and additional communication interference between the ICs, which in turn results in additional bandwidth limitation problems.

We have developed our Bandwidth Engine and LineSpeed family of ICs to synergistically address the need for high-speed data access and throughput currently confronting networking system designers. We expect our IC products to meet the increasing demands placed on conventional memory technology used on the line cards in high-bandwidth networking systems. We believe that our products and technology are well positioned as replacements for existing IC solutions in order to meet the needs of the next-generation networking systems that will require a large number of packet lookups and to support aggregated rates greater than 100 Gbps. However, we believe that networking and communications systems OEMs typically prefer to extend the use of traditional memory solutions and their parallel interfaces, despite performance and costs challenges and are reluctant to change their technology platforms and adopt new designs and technologies, such as serial interfaces, which are an integral part of our product solutions. Therefore, our principal selling and marketing activities to date have been focused on persuading these OEMs and key component suppliers that our solutions provide critical performance advantages, as well as on securing design wins with them. As of December 31, 2013, we had achieved approximately 20 such design wins, which we define as the point at which a customer has made a commitment to build a board against the fixed schematic for his system, and this board will utilize our ICs. However, there is no assurance that these customer designs will be shipped in volume production to their end customers.

Our Technology

Our historical business was focused on the licensing of our proprietary 1T-SRAM and SerDes I/O technologies. We leveraged our proprietary IP to design our IC products. The following discussion explains these technologies in further detail.

On-chip Functionality

A significant performance bottleneck in any network line card is the need to transfer data between discrete ICs. Many of these data-transfer operations are iterative in nature, requiring subsequent, back-to-back accesses of the memory IC by the processor IC. Our Bandwidth Engine ICs have an arithmetic logic unit, or ALU, which enables the Bandwidth Engine IC to perform mathematical operations on data. By moving certain processing functions from the processor IC to the Bandwidth Engine IC through the use of this embedded ALU, the number of I/O transactions is reduced and the processor IC is freed up to perform other networking or micro-processing functions.

High-Performance Interface

High-speed, efficient I/Os are critical building blocks to meet high data transfer rate requirements for communication between ICs on network line cards. We believe that current networking system requirements necessitate an industry transition from parallel I/O to serial I/O. As a result, semiconductor companies are increasingly turning to serial I/O architectures to achieve needed system performance. For example, high-performance ICs that are sold into wide markets, such as FPGAs and NPU, are using serial I/Os to ensure they can match the performance of, and compete with ASICs. While SerDes I/Os provide significantly enhanced performance over parallel I/Os, SerDes I/Os have higher power consumption, which is a challenge for IC designers. Our SerDes I/Os are tuned for low-power consumption to meet our customers' stringent power consumption requirements. Using serial I/O, IC developers also are able to reduce pin count (the wired electrical pins that connect an IC to the network line card on which it is mounted) on the IC. With reducing geometries, the size of most high-performance ICs is dictated by the number of pins required, rather than the amount of logic and memory embedded in the chip. As a result, using serial I/O facilitates cost reduction and reduced

Table of Contents

system power consumption, while improving the performance of both the IC itself and the overall system.

We make our I/O technologies compliant with industry standards so that they can interoperate with interfaces on existing ICs. In addition, we make them programmable to support multiple data rates, which allows for greater flexibility for the system designer, while lowering their development and validation costs. Interoperability reduces development time, thereby reducing the overall time to market of our customers' ICs.

Analog Design Capabilities

We have invested in personnel needed to define, design and market high-performance analog IC products. We have built a team of experienced engineers who combine industry expertise with advanced semiconductor design expertise to meet customer requirements and develop new products to bring to market. We intend to leverage these capabilities to achieve new levels of integration, power reduction and performance, enabling our customers to achieve differentiation in their end systems.

GigaChip Interface Protocol

In addition to the physical characteristics of the serial I/O, the protocol used to transmit data is also an important element that impacts speed and performance. To address this and complement our Bandwidth Engine devices, we have developed the GigaChip Interface, or GCI, which is an open-interface transport protocol optimized for efficient chip-to-chip communications. The GCI electrical interface is compatible with the current industry standard (Common Electrical Interface, release #11, or CEI-11). GCI can enable highly efficient serial chip-to-chip communications, and its transport efficiency averages 90% for the data transfers it handles. GCI is included in our Bandwidth Engine ICs, and we are offering it to customers and prospective partners on terms intended to encourage widespread adoption.

High-Performance and High-Density Memory Architecture

The high-density of our proprietary 1T-SRAM technologies stems from the use of a single-transistor, or 1T, which is similar to DRAM, with a storage cell for each bit of information. Embedded memory utilizing our 1T-SRAM technologies is typically two to three times denser than the six-transistor storage cells used by traditional SRAM, or 6T-SRAM. Embedded memory utilizing our 1T-SRAM technologies typically provides speeds essentially equal to or greater than the speeds of traditional SRAM and DRAM, particularly for larger memory sizes. Our 1T-SRAM memory designs can sustain random access cycle times of less than three nanoseconds, significantly faster than embedded 6T-SRAM technology. Embedded memory utilizing our 1T-SRAM technologies can consume as little as one-half the active power and generate less heat than traditional SRAM when operating at the same speed. This reduces system level heat dissipation and enables reliable operation using lower cost packaging. The Bandwidth Engine uses our 1T-SRAM high-density memory technology to provide the density of DRAM and the speed of SRAM. The internal multi-bank memory array architecture used in our Bandwidth Engine ICs enables concurrent access operations. We believe that this architecture is also optimized for small algorithmic operations and data transfers, such as packet header analysis.

Carrier and Enterprise Grade Quality and Reliability

Networking systems providers focused on the carrier and enterprise market have rigid performance and reliability standards that they require their IC vendors to achieve. Our Bandwidth Engine architecture and interface are designed for data robustness and employ end-to-end error checking and correction codes. Although the Bandwidth Engine functions as more than a discrete memory device,

Table of Contents

the onboard memory array represents a significant portion of the total chip area. Memory-dominated devices require substantially different and more robust testing than non-memory ICs in order to achieve the quality and reliability requirements of advanced networking systems. We have considered these requirements for our target customers and market segments and have incorporated appropriate design and manufacturing performance margins into our Bandwidth Engine IC products. As a result, our first generation Bandwidth Engine ICs passed extensive reliability and life tests required for carrier and enterprise grade qualification certification as part of its release to production. To date, our second generation Bandwidth Engine ICs have substantially passed these tests, and we expect to achieve certification in the first half of 2014.

Our Strategy

Our primary business objective is to become an IP-rich fabless semiconductor company offering ICs that deliver unparalleled bandwidth performance for next generation networking systems. The key components of the expansion of our strategic plan to become an IC supplier include the following strategies:

Target Large and Growing Markets

Our initial strategy is to target the multi-billion dollar networking and telecommunications equipment market, and to date, we have secured multiple design wins with networking and telecommunications OEMs. We are engaged with both existing customers and customer prospects, where we are working to achieve design wins, and we refer to these engagements as design-wins-in-progress.

Leverage Technologies to Create New Products

Our strategy is to combine our proprietary IP and design and applications expertise to address the needs of several upcoming generations of advanced networking systems. We believe an IC combining our 1T-SRAM and serial I/O with logic, such as in an ALU, and other functions can provide a system-level solution and significantly improve overall system performance at lower cost while using less power. Another strategy is to leverage our high-speed serial I/O to create non-memory denominated ICs. To date, we have leveraged our serial I/O and analog design capabilities to bring our initial LineSpeed IC product family to market in 2013.

Expand Adoption of the GigaChip Interface Protocol

Our goal is for our GCI interface protocol to become an open industry standard that is designed into other ICs in the system, as we believe this will further enable serial communication on network line cards and encourage adoption of our Bandwidth Engine IC products. A number of IC providers have publicly announced their intention to support GCI, including the largest FPGA providers, Altera Corporation and Xilinx, Inc., with whom we work closely to support common customers. In addition, multiple networking systems companies, including actual and prospective customers, have adopted GCI.

Build Long-Term Relationships with Suppliers of Packet Processors

We believe that having long-term relationships with packet processor providers is critical to our success, as such relationships may enable us to reduce our time-to-market, provide us with a competitive advantage and expand our target markets. A key consideration of network system designers is to demonstrate interoperability between our Bandwidth Engine IC and the packet processors utilized in their systems. To obtain design wins for our Bandwidth Engine IC, we must demonstrate this interoperability, and also show that our IC works optimally with the packet processor to achieve the performance requirements. In addition, packet processor suppliers must adopt our GCI interface. To

Table of Contents

that end, we have been working closely with FPGA, ASIC and NPU providers, to enable interoperability between our Bandwidth Engine IC products and their high-performance products. To facilitate the acceptance of our Bandwidth Engine ICs, we have made available development and characterization kits for system designers to evaluate and develop code for next-generation networking systems. Our characterization kits are fully-functional hardware platforms that allow FPGA and ASIC providers, and their customers, to demonstrate interoperability of the Bandwidth Engine IC with the ASIC or FPGA the designers use within their networking systems.

Our Products

Bandwidth Engine

The Bandwidth Engine is a memory-dominated IC that has been designed to be a high-performance companion IC to packet processors. While the Bandwidth Engine primarily functions as a memory device with a high-performance and high-efficiency interface, it also can accelerate certain processing operations by serving as a co-processor element. Our Bandwidth Engine ICs combine: (1) our proprietary high-density, high-speed, low latency embedded memory, (2) our high-speed serial interface technology, or SerDes, (3) an open-standard interface protocol and (4) intelligent access technology. We believe an IC combining our 1T-SRAM memory and serial I/O with logic and other intelligence functions provides a system-level solution and significantly improves overall system performance at lower cost, size and power consumption. Our Bandwidth Engine ICs can provide up to and over 4.5 billion accesses per second, which is more than twice the performance of current memory-based solutions. They also can enable system designers to significantly narrow the gap between processor and memory IC performance. Customers that design Bandwidth Engine ICs onto the line cards in their networking systems will re-architect their systems at the line card level and use our product to replace traditional memory solutions. When compared with existing commercially available solutions, our Bandwidth Engine ICs may:

provide up to four times the performance;

reduce power by approximately 50%;

reduce cost by greater than 50%; and

result in a dramatic reduction in IC pin counts on the line card.

The Bandwidth Engine is a memory-dominated IC that has been designed to be a high-performance companion IC to packet processors. While the Bandwidth Engine primarily functions as a memory device with a high-performance and high-efficiency interface, it also can accelerate certain processing operations by serving as a co-processor element.

Our first generation Bandwidth Engine IC contains 576 megabytes, or MB, of memory and uses 10.3 Gbps SerDes I/O technology. Variations of this IC can have up to two interface ports, with up to eight serial receiver and eight serial transmitter lanes per port for a total of 16 lanes of 10.3 Gbps SerDes interface. These ICs include an ALU, which can perform read-modify-write operations. These ICs are tested to meet or exceed the standards for telecommunications carrier-class and enterprise-grade applications.

We brought our second generation Bandwidth Engine IC family of devices to market in 2013, and we began sampling these devices in mid-2013. These devices operate at up to 480 Gbps using sixteen 15 Gbps SerDes lanes. In addition to a speed improvement of up to 50%, the architecture will enable several family member parts with added specialized features. To date, we have announced three unique devices:

MSR620 adds burst features optimized for oversubscription buffer applications;

Table of Contents

MSR720 adds a write cache and memory coherency capability that allows for deterministic look ups optimized for state and que type applications; and

MSR820 delivers increased intelligence for lookup, metering and statistics applications by adding dual counters, atomic and extensive metering functions.

The devices will represent a significant improvement in speed and features, supporting aggregate line rates of up to 400 Gbps and further reduce size, pin count and power.

LineSpeed

We brought our first generation of LineSpeed products to market and began sampling in 2013. Our first LineSpeed products consist of single-chip PHY ICs, including a 100G multi-mode gearbox and a 100G Quad retimer. These devices are designed to support 10G, 40G and 100G standards for high-density line cards or modules for next generation ethernet and optical transport network applications. Built using standard CMOS technology, these devices are capable of supporting both short and long reach connections across different specifications. We do not expect to generate significant revenue from our LineSpeed ICs until 2015 or later.

IP Licensing and Distribution

Historically, we have offered our memory and I/O technologies on a worldwide basis to semiconductor companies, electronic product manufacturers, foundries, intellectual property companies and design companies through product development, technology licensing and joint marketing relationships. We licensed our IP technology to semiconductor companies who incorporated our technology into ICs that they sold to their customers. As a result of the change in our corporate strategy, since early 2012, our IP licensing activities have been limited, and we expect this to continue. We intend to avoid future licensing projects that require significant use of our engineering resources, as our engineering personnel are now focused on our IC products. However, during 2013, substantially all of our revenues were generated from licensing and royalties related to our existing licensing arrangements, as we continue to perform and deliver under outstanding license agreements and collect royalties from 1T-SRAM licensees. To date, we have substantially completed our performance obligations under our existing agreements, and we expect licensing and royalty revenues to decline in 2014.

Customers in North America accounted for 30%, 41% and 39% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Customers in Japan accounted for 27%, 26% and 33% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Customers in Taiwan accounted for 42%, 28% and 23% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Our remaining revenues were from customers in the rest of Asia and in Europe.

Research and Development

Our ability to compete in the future depends on successfully improving our technology to meet the market's increasing demand for higher performance and lower cost requirements. We have assembled a team of highly skilled engineers whose activities are focused on developing higher density, higher bandwidth, higher speed and lower cost next generation IC products. Development of our IC products requires the hiring of specialized chip design and product engineers, as well as significant fabrication and testing costs, including mask costs, as we bring these products to market. Our significant future research and development activities will include:

designing next generation ICs with larger memory blocks and higher-speed SerDes;

Table of Contents

developing versions of our Bandwidth Engine ICs with alternative features, such as lower-speed SerDes, increased intelligence or smaller memory blocks to allow us to serve a broader range of applications and systems;

developing versions of our initial LineSpeed ICs to meet customer demands, such as lower power and higher speeds;

porting our 1T-SRAM and SerDes technology to more advanced foundry process nodes to support our IC development efforts; and

developing new products that can leverage our proprietary IP portfolio and expand our market opportunity.

No development efforts are being dedicated to creating new or enhanced technology solely for use in licensing offerings.

As of December 31, 2013, we employed 85 individuals in engineering and research and development, of which 23 were employed in our design center in Hyderabad, India. For the years ended December 31, 2013, 2012 and 2011, research and development expenditures totaled approximately \$23.3 million, \$28.5 million and \$26.2 million, respectively.

Sales and Marketing

As of December 31, 2013, we had seven sales and marketing personnel managing and supporting our efforts to secure design wins for our IC products. Our sales and marketing personnel are located in the United States, Japan and China. In addition to our direct sales team, we sell through sales representatives and distributors in the United States and Asia. We also have 8 applications engineers who support our customer engagements and work closely with our engineering team on product definition. For our products, our applications engineers must engage with the customers' system architects and designers to propose our IC and IP, e.g., GCI Interface, solutions to address their systems' challenges. In the markets we serve, the time from initial customer engagement to design win to production volume shipments can range from two to three years. Networking and communications systems can have a product life from a few years to over 10 years.

Our IP revenue has been highly concentrated, with a few customers accounting for a significant percentage of our total revenue. For the year ended December 31, 2013, Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, and Broadcom, represented 41% and 13% of total revenue, respectively. For the year ended December 31, 2012, TSMC, Broadcom and Renesas, represented 28%, 26% and 12% of total revenue, respectively. For the year ended December 31, 2011, TSMC, Renesas and Broadcom represented 23%, 17% and 12% of total revenue, respectively.

Intellectual Property

We regard our patents, copyrights, trademarks, trade secrets and similar intellectual property as critical to our success, and rely on a combination of patent, trademark, copyright, and trade secret laws to protect our proprietary rights.

As of December 31, 2013, we held approximately 71 U.S. and 16 foreign patents on various aspects of our technology, with expiration dates ranging from 2014 to 2031. We currently have approximately 51 pending patent applications in the U.S. and abroad. There can be no assurance that others will not independently develop or patent similar or competing technology or design around any patents that may be issued to us, or that we will be able to successfully enforce our patents against infringement by others.

Table of Contents

In December 2011, we sold 43 United States and 30 related foreign memory technology patents for \$35 million in cash pursuant to a patent purchase agreement. Under the agreement, we retained a license to all of the sold patents that is unlimited with respect to our development, manufacturing and distribution of our Bandwidth Engine IC product line and any other proprietary products that we develop as long as they are not DRAM ICs. We also retained the rights necessary to renew existing 1T-SRAM licenses and to grant licenses similar in scope to identified foundries. We also retained rights to grant licenses for our second source purposes, to enable certain kinds of technology development and, to a limited extent, for certain ASIC products that incorporate one of our technology macros. However, the patent purchase agreement limits our rights to grant licenses under the sold patents outside the scope of our retained license and, in particular, limits the number of future licenses of 1T-SRAM memory technology that we can grant to developers of SoCs, which used to be the principal focus of our 1T-SRAM licensing activities.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. Our licensees or we might, from time to time, receive notice of claims that we have infringed patents or other intellectual property rights owned by others. Our successful protection of our patents and other intellectual property rights and our ability to make, use, import, offer to sell, and sell products free from the intellectual property rights of others are subject to a number of factors, particularly those described in Part I, Item 1A, "Risk Factors."

Competition

The markets for our products are highly competitive. We believe that the principal competitive factors are:

processing speed and performance;

density and cost;

power consumption;

reliability;

interface requirements;

ease with which technology can be customized for and incorporated into customers' products; and

level of technical support provided.

We believe that we can compete favorably with respect to each of these criteria. Our proprietary 1T-SRAM embedded memory and high-speed serial I/O IP provides our Bandwidth Engine ICs with a competitive advantage over alternative devices. Alternative solutions are either DRAM or SRAM-based and can support either the memory size or speed requirements of high-performance networking systems, but generally not both. DRAM solutions provide a significant amount of memory at competitive cost, but DRAM solutions do not have the required fast access and cycle times to enable high-performance. The DRAM solutions currently used in networking systems include RLD RAM from Micron Technology, Inc., or Micron, and Integrated Silicon Solutions, Inc., LLD RAM from Renesas and DDR from Samsung Electronics Co., Ltd., Micron and others. In addition, Micron has announced a hybrid memory cube DRAM product, which consists of multiple DRAMs connected with a serial interface. SRAM solutions can meet high-speed performance requirements, but often lack adequate memory size. The SRAM solutions currently used in networking systems primarily include QDR or similar SRAM products from Cypress Semiconductor Corporation and GSI Technology, Inc. The majority of the currently available SRAM and DRAM solutions use a parallel, rather than a serial I/O. To offset these drawbacks, system designers generally use more discrete memory ICs, resulting in higher power consumption and greater utilization of space on the line card. Our competitors include

Table of Contents

established semiconductor companies with significantly longer operating histories, greater name recognition and reputation, large customer bases, dedicated manufacturing facilities and greater financial, technical, sales and marketing resources. This may allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements. Many of our competitors also have significant influence in the semiconductor industry. They may be able to introduce new technologies or devote greater resources to the development, marketing and sales of their products than we can. Furthermore, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so.

Our Bandwidth Engine ICs compete with embedded memory solutions, stand-alone memory ICs, including both DRAM and SRAM ICs, and ASICs designed by customers in-house to meet their system requirements. Our prospective customers may be unwilling to adopt and design-in our ICs due to the uncertainties and risks surrounding designing a new IC into their systems and relying on a supplier that has almost no history of manufacturing such ICs. In addition, Bandwidth Engine ICs require the customer and its other IC suppliers to implement our new chip-to-chip communication protocol, GCI. These parties may be unwilling to do this if they believe it could adversely impact their own future product developments or competitive advantages, or if they believe it might complicate their development process or increase the cost of their products. In order to remain competitive, we believe we must provide unparalleled memory IC solutions with the highest bandwidth capability for our target markets, which solutions are engineered and built for high-reliability carrier class and enterprise applications.

Our LineSpeed ICs compete with solutions offered by Applied Micro Circuits Corporation, Avago Technologies, Broadcom, Inphi Corporation, Semtech Corp., as well as other smaller analog signal processing companies. We may also compete with ASICs designed by customers in-house to meet their system requirements, as well as by optical module OEMs.

Manufacturing

We depend on third-party vendors to manufacture, package, assemble and production test our IC products, as we do not own or operate a semiconductor fabrication, packaging or production testing facility for boards and system assembly. By outsourcing manufacturing, we are able to avoid the high cost associated with owning and operating our own facilities, allowing us to focus our efforts on the design and marketing of our products.

Quality Assurance. We perform an ongoing review of product manufacturing and testing processes. Our IC products are subjected to extensive testing to assess whether their performance meet design specifications. Our test vendors provide us with immediate test data and the ability to generate characterization reports that are made available to our customers. We have achieved ISO 9001:2008 certification, and all of our manufacturing vendors have also achieved ISO 9001 certification.

Employees

As of December 31, 2013, we had 104 employees, consisting of 76 in research and development and engineering, 7 in sales and marketing, 9 in manufacturing operations and 12 in finance and administration. By location, we had 79 employees in the United States, 23 in our development center in India and 2 sales and marketing employees in Asia. We believe our future success depends, in part, on our ability to continue to attract and retain qualified technical and management personnel, particularly highly skilled design engineers involved in new product development, for which competition is intense. We believe that our employee relations are good.

Table of Contents**Available Information**

We were founded in 1991 and reincorporated in Delaware in September 2000. Our website address is www.mosys.com. The information in our website is not incorporated by reference into this report. Through a link on the Investor section of our website, we make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission, or SEC. You can also read and obtain copies of any materials we file with the SEC, at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Executive Officers

The names of our executive officers and certain information about them are set forth below:

Name	Age	Position(s) with the Company
Leonard Perham	70	President and Chief Executive Officer
James W. Sullivan	45	Vice President of Finance and Chief Financial Officer
Thomas Riordan	57	Chief Operating Officer and Executive Vice President
John Monson	51	Vice President of Marketing and Sales

Leonard Perham, Mr. Perham was appointed President and Chief Executive Officer in November 2007. Mr. Perham was one of the original investors in MoSys and served on our Board of Directors from 1991 to 1997. In 2000, Mr. Perham retired from Integrated Device Technology, Inc., or IDT, where he served as Chief Executive Officer from 1991 and President and board member from 1986. From March 2000 to February 2012, Mr. Perham served as a member of or chairman of the board of directors of NetLogic Microsystems, a fabless semiconductor company. Mr. Perham also has been a venture partner with AsiaTech Management, a venture capital firm. Prior to joining IDT, Mr. Perham was President and CEO of Optical Information Systems, Inc., a division of Exxon Enterprises. He was also a member of the founding team at Zilog, Inc. and held management positions at Advanced Micro Devices and Western Digital. Mr. Perham received a Bachelor of Science degree in Electrical Engineering from Northeastern University.

James W. Sullivan, Mr. Sullivan became our Vice President of Finance and Chief Financial Officer in January 2008. From July 2006 until January 2008, Mr. Sullivan served as Vice President of Finance and Chief Financial Officer at Apptera, Inc., a venture-backed company providing software for mobile advertising, search and commerce. From July 2002 until June 2006, Mr. Sullivan was the Chief Financial Officer at 8x8, Inc., a provider of voice over internet protocol communication services. Mr. Sullivan's prior experience includes various positions at 8x8, Inc. and PricewaterhouseCoopers LLP. He received a Bachelor of Science degree in Accounting from New York University and is a Certified Public Accountant.

Thomas Riordan, Mr. Riordan became our Chief Operating Officer and Executive Vice President in May 2011. Prior to joining the Company, Mr. Riordan was President and Chief Executive Officer of Exclara, a fabless semiconductor supplier of ICs for solid-state lighting from 2006 until 2010. From 2000 to 2004, Mr. Riordan served as Vice President of PMC-Sierra's microprocessor division. Mr. Riordan joined PMC-Sierra in August 2000 when it purchased Quantum Effects Devices, which he had co-founded and served as President and Chief Executive Officer. Mr. Riordan serves on the board of directors of Mellanox Technologies. Mr. Riordan holds Bachelor of Science and Master of Science

Table of Contents

degrees in Electrical Engineering as well as a Bachelor of Arts degree in Government from the University of Central Florida and has done post-graduate work in Electrical Engineering at Stanford University.

John Monson, Mr. Monson became our Vice President of Marketing in February 2012. In early 2014, he assumed, on a permanent basis, additional responsibilities for our sales and business development activities and became our Vice President of Marketing and Sales. Prior to joining the Company, Mr. Monson was Vice President of Marketing for Mellanox Technologies, a supplier of interconnect solutions and services, from 2009 to 2012. From 2007 to 2008, Mr. Monson was Vice President of the EDC/PhyOptik business line at Inphi Corporation. He joined Inphi Corporation through business unit acquisition of Scintera Networks, where he was Vice President of Sales and Marketing from 2005 to 2007. Previously, he held various management positions at PMC-Sierra, Inc., Lucent Technologies and AT&T Microelectronics. Mr. Monson received a Bachelor of Science degree in Electrical Engineering from the University of Minnesota.

Item 1A. Risk Factors

If any of the following risks actually occur, our business, results of operations and financial condition could suffer significantly.

We have a history of losses and are uncertain as to our future profitability.

We recorded an operating loss of \$25.6 million, excluding the one-time gain on sale of assets of \$0.6 million, for the year ended December 31, 2013 and ended the period with an accumulated deficit of \$117.8 million. We recorded an operating loss of \$31.0 million, excluding the one-time gain on sale of assets of \$3.3 million, for the year ended December 31, 2012. We recorded an operating loss of \$24.3 million, excluding the one-time gain on sale of patents of \$35.6 million, for the year ended December 31, 2011. We expect to continue to incur operating losses for the foreseeable future as we secure customers for and invest in the commercialization of our IC products. Due to the strong commitment of our resources to research and development and expansion of our offerings to customers, we will need to increase revenues substantially beyond levels that we have attained in the past in order to generate sustainable operating profit. Given our history of fluctuating revenues and operating losses, the expected reduction in royalty and licensing revenues and challenges we face in securing customers for our IC products, we cannot be certain that we will be able to achieve profitability on either a quarterly or annual basis in the future.

Our success depends upon the networking and communications systems markets' acceptance of our ICs.

The future prospects of our business depend on the adoption and acceptance by our target markets, networking and communications equipment, of our Bandwidth Engine and LineSpeed ICs. In 2011, we began focusing our engineering, marketing and sales efforts on our IC products and de-emphasizing our technology licensing activities, which historically have been our primary revenue source. Our primary focus is on obtaining design wins, or winning competitive bids, in which customers select our IC products to design into their systems. Our prospective customers may be unwilling to adopt and design-in our ICs due to the uncertainties and risks surrounding designing a new IC into their systems and relying on a supplier that has almost no history of manufacturing such ICs. In addition, our Bandwidth Engine IC products require our customers and their other IC suppliers to implement our new and proprietary chip-to-chip communication protocol, GCI, which they may be unwilling to do. We have determined and negotiated prices with a few customers for our ICs and have gained only limited experience with the cost of making and selling these products. Thus, currently we do not know whether we will be able to profitably make and sell these products. We are investing significant resources to develop our next generation IC products, but may not introduce these new products successfully or obtain significant revenue from them.

Table of Contents

An important part of our strategy to gain market acceptance is to penetrate new markets by targeting market leaders to accept our IC solutions. This strategy is designed to encourage other participants in those markets to follow these leaders in adopting our solutions. If a high-profile industry participant adopts our ICs for one or more of its products but fails to achieve success with those products, or is unable to successfully implement our ICs, other industry participants' perception of our solutions could be harmed. Any such event could reduce the amount of future sales of our IC products.

We utilize a limited number of suppliers to manufacture our ICs, and, if any of these suppliers fail to support future versions of our technology, it will be difficult for us to develop and introduce new products and our business may not grow.

We are a fabless semiconductor company and use a limited number of suppliers to manufacture our ICs, and certain of these suppliers, such as our foundry, TSMC, are sole sources. We are dependent upon supply from TSMC and other suppliers to produce our ICs. Furthermore, we are dependent on TSMC to support the production of wafers for future versions of our ICs, and such production may require changes to TSMC's existing process technology. If TSMC elects to not alter their process technology to support future versions of our ICs, we would need to identify a new foundry. In addition, to date, TSMC has not provided us with a product roadmap for the 1T-SRAM technology at process nodes below 40 nanometer. If TSMC does not support our 1T-SRAM at process nodes below 40 nanometer, we would need to eventually identify a new foundry and/or no longer use our 1T-SRAM technology. Even if TSMC alters its production processes to produce wafers for future versions of our ICs, we may experience lower than anticipated manufacturing yields and device reliability problems due to the introduction of changes in production processes. Our inability to obtain supply for our existing and future IC products or to obtain the support of third party foundries for the development and manufacture of our products at smaller process geometries could materially and adversely affect our ability to achieve our strategic product development objectives and limit our prospects for future growth.

In addition, we do not have long-term supply contracts with TSMC or any of our other manufacturing suppliers, and, therefore, such suppliers are not obligated to manufacture products for us or meet our supply requirements. In addition, such suppliers are under no obligation to meet our future design specifications, except as may be provided in a particular purchase order. If we are unable to obtain an adequate supply of our current or future products from our suppliers or find alternative sources in a timely manner, we will be unable to fulfill our customer orders and our operating results will be harmed.

Because the manufacturing of integrated circuits is extremely complex, the process of qualifying a new foundry and/or other suppliers is a lengthy process and there can be no assurance that we will be able to find and qualify replacement suppliers without materially adversely affecting our business, financial condition, results of operations and prospects for future growth.

We may not achieve the anticipated benefits of becoming a fabless semiconductor company by developing and bringing to market the Bandwidth Engine and LineSpeed IC product lines.

In 2010, we expanded our business model to become a fabless semiconductor company through the development of a product line of memory ICs called the Bandwidth Engine. In March 2013, we announced a product line of SerDes ICs called LineSpeed. Our goal is to increase our total available market by creating high-performance ICs for networking and communications systems, using our proprietary technology and design expertise. This development effort has required that we add headcount and design resources, such as expensive software tools, which has increased our losses from and cash used in operations. We may not be successful in our development efforts to bring our ICs to

Table of Contents

market successfully nor be successful in selling ICs due to various risks and uncertainties, including, but not limited to:

customer acceptance;

adoption of the GCI protocol;

difficulties and delays in our development, production, testing and marketing activities;

the anticipated costs and technological risks of developing and bringing ICs to market;

the willingness of our manufacturing partners to assist successfully with fabrication;

the availability of quantities of ICs supplied by our manufacturing partners at a competitive cost;

our ability to generate the desired gross margin percentages and return on our product development investment;

competition from established IC suppliers;

the adequacy of our intellectual property protection for our proprietary IC designs and technologies;

the vigor and growth of markets served by our current and prospective customers; and

our lack of recent experience as a fabless semiconductor company making and selling proprietary ICs.

If we experience significant delays in bringing our IC products to market or if customer adoption of our products is delayed, we may need to raise additional capital to support the product development efforts and fund our working capital needs.

Our main objective is the development and sale of our products to networking and communications systems providers and their subsystem and component vendors, and, if demand for these products does not grow, we may not achieve revenue growth and our strategic objectives.

We market and sell our ICs to networking and communications systems providers and their subsystem and component vendors. We believe our future business and financial success depends on market acceptance and increasing sales of these products. In order to meet our growth and strategic objectives, networking infrastructure OEMs must incorporate our products into their systems, and the demand for their systems must grow as well. We cannot provide assurance that sales of products will increase substantially in the future or that the demand for our customers' systems will increase. Our future revenues from these products may not increase in accordance with our growth and strategic objectives if instead our OEM customers modify their product designs, select products sold by our competitors or develop their own proprietary ICs. Thus, the future success of this part of our business depends in large part on factors outside our control, and sales of our products may not meet our revenue growth and strategic objectives.

Table of Contents

Our ICs have a lengthy sales cycle, which makes it difficult to predict success in this market and the timing of future revenue.

Our ICs have a lengthy sales cycle, ranging from six to 24 months from the date of our initial proposal to a prospective customer until the date on which the customer confirms that it has designed our product into its system. As lengthy, or an even lengthier period, could ensue before we would know the volume of products that such customer will, or is likely to, order. A number of factors can contribute to the length of the sales cycle, including technical evaluations of our products by the customers, the design process required to integrate our products into the customers' products and the timing of the customers' new product announcements. In anticipation of product orders, we may incur substantial costs before the sales cycle is complete and before we receive any customer payments. As a result, in the event that a sale is not completed or is cancelled or delayed, we may have incurred substantial expenses, making it more difficult for us to become profitable or otherwise negatively impacting our financial results. Furthermore, because of this lengthy sales cycle, the recording of revenue from our selling efforts may be substantially delayed, our ability to forecast our future revenue may be more limited and our revenue may fluctuate significantly from quarter to quarter. We cannot provide any assurances that our efforts to build a strong and profitable business based on the sale of ICs will succeed. If these efforts are not successful, in light of the substantial resources that we have invested, our future operating results and cash flows could be materially and adversely affected.

We expect our licensing and royalty revenues to decrease compared with our historical results, and there is no guarantee revenues from our IC products will replace these lost revenues in the near future.

In 2011, we began to place greater emphasis on our IC business and re-deploy engineering, marketing and sales resources from IP to IC activities. We are no longer actively pursuing new license arrangements, and, as a result, our license and royalty revenues in 2013 declined when compared with prior years. We do not expect to generate sufficient revenues from our IC products to approximate the level of our historical IP revenues and allow us to achieve profitability in 2014. As a result, our operating results, cash flows and financial condition for 2014 are likely to be adversely affected.

The semiconductor industry is cyclical in nature and subject to periodic downturns, which can negatively affect our revenue.

The semiconductor industry is cyclical and has experienced pronounced downturns for sustained periods of up to several years. To respond to any downturn, many semiconductor manufacturers and their customers will slow their research and development activities, cancel or delay new product developments, reduce their workforces and inventories and take a cautious approach to acquiring new equipment and technologies. As a result, our business has been in the past and could be adversely affected in the future by an industry downturn, which could negatively impact our future revenue and profitability. Also, the cyclical nature of the semiconductor industry may cause our operating results to fluctuate significantly from year-to-year, which may tend to increase the volatility of the price of our common stock.

Royalties generated from the licensing of our memory technologies are currently a key component of revenues, and, if we fail to realize expected royalties, our operating results will suffer.

Royalties generated from the licensing of our memory technologies are currently a key component of revenues, and we expect this to continue through at least 2014. Royalty payments owed to us are calculated based on factors such as our licensees' selling prices, wafer production and other variables as provided in each license agreement. The amount of royalties we will receive depends on our licensees' business success, production volumes and other factors beyond our control. This exposes our business model to risks that we cannot minimize directly and may result in significant fluctuations in our royalty revenue and operating results from quarter-to-quarter. We do not expect to enter into any new memory

Table of Contents

technology licensing activities, therefore the number of royalty-bearing agreements will not increase and contribute to our royalty stream. In addition, the production volumes of the current royalty-bearing products shipped by our licensees are expected to decrease; therefore we do not expect our royalty revenue to grow in future periods. Historically, royalties have generated a 100% gross margin, and any decrease in royalties adversely affects our gross margin, operating results and cash flows.

Our revenue has been highly concentrated among a small number of licensees and customers, and our results of operations could be harmed if we lose a key revenue source and fail to replace it.

Our overall revenue has been highly concentrated, with a few customers accounting for a significant percentage of our total revenue. For the year ended December 31, 2013, our two largest customers represented 41%, and 13% of total revenue, respectively. For the year ended December 31, 2012, our three largest customers represented 28%, 26% and 12% of total revenue, respectively. For the year ended December 31, 2011, our three largest customers represented 23%, 17% and 12% of total revenue respectively. We expect that a relatively small number of customers will continue to account for a substantial portion of our revenue for the foreseeable future.

As a result of this revenue concentration, our results of operations could be adversely affected by the decision of a single key licensee or customer to cease using our technology or products or by a decline in the number of products that incorporate our technology that are sold by a single licensee or customer or by a small group of licensees or customers.

Our revenue concentration may also pose credit risks, which could negatively affect our cash flow and financial condition.

We might also face credit risks associated with the concentration of our revenue among a small number of licensees and customers. As of December 31, 2013, two customers represented 96% of total trade receivables. Our failure to collect receivables from any customer that represents a large percentage of receivables on a timely basis, or at all, could adversely affect our cash flow or results of operations and might cause our stock price to fall.

Our failure to continue to enhance our products on a timely basis could diminish our ability to attract and retain customers.

The existing and potential markets for our products are characterized by ever-increasing performance requirements, evolving industry standards, rapid technological change and product obsolescence. These characteristics lead to frequent new product introductions and enhancements, shorter product life cycles and changes in industry demands. In order to attain and maintain a significant position in the market, we will need to continue to enhance and evolve our products and the underlying proprietary technologies in anticipation of these market trends.

Our future performance depends on a number of factors, including our ability to:

identify target markets and relevant emerging technological trends;

develop and maintain competitive technology by improving performance and adding innovative features that differentiate our products from alternative technologies;

enable the incorporation of our products into the customers' products on a timely basis and at competitive prices;

develop our products to be manufactured at smaller process geometries; and

respond effectively to new technological developments or new product introductions by others.

Table of Contents

We plan to continually introduce enhancements to our products to meet market requirements. However, we cannot be assured that these introductions will achieve market acceptance or that we will be able to sell the products on terms that are favorable to us. Our failure to develop future products that achieve market acceptance could harm our competitive position and impede our future growth.

Our products must meet exact specifications, and defects and failures may occur, which may cause customers to return or stop buying our products.

Our customers generally establish demanding specifications for quality, performance and reliability that our products must meet. However, our products are highly complex and may contain defects and failures when they are first introduced or as new versions are released. If defects and failures occur in our products during the design phase or after, we could experience lost revenues, increased costs, including warranty expense and costs associated with customer support, delays in or cancellations or rescheduling of orders or shipments, product returns or discounts, diversion of management resources or damage to our reputation and brand equity, and in some cases consequential damages, any of which would harm our operating results. In addition, delays in our ability to fill product orders as a result of quality control issues may negatively impact our relationship with our customers. We cannot assure you that we will have sufficient resources to satisfy any asserted claims. Furthermore, any such defects, failures or delays may be particularly damaging to us as we attempt to establish our reputation as a reliable provider of IC products.

Because we sell our products on a purchase order basis and rely on estimated forecasts of our customers' needs, inaccurate forecasts could adversely affect our business.

We expect to sell our IC products pursuant to individual purchase orders, rather than long-term purchase commitments. Therefore, we will rely on estimated demand forecasts, based upon input from our customers, to determine how much product to manufacture. Because our sales will be based primarily on purchase orders, our customers may cancel, delay or otherwise modify their purchase commitments with little or no notice to us. For these reasons, we will generally have limited visibility regarding our customers' product needs. In addition, the product design cycle for networking OEMs is lengthy, and it may be difficult for us to accurately anticipate when they will commence commercial shipments of products that include our ICs. Furthermore, if we experience substantial warranty claims, our customers may cancel existing orders or cease to place future orders. Any cancellation, delay or other modification in our customers' orders could significantly reduce our revenue, cause our operating results to fluctuate from period to period and make it more difficult for us to predict our revenue. In the event of a cancellation or reduction of an order, we may not have enough time to reduce operating expenses to mitigate the effect of the lost revenue on our business.

If we overestimate customer demand for our products, we may purchase products from manufacturers that we cannot sell. Conversely, if we underestimate customer demand or if sufficient manufacturing and testing capacity were unavailable, we would forego revenue opportunities and could lose market share in the markets served by our products. In addition, our inability to meet customer requirements for our products could lead to delays in product shipments, force customers to identify alternative sources and otherwise adversely affect our ongoing relationships with our customers.

We will depend on contract manufacturers for a significant portion of our revenue from the sale of our IC products.

Many of our prospective OEM customers use third party contract manufacturers to manufacture their systems, and these contract manufacturers would purchase our products directly from us on behalf of the OEMs. Although we expect to work with our OEM customers in the design and development phases of their systems, these OEMs often give contract manufacturers some authority in product purchasing decisions. If we cannot compete effectively for the business of these contract manufacturers,

Table of Contents

or, if any of the contract manufacturers that work with our OEM customers experience financial or other difficulties in their businesses, our revenue and our business could be adversely affected. For example, if a contract manufacturer becomes subject to bankruptcy proceedings, we may not be able to obtain our products held by the contract manufacturer or recover payments owed to us by the contract manufacturer for products already delivered to the contract manufacturer. If we are unable to persuade contract manufacturers to purchase our products, or if the contract manufacturers are unable to deliver systems with our products to OEMs on a timely basis, our business would be adversely affected.

We rely on independent foundries and contractors for the manufacture, assembly, testing and packaging of our integrated circuits, and the failure of any of these third parties to deliver products or otherwise perform as requested could damage our relationships with our customers and harm our sales and financial results.

As a fabless semiconductor company, we rely on third parties for all of our manufacturing operations. We depend on these parties to supply us with material in a timely manner that meets our standards for yield, cost and quality. We do not have long-term supply contracts with any of our suppliers or manufacturing service providers, and therefore they are not obligated to manufacture products for us for any specific period, in any specific quantity or at any specified price, except as may be provided in a particular purchase order. Any problems with our manufacturing supply chain could adversely impact our ability to ship our products to our customers on time and in the quantity required, which in turn could damage our customer relationships and impede market acceptance of our IC solutions.

Our costs may increase substantially if the wafer foundries and assembly and test vendors that supply and test our products do not achieve satisfactory product yields, reliability or quality.

The wafer fabrication process requires extreme precision, and the slightest changes in the design, specifications or materials can result in material decreases in manufacturing yields or even the suspension of production. From time to time, we and our wafer foundries may experience manufacturing defects and reduced manufacturing yields related to errors or problems in our wafer foundries' manufacturing processes or the interrelationship of their processes with our designs. In some cases, our wafer foundries may not be able to detect these defects early in the fabrication process or determine the cause of such defects in a timely manner, which may affect the quality or reliability of our products. We may incur substantial research and development expense for prototype or development stage products as we qualify the products for production.

Our third party wafer foundries, testing and assembly vendors and sales offices are located in regions at high risk for earthquakes and other natural disasters. Any disruption to the operations of these foundries, vendors and offices resulting from earthquakes or other natural disasters could cause significant delays in the development, production, shipment and sales of our IC products.

TSMC, which manufactures our products, is located in Asia, as are other foundries we may use in the future. EAG, which handles the testing of our products, is headquartered in California. Our primary engineering design center is located in Santa Clara, California, and we have sales offices in Japan and China. The risk of an earthquake in the Pacific Rim region is significant due to the proximity of major earthquake fault lines. In September 1999, a major earthquake in Taiwan affected the facilities of several major foundries and other vendors. As a result of this earthquake, these vendors suffered power outages and disruptions that impaired their production capacity. In March 2002 and September 2003, additional earthquakes occurred in Taiwan. The occurrence of additional earthquakes or other natural disasters could result in the disruption of the wafer foundry or assembly and test capacity of the third parties that supply these services to us and may impede our research and development efforts, as well as our ability to market and sell our products. We may not be able to obtain alternate capacity on favorable terms, if at all.

Table of Contents

Any claim that our products or technology infringe third party intellectual property rights could increase our costs of operation and distract management and could result in expensive settlement costs or the discontinuance of our technology licensing or product offerings. In addition, we may incur substantial litigation expense, which would adversely affect our profitability.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights or positions, which has resulted in often protracted and expensive litigation. We are not aware of any third party intellectual property that our products or technology would infringe. However, like many companies of our size with limited resources, we have not searched for all potentially applicable intellectual property in the public databases. It is possible that a third party now has, or may in the future obtain, patents or other intellectual property rights that our products or technology may now, or in the future, infringe. Our licensees and IC customers, or we, might, from time to time, receive notice of claims that we have infringed patents or other intellectual property rights of others. Litigation against us can result in significant expense and divert the efforts of our technical and management personnel, whether or not the litigation has merit or results in a determination adverse to us.

Royalty amounts owed to us might be difficult to verify, and we might find it difficult, expensive and time-consuming to enforce our license agreements.

The standard terms of our 1T-SRAM license agreements require our licensees to document the manufacture and sale of products that incorporate our technology and generally report this data to us after the end of each quarter. We have the right to audit these royalty reports periodically. These audits can be expensive, time-consuming and potentially detrimental to our business relationships. A failure to fully enforce the royalty provisions of our license agreements could cause our revenue to decrease and impede our ability to achieve and maintain profitability.

We might not be able to protect and enforce our intellectual property rights, which could impair our ability to compete and reduce the value of our technology.

Our technology is complex and is intended for use in complex SoCs and networking systems. Our licensees' products utilize our embedded memory and/or I/O technology, and a large number of companies manufacture and market these products. Because of these factors, policing the unauthorized use of our intellectual property is difficult and expensive. We cannot be certain that we will be able to detect unauthorized use of our technology or prevent other parties from designing and marketing unauthorized products based on our technology. In the event we identify any past or present infringement of our patents, copyrights or trademarks, or any violation of our trade secrets, confidentiality procedures or licensing agreements, we cannot assure you that the steps taken by us to protect our proprietary information will be adequate to prevent misappropriation of our technology. Our inability to adequately protect our intellectual property would reduce significantly the barriers of entry for directly competing technologies and could reduce the value of our technology. Furthermore, we might initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation by us could result in significant expense and divert the efforts of our technical and management personnel, whether or not such litigation results in a determination favorable to us.

Our existing patents might not provide us with sufficient protection of our intellectual property, and our patent applications might not result in the issuance of patents, either of which could reduce the value of our core technology and harm our business.

We rely on a combination of patents, trademarks, copyrights, trade secret laws and confidentiality procedures to protect our intellectual property rights. As of December 31, 2013, we held approximately 71 patents in the United States, and approximately 16 foreign patents, which expire at various times

Table of Contents

from 2014 to 2031. In addition, as of December 31, 2013, we had approximately 51 patent applications pending worldwide. We cannot be sure that any patents will be issued from any of our pending applications or that any claims allowed from pending applications will be of sufficient scope or strength, or issued in all countries where our products can be sold, to provide meaningful protection or any commercial advantage to us. In December 2011, we sold 43 United States and 30 related foreign patents, which reduced the size of our patent portfolio and diminishes our ability to assert counterclaims in the defense of actions against us that may arise. Also, competitors might be able to design around our patents. Failure of our patents or patent applications to provide meaningful protection might allow others to utilize our technology without any compensation to us.

The discovery of defects in our technology and products could expose us to liability for damages.

The discovery of a defect in our technologies and products could lead our customers to seek damages from us. Many of our agreements with customers include provisions waiving implied warranties regarding our technology and products and limiting our liability to our customers. We cannot be certain, however, that the waivers or limitations of liability contained in our agreements with customers will be enforceable.

If we fail to retain key personnel, our business and growth could be negatively affected.

Our business has been dependent to a significant degree upon the services of a small number of executive officers and technical employees. The loss of any key personnel could negatively impact our technology development efforts, our ability to deliver under our existing agreements, maintain strategic relationships with our partners, and obtain new customers. We generally have not entered into employment or non-competition agreements with any of our employees and do not maintain key-man life insurance on the lives of any of our key personnel.

Our failure to successfully address the potential difficulties associated with our international operations could increase our costs of operation and negatively impact our revenue.

We are subject to many difficulties posed by doing business internationally, including:

foreign currency exchange fluctuations;

unanticipated changes in local regulation;

potentially adverse tax consequences, such as withholding taxes and transfer pricing issues;

political and economic instability; and

reduced or limited protection of our intellectual property.

Because we anticipate that integrated circuit sales to companies that operate primarily outside the United States may account for a substantial portion of our revenue in future periods, the occurrence of any of these circumstances could significantly increase our costs of operation, delay the timing of our revenue and harm our profitability.

Any acquisitions we make could disrupt our business and harm our financial condition.

In the future, we may consider opportunities to acquire other businesses or technologies that would complement our current offerings, expand the breadth of our markets or enhance our technical capabilities. Acquisitions that we may do in the future will present a number of potential challenges that could, if not overcome, disrupt our business operations, substantially increase our operating

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

expenses, negatively affect our operating results and cash flows and reduce the value to us of the acquired company or assets purchased, including:

uncertainty related to future revenues;

increased operating expenses and cost structure;

integration of the acquired employees, operations, technologies and products with our existing business and products;

focusing management's time and attention on our core business;

retention of business relationships with suppliers and customers of the acquired business;

entering markets in which we lack prior experience;

retention of key employees of the acquired business;

difficulties and delays in the further development, production, testing and marketing of the acquired technologies; and

amortization of intangible assets, write-offs, stock-based compensation and other charges relating to the acquired business and our acquisition costs.

Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

We intend to continue spending substantial amounts to grow our business. In the second quarter of 2013, we completed an equity offering and issued 7,475,000 shares of our common stock for approximately \$28 million in net proceeds. In December 2011, we sold 43 United States patents and 30 related foreign patents in exchange for \$35 million in cash. In December 2010, we completed an equity offering and issued approximately 5,000,000 shares of our common stock for approximately \$20 million in net proceeds. Although we believe that we have access to capital sufficient to satisfy our working capital requirements for the foreseeable future, we believe that we will need to obtain additional financing to pursue our business strategy, develop new products, respond to competition and market opportunities and acquire complementary businesses or technologies. We may not be able to obtain such financing on favorable terms or at all.

If we were to raise additional capital through sales of our equity securities, our stockholders would suffer dilution of their equity ownership. If we engage in a subsequent debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, prohibit us from paying dividends, repurchasing our stock or making investments, and force us to maintain specified liquidity or other ratios, any of which could harm our business, operating results and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

develop or enhance our products;

continue to expand our product development and sales and marketing organizations;

Edgar Filing: MoSys, Inc. - Form 10-K

acquire complementary technologies, products or businesses;

expand operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could seriously harm our ability to execute our business strategy and may force us to curtail our research and development plans or existing operations.

Table of Contents

Provisions of our certificate of incorporation and bylaws or Delaware law might delay or prevent a change of control transaction and depress the market price of our stock.

Various provisions of our certificate of incorporation and bylaws might have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of our company. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock. Certain of these provisions eliminate cumulative voting in the election of directors, limit the right of stockholders to call special meetings and establish specific procedures for director nominations by stockholders and the submission of other proposals for consideration at stockholder meetings.

We are also subject to provisions of Delaware law which could delay or make more difficult a merger, tender offer or proxy contest involving our company. In particular, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years unless specific conditions are met. Any of these provisions could have the effect of delaying, deferring or preventing a change in control, including without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of our common stock.

Under our certificate of incorporation, our board of directors may issue up to 20,000,000 shares of preferred stock without stockholder approval on such terms as the board might determine. The rights of the holders of common stock will be subject to, and might be adversely affected by, the rights of the holders of any preferred stock that might be issued in the future.

Our stockholder rights plan could prevent stockholders from receiving a premium over the market price for their shares from a potential acquirer.

We adopted a stockholder rights plan that generally entitles our stockholders to rights to acquire additional shares of our common stock when a third party acquires 15% of our common stock or commences or announces its intent to commence a tender offer for at least 15% of our common stock, other than for one group of related stockholders, as to whom this threshold is 20%. The plan also includes an exception to permit the acquisition of shares representing more than 15% of our common stock by a brokerage firm that manages independent customer accounts and generally does not have any discretionary voting power with respect to such shares. This plan could delay, deter or prevent an investor from acquiring us in a transaction that could otherwise result in stockholders receiving a premium over the market price for their shares of common stock. Our intention is to maintain and enforce the terms of this plan, which could delay, deter or prevent an investor from acquiring us in a transaction that could otherwise result in stockholders receiving a premium over the market price for their shares of common stock.

Potential volatility of the price of our common stock could negatively affect your investment.

We cannot assure you that there will continue to be an active trading market for our common stock. Historically, the stock market, as well as our common stock, has experienced significant price and volume fluctuations. Market prices of securities of technology companies have been highly volatile and frequently reach levels that bear no relationship to the operating performance of such companies. These market prices generally are not sustainable and are subject to wide variations. If our common stock trades to unsustainably high levels, it is likely that the market price of our common stock will thereafter experience a material decline. In the past, our board of directors approved stock repurchase programs, and any future program could impact the price of our common stock and increase volatility.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. We could be the target of similar litigation in the future. Securities litigation could cause us to incur substantial costs, divert management's attention

Table of Contents

and resources, harm our reputation in the industry and the securities markets and negatively impact our operating results.

Our stock price could drop, and there could be significantly less trading activity in our stock, if securities or industry analysts downgrade our stock or do not publish research or reports about our business.

Our stock price and the trading market for our stock are likely to be affected significantly by the research and reports concerning our company and our business which are published by industry and securities analysts. We do not have any influence or control over these analysts, their reports or their recommendations. Our stock price and the trading market for our stock could be negatively affected if any analyst downgrades our stock, publishes a report which is critical of our business, or discontinues coverage of us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal administrative, sales, marketing, support and research and development functions are located in a leased facility in Santa Clara, California. We currently occupy approximately 47,000 square feet of space in the Santa Clara facility, the lease for which extends through August 2020. We have leased office space in Hyderabad, India for our engineering design center and in Tokyo, Japan, and Shanghai, China for our sales and support offices. We believe that our existing facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

We are not a party to any material legal proceeding which could have a material adverse effect on our consolidated financial position or results of operations. From time to time we may be subject to legal proceedings and claims in the ordinary course of business. These claims, even if not meritorious, could result in the expenditure of significant financial resources and diversion of management efforts.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the Global Select Market of the NASDAQ Stock Market under the symbol MOSY. The following table sets forth the range of high and low sales prices of our common stock for each period indicated.

Quarter ended	High	Low
December 31, 2013	\$ 5.64	\$ 4.01
September 30, 2013	\$ 4.36	\$ 3.50
June 30, 2013	\$ 4.80	\$ 3.98
March 31, 2013	\$ 4.85	\$ 3.36
December 31, 2012	\$ 4.38	\$ 2.89
September 30, 2012	\$ 4.04	\$ 3.09
June 30, 2012	\$ 3.98	\$ 2.86
March 31, 2012	\$ 4.44	\$ 3.35

We had 16 stockholders of record as of March 1, 2014.

Dividend Policy

We have not declared or paid any cash dividends on our common stock and presently intend to retain future earnings, if any, to fund the development and growth of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future.

Stock Performance Graph

The following graph compares cumulative total stockholder return on our common stock with that of the S&P 500 Index and the S&P Technology Sector Index from 2008 through 2013. The comparison assumes that \$100 was invested on December 31, 2008 in our common stock, the stocks included in the S&P 500 Index and the stocks included in the S&P Technology Sector Index. We have never paid any cash dividends to holders of our common stock.

The comparisons shown in the graph below are based upon historical data, and we caution that the stock price performance shown in the graph below is not indicative of, nor intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

Standard and Poor's website, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.

Comparison of Five-Year Cumulative Return

	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
MOSYS, INC.	\$ 100.00	\$ 187.62	\$ 270.95	\$ 200.00	\$ 165.71	\$ 262.86
S & P 500	100.00	127.15	234.49	239.03	272.68	203.82
S & P TECHNOLOGY SECTOR	100.00	161.65	175.14	176.87	195.85	250.64

Securities Authorized for Issuance under Equity Compensation Plan

For information regarding securities authorized for issuance under equity compensation plans, please refer to Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 6. Selected Financial Data

The selected financial data presented below is derived from our consolidated financial statements that are included under Item 8. The selected financial data should be read in conjunction with our

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

consolidated financial statements and notes related to those statements and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

	Year Ended December 31,				
	2013(1)	2012(2)	2011(3)	2010(4)	2009(5)
(In thousands, except per share data)					
Statement of Operations Data:					
Total net revenue	\$ 4,398	\$ 6,082	\$ 14,107	\$ 15,563	\$ 11,458
Cost of net revenue	474	334	3,295	2,826	1,993
Gross profit	3,924	5,748	10,812	12,737	9,465
Operating expenses	28,856	33,407	(526)	35,925	29,468
Income (loss) from operations	(24,932)	(27,659)	11,338	(23,188)	(20,003)
Other income, net	209	155	206	177	744
Income (loss) before income taxes	(24,723)	(27,504)	11,544	(23,011)	(19,259)
Income tax provision (benefit)	71	110	288	51	(155)
Net income (loss)	\$ (24,794)	\$ (27,614)	\$ 11,256	\$ (23,062)	\$ (19,104)
Net income (loss) per share:					
Basic	\$ (0.55)	\$ (0.70)	\$ 0.30	\$ (0.72)	\$ (0.61)
Diluted	\$ (0.55)	\$ (0.70)	\$ 0.28	\$ (0.72)	\$ (0.61)
Shares used in computing net income (loss) per share:					
Basic	45,246	39,176	37,861	31,870	31,238
Diluted	45,246	39,176	40,377	31,870	31,238
Allocation of stock-based compensation to cost of net revenue and operating expenses:					
Cost of net revenue	\$ 7	\$ 53	\$ 407	\$ 309	\$ 250
Research and development	2,565	2,694	1,961	1,524	1,153
Selling, general and administrative	1,126	1,064	1,398	1,465	1,651
	\$ 3,698	\$ 3,811	\$ 3,766	\$ 3,298	\$ 3,054

	Year Ended December 31,				
	2013	2012	2011	2010	2009
(In thousands)					
Balance Sheet Data:					
Cash, cash equivalents and investments	\$ 50,482	\$ 40,710	\$ 57,975	\$ 37,544	\$ 40,436
Working capital	36,020	30,155	47,968	27,246	25,628

Edgar Filing: MoSys, Inc. - Form 10-K

Total assets	77,989	69,534	89,637	73,966	75,543
Deferred revenue	170	481	920	1,801	2,671
Long-term liabilities	216	171	109	146	136
Stockholders' equity	75,418	64,542	85,493	67,057	64,701

- (1) Operating expenses include a gain on the sale of patents of \$0.6 million and \$1.0 million of amortization of acquired intangible assets.
- (2) Operating expenses include a gain on the sale of patents of \$3.3 million and \$1.7 million of amortization of acquired intangible assets.
- (3) Operating expenses include a gain on the sale of patents of \$35.6 million and \$2.6 million of amortization of acquired intangible assets.
- (4) Operating expenses include \$2.8 million of amortization of acquired intangible assets.
- (5) Operating expenses include restructuring charges of \$0.7 million and \$1.5 million of amortization of acquired intangible assets.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying consolidated financial statements and notes included in this report.

Overview

Our strategy and primary business objective is to become a fabless semiconductor company focused on the development and sale of integrated circuits, or ICs, for the high-speed networking, communications, storage and computing markets. Our technology delivers time-to-market, performance, power and economic benefits for system original equipment manufacturers, or OEMs. We have developed a family of ICs, called Bandwidth Engine®, which combines our proprietary 1T-SRAM® high-density embedded memory and high-speed serial interface, or SerDes, I/O, with our intelligent access technology and a highly efficient interface protocol. In March 2013, we announced another IC product line under the LineSpeed® product name. LineSpeed ICs are non-memory, high-speed SerDes I/O devices with gearbox and retimer functionality, which convert lanes of data received on line cards into different configurations and/or ensure signal integrity. Certain SerDes products have been developed under a strategic development and marketing agreement with Credo Semiconductor Ltd., or Credo. For those products developed by Credo, the first \$2.3 million of gross profits generated by us from the sale of these products will be retained by us as reimbursement of the development costs. Thereafter, all gross profits from the sale of the Credo-developed products worldwide will be shared equally by Credo and us.

Historically, our primary business was the design, development, marketing, sale and support of differentiated intellectual property, or IP, including embedded memory and high-speed parallel and SerDes I/O used in advanced systems-on-chips, or SoCs. Since the beginning of 2010, we have invested an increasing amount of our research and development resources towards development of our IC products. Our future success and ability to achieve and maintain profitability will be dependent on the manufacturing, marketing and sales of our IC products into networking, communications and other end-customer applications markets requiring high performance. During 2011, we began placing less emphasis on IP licensing and deploying more resources towards our IC product development and marketing efforts. We have been focused on monetizing our IP portfolio to fund the change in our business. Towards this end, we have completed asset sales for proceeds of approximately \$39.3 million, including our December 2011 patent sale and March 2012 SerDes technology sale. We are using the proceeds from these sales to partially fund our investment in our IC products. We still maintain a large patent portfolio with over 100 patents granted and pending with more in process.

Revenue from IP licensing and royalties represented the majority of our revenues for 2011, 2012 and 2013. We have substantially completed our performance obligations under our existing license agreements, therefore we expect our licensing and royalty revenue to decrease in future periods. To date, we have not generated significant revenue from sales of our IC products. We are currently supporting existing design-win customers and actively pursuing additional design wins for the use of our ICs in networking and communication equipment. We have established initial pricing of our IC products ordered to date, but longer-term volume prices will be subject to negotiations with our customers and may vary substantially from these initial prices.

Critical Accounting Policies and Use of Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Note 1 to the consolidated financial statements in Item 15 of this report describes the significant accounting policies and methods used in the preparation of our consolidated financial statements.

Table of Contents

We have identified the accounting policies below as some of the more critical to our business and the understanding of our results of operations. These policies may involve estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Although we believe our judgments and estimates are appropriate, actual future results may differ from our estimates, and if different assumptions or conditions were to prevail, the results could be materially different from our reported results.

Revenue Recognition

Licensing

Licensing revenue consists of fees earned from license agreements, development services and support and maintenance. The vast majority of our contracts allow for milestone billing based on work performed. Fees billed prior to revenue recognition are recorded as deferred revenue. We recognize revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. Evidence of an arrangement generally consists of signed agreements. When sales arrangements contain multiple elements (e.g., license and services), we review each element to determine the separate units of accounting that exist within the agreement. If more than one unit of accounting exists, the consideration payable to us under the agreement is allocated to each unit of accounting using the relative fair value method. Revenue is recognized for each unit of accounting when the revenue recognition criteria have been met for that unit of accounting.

For stand-alone license agreements or license deliverables in multi-deliverable arrangements that do not require significant development, modification or customization, revenue is recognized when all revenue recognition criteria have been met. Delivery of the licensed technology is typically the final revenue recognition criterion met, at which time revenue is recognized. If any of the criteria are not met, revenue recognition is deferred until such time as all criteria have been met.

For license agreements that include deliverables requiring significant production, modification or customization, and where we have significant experience in meeting the design specifications involved in the contract and the direct labor hours related to services under the contract can be reasonably estimated, we recognize revenue over the period in which the contract services are performed. For these arrangements, we recognize revenue using the percentage of completion method. Revenue recognized in any period is dependent on our progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. These judgmental elements include determining that we have the experience to meet the design specifications and estimating the total direct labor hours. We follow this method because we can obtain reasonably dependable estimates of the direct labor hours to perform the contract services. The direct labor hours for the development of the licensee's design are estimated at the beginning of the contract. As these direct labor hours are incurred, they are used as a measure of progress towards completion. We have the ability to reasonably estimate the direct labor hours on a contract-by-contract basis based on our experience in developing prior licensees' designs. During the contract performance period, we review estimates of direct labor hours to complete the contracts as the contract progresses to completion and will revise our estimates of revenue and gross profit under the contract if we revise the estimations of the direct labor hours to complete. Our policy is to reflect any revision in the contract gross profit estimate in reported income or loss in the period in which the facts giving rise to the revision become known. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determined to be likely. If the amount of revenue recognized under the percentage of completion accounting method exceeds the amount of billings to a customer, then the excess amount is recorded as an unbilled contracts receivable.

Table of Contents

We provide support and maintenance under many of our license agreements. Under these arrangements, we provide unspecified upgrades, design rule changes and technical support. No other upgrades, products or other post-contract support are provided. Support and maintenance revenue is recognized at its fair value established by vendor-specific objective evidence, ratably over the period during which the obligation exists, typically 12 months. These arrangements are generally renewable annually by the customer.

Royalty

Royalty revenue represents amounts earned under provisions in our memory licensing agreements that require our licensees to report royalties and make payments at a stated rate based on actual units manufactured or sold by licensees for products that include our memory IP. Our license agreements require the licensee to report the manufacture or sale of products that include our technology after the end of the quarter in which the sale or manufacture occurs. We recognize royalties in the quarter in which we receive the licensee's report. As with our licensing revenue, the timing and level of royalties are difficult to predict. They depend on the licensee's ability to market, produce and sell products incorporating our technology.

IC products

Products are sold both directly to customers, as well as through distributors. Revenue from sales directly to customers is generally recognized at the time of shipment. We record an estimated allowance, at the time of shipment, for future returns and other charges against revenue consistent with the terms of sale. IC product revenue and costs relating to sales made through distributors with rights of return or stock rotation are deferred until the distributors sell the product to end customers due to our inability to estimate future returns and credits to be issued. Distributors are generally able to return up to 10% of their purchases of slow, non-moving or obsolete inventory for credit every six months. At the time of shipment to distributors, an accounts receivable for the selling price is recorded, as there is a legally enforceable right to receive payment, and inventory is relieved, as legal title to the inventory is transferred upon shipment. Revenues are recognized upon receiving notification from the distributors that products have been sold to end customers. Distributors provide information regarding products and quantity, end customer shipments and remaining inventory on hand. The associated deferred margin is included in the deferred revenue line item in the consolidated balance sheets. We recorded initial IC product revenue in 2012, and a significant reserve for returns has been recorded due to the product's early stage of development and testing. IC product revenue was not significant in 2012 and 2013, and has been included in the licensing and other revenue line item in the consolidated statements of operations and comprehensive income (loss).

Fair Value Measurements of Financial Instruments

We measure the fair value of financial instruments using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1 Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 Pricing is provided by third party sources of market information obtained from investment advisors rather than models. We do not adjust for or apply any additional assumptions or estimates to the pricing information we receive from advisors. Our Level 2 securities include cash equivalents and available-for-sale securities, which consisted primarily of corporate debt, and government agency and municipal debt securities from issuers with high quality credit ratings. Our investment advisors obtain pricing data from independent sources, such as Standard & Poor's, Bloomberg and Interactive Data Corporation, and rely on comparable pricing of other securities

Table of Contents

because the Level 2 securities we hold are not actively traded and have fewer observable transactions. We consider this the most reliable information available for the valuation of the securities.

Level 3 Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment are used to measure fair value. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The determination of fair value for Level 3 investments and other financial instruments involves the most management judgment and subjectivity.

Valuation of long-lived Assets

We evaluate our long-lived assets for impairment at least annually, or more frequently when a triggering event is deemed to have occurred. This assessment is subjective in nature and requires significant management judgment to forecast future operating results, projected cash flows and current period market capitalization levels. If our estimates and assumptions change in the future, it could result in a material write-down of long-lived assets. We amortize our finite-lived intangible assets, such as developed technology, customer relationships and patent license, on a straight-line basis over their estimated useful lives of three to seven years. We recognize an impairment charge as the difference between the net book value of such assets and the fair value of the assets on the measurement date.

Goodwill

We review goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of the reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If the qualitative assessment warrants further analysis, we compare the fair value of the reporting unit to its carrying value. The fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds the carrying value of net assets of the reporting unit, goodwill is not impaired, and no further testing is performed. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then we must record an impairment charge equal to the difference. We have determined that we have a single reporting unit for purposes of performing the goodwill impairment test. We performed the annual impairment test in September 2013, and the test did not indicate impairment of goodwill. As of December 31, 2013, we did not identify any factors to indicate there was an impairment of our goodwill and determined that no additional impairment analysis was required.

Deferred tax valuation allowance

When we prepare our consolidated financial statements, we estimate our income tax liability for each of the various jurisdictions where we conduct business. This requires us to estimate our actual current tax exposure and to assess temporary differences that result from differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets, which we show on our consolidated balance sheet under the category of other current assets. The net deferred tax assets are reduced by a valuation allowance if, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. We must make significant judgments to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance to be recorded against our net deferred tax asset.

Table of Contents*Stock-based compensation*

We recognize stock-based compensation for equity awards on a straight-line basis over the requisite service period, usually the vesting period, based on the grant-date fair value. We estimate the value of employee stock options on the date of grant using the Black-Scholes model. The determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The expected volatility is based on the historical volatility of our stock price.

Results of Operations*Net Revenue.*

	Year ended December 31,			Year-Over-Year Change	
	2013	2012	2011	2012 to 2013	2011 to 2012
	(dollar amounts in thousands)				
Licensing and other	\$ 781	\$ 1,340	\$ 5,987	\$ (559)	(42)% \$ (4,647) (78)%
Percentage of total net revenue	18%	22%	42%		

Licensing and other revenue decreased in 2013 primarily due to a decrease in licensing revenue, partially offset by an increase in IC revenue. The decrease in licensing revenue was attributable to a lack of new licensing agreements during 2012 and 2013 and a decline in the value of residual fee-generating license agreements. License revenue recognized in 2013 was generated from agreements entered into in 2011 and prior years. We expect our licensing revenue to decrease in 2014 as we have not executed any new IP licenses since 2011. However, we expect to offset the decrease in licensing revenue with increased sales of our IC products, which are included in this line item.

Licensing revenue decreased \$4.6 million in 2012 due to the lack of new license agreements and a decline in the number of residual fee-generating license agreements. License revenue recognized in 2012 was generated solely from agreements entered into in 2011 and prior years.

	Year ended December 31,			Year-Over-Year Change	
	2013	2012	2011	2012 to 2013	2011 to 2012
	(dollar amounts in thousands)				
Royalty	\$ 3,617	\$ 4,742	\$ 8,120	\$ (1,125)	(24)% \$ (3,378) (42)%
Percentage of total net revenue	82%	78%	58%		

Royalty revenue decreased \$1.1 million in 2013 primarily due to a decrease in manufacturing volumes from a fabless semiconductor licensee and a decrease in shipments by an IDM licensee whose product is used in the Nintendo Wii® game console, partially offset by increases in manufacturing volumes of other licensees. We expect royalty revenues to decrease in 2014 as we expect a decline in shipments of units incorporating our technology by licensees, as their products approach their end of life, and we do not expect to receive any additional royalties related to the Nintendo Wii system.

Royalty revenue decreased \$3.4 million in 2012 primarily due to a decrease in shipments by an IDM licensee whose product is used in the Nintendo Wii® game console and TSMC, a major foundry partner.

Table of Contents*Cost of Net Revenue and Gross Profit.*

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Cost of net revenue	\$ 474	\$ 334	\$ 3,295	\$ 140	42%	\$ (2,961)	(90)%
Percentage of total net revenue	11%	5%	23%				

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Gross profit	\$ 3,924	\$ 5,748	\$ 10,812	\$ (1,824)	(32)%	\$ (5,064)	(47)%
Gross margin	89%	95%	77%				

Cost of net revenue consists of personnel and related overhead allocation costs for engineers assigned to revenue-generating licensing arrangements and direct and indirect costs related to the sale of IC products.

Cost of net revenue increased in 2013, primarily due to increased IC cost of net revenue from sales of our Bandwidth Engine ICs, although we decreased costs incurred on engineering services on existing licensing contracts. We expect that the cost of revenue will increase in the future in absolute dollars, as well as a percentage of total net revenue, because we anticipate an increase in sales of our IC products.

Cost of net revenue decreased in 2012, primarily due to the lack of new licensing agreements and reduced requirements for engineering services on existing contracts. Cost of net revenue in 2012 included stock-based compensation expense of \$0.1 million, a decrease of \$0.3 million compared with 2011. Total gross profit decreased to \$5.7 million in 2012 primarily due to the decrease in license and royalty revenues.

Research and Development.

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Research and development	\$ 23,325	\$ 28,480	\$ 26,216	\$ (5,155)	(18)%	\$ 2,264	9%
Percentage of total net revenue	530%	468%	186%				

Our research and development expenses include costs related to the development of our IC products and amortization of technology-based intangible assets. We expense research and development costs as they are incurred.

The \$5.2 million decrease in 2013 was primarily due to decreases in our mask tooling costs, personnel-related costs resulting from lower headcount, computer-aided software tools costs and lower amortization costs related to acquired intangible assets.

The \$2.3 million increase in 2012 was primarily due to increases in our mask tooling and other fabrication costs and stock-based compensation charges, partially offset by decreases in personnel-related costs resulting from lower headcount and lower amortization costs related to acquired intangible assets.

Research and development expenses included stock-based compensation expense of \$2.6 million, \$2.7 million and \$2.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. We expect that research and development expenses will increase in absolute dollars as our mask tooling costs and other fabrication costs are expected to be higher in 2014 compared with 2013. The primary driver of research and development expense will be our continued investment in our current and next generation IC products.

Table of Contents*Selling, General and Administrative.*

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Selling, general and administrative	\$ 6,161	\$ 8,218	\$ 8,869	\$ (2,057)	(25)%	\$ (651)	(7)%
Percentage of total net revenue	140%	135%	63%				

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, human resources and general management. The \$2.1 million decrease for 2013 was primarily due to a decrease in personnel-related and legal costs. The \$0.7 million decrease for 2012 was primarily due to a decrease in personnel-related, legal and stock-based compensation costs. Selling, general and administrative expenses included stock-based compensation expense of \$1.1 million, \$1.1 million and \$1.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

We expect total selling, general and administrative expenses to slightly increase in absolute dollars in 2014 as we expand sales and marketing efforts for our IC products.

Gain on Sale of Assets.

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Gain on sale of assets	\$ 630	\$ 3,291	\$ 35,611	\$ (2,661)	(81)%	\$ (32,230)	(91)%
Percentage of total net revenue	14%	54%	252%				

In March 2012, we entered into an asset purchase agreement for an exclusive license of a portion of our intellectual property pertaining to our high-speed serial I/O technology for approximately \$4.3 million. As part of the agreement, we provided certain technology transfer support services, and 15 employees of our India subsidiary accepted employment with the purchaser. In 2012, we received approximately \$3.4 million in cash, less transaction costs, from this agreement, and received the final payment of \$0.6 million in 2013.

In December 2011, we entered into a patent purchase agreement for the sale of 43 United States and 30 related foreign memory technology patents for \$35.0 million in cash. We recognized a \$35.6 million gain on this transaction. The gain was comprised of the \$35.0 million of proceeds, plus \$0.8 million, which we determined to be the value of our retained license to these patents, less transaction costs.

Other Income, net.

	Year ended December 31,			Year-Over-Year Change			
	2013	2012	2011	2012 to 2013	2011 to 2012		
	(dollar amounts in thousands)						
Other income, net	\$ 209	\$ 155	\$ 206	\$ 54	35%	\$ (51)	(25)%
Percentage of total net revenue	5%	3%	1%				

Other income, net primarily consisted of interest income on our investments, which was \$0.2 million, \$0.2 million and \$0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Interest income remained consistent in 2013 and 2012 due to consistent average investment balances and was lower by \$0.1 million in 2011 primarily due to lower average investment balances and lower interest rates earned.

Table of Contents*Income Tax Provision.*

	Year ended December 31,			Year-Over-Year Change	
	2013	2012	2011	2012 to 2013	2011 to 2012
	(dollar amounts in thousands)				
Income tax provision	\$ 71	\$ 110	\$ 288	\$ (39)	(35)%
Percentage of total net revenue	2%	2%	2%		(62)%

Our 2013 and 2012 income tax provisions were primarily attributable to foreign jurisdictions. Our 2011 income tax provision was attributable to the federal alternative minimum tax, as we were profitable in 2011, and foreign jurisdictions.

As of December 31, 2013, we had net operating loss carryforwards of approximately \$104 million for U.S. federal income tax purposes and approximately \$94 million for state income tax purposes that are available to reduce future income tax liabilities to the extent permitted under federal and state income tax laws. The federal net operating loss carryforwards expire from 2025 to 2033, and state net operating loss carryforwards expire from 2014 to 2033. In 2014, we anticipate that our effective income tax rate will continue to be less than the federal statutory tax rate because of expected losses.

As of December 31, 2013 and 2012, we had net deferred tax assets of approximately \$55 million and \$44 million, respectively. Because of uncertainties regarding the realization of deferred tax assets, we had recorded a full valuation allowance as of December 31, 2013 and 2012.

Liquidity and Capital Resources

As of December 31, 2013, we had cash, cash equivalents and investments totaling \$50.5 million compared with a combined balance of \$40.7 million at December 31, 2012. In the second quarter of 2013, we sold approximately 7.5 million shares of common stock in an equity offering, raising approximately \$27.7 million, net of transaction expenses. The offering was made under our shelf registration statement, which became effective in November 2010 and expired in November 2013. Our principal source of cash in 2011 was the sale of patents for \$35 million in December 2011. Our primary capital requirements are to fund working capital, including development of our IC products, and any acquisitions that we make that require cash consideration or expenditures.

In 2013, we used \$22.6 million in operating activities, which primarily resulted from the net loss of \$24.8 million, and \$2.6 million used for operating assets and liabilities, adjusted for non-cash charges and gains, which included stock-based compensation expenses of \$3.7 million and depreciation and amortization expenses of \$1.7 million. The changes in assets and liabilities primarily related to the recognition of revenue related to deferred revenues and payments to vendors.

In 2012, we used \$22.0 million in operating activities, which primarily resulted from the net loss of \$27.6 million and the \$3.3 million gain on the sale of assets, adjusted for non-cash charges consisting of stock-based compensation of \$3.8 million, depreciation and amortization of \$2.7 million and \$2.4 million generated from changes in operating assets and liabilities. The changes in assets and liabilities primarily related to the timing of billing our customers, collection of receivables, recognition of revenue related to deferred revenues and payments to vendors.

In 2011, we used \$15.7 million in operating activities, which primarily resulted from the net income of \$11.3 million and \$1.3 million generated from changes in operating assets and liabilities, reduced by the \$35.6 million gain on the sale of patents and adjusted for non-cash charges consisting of stock-based compensation of \$3.8 million and depreciation and amortization of \$3.7 million. The changes in assets and liabilities primarily related to the timing of billing our customers, collection of receivables and payments to vendors.

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

Our investing activities in 2013 primarily consisted of \$0.6 million received for the sale of assets and \$0.2 million expended for purchases of fixed assets. Remaining investing activities consisted of investing our cash in marketable securities, which did not affect our liquidity. Our investing activities in 2012 primarily consisted of \$3.4 million received, net of transaction costs, for the sale of assets and \$0.7 million expended for purchases of fixed assets. Remaining investing activities consisted of investing our cash in marketable securities, which did not affect our liquidity. Our investing activities in 2011 included the payment of \$1.5 million in deferred consideration for the MagnaLynx acquisition in 2010 and the purchase of \$0.3 million of fixed assets.

Our financing activities in 2013 primarily consisted of \$27.8 million in net proceeds received from the sale of common stock through a public offering and \$4.2 million in proceeds from the exercise of stock options and purchases of common stock under our employee stock purchase plan. Our financing activities in 2012 primarily consisted of proceeds from the exercise of stock options and sales under our employee stock purchase plan, partially offset by a repurchase and retirement of common stock. Our financing activities in 2011 primarily consisted of proceeds from the exercise of stock options and purchases of common stock under our employee stock purchase plan.

Our future liquidity and capital requirements are expected to vary from quarter to quarter, depending on numerous factors, including:

level of revenue;

cost, timing and success of technology development efforts, including meeting customer design specifications;

fabrication costs, including mask costs of our ICs, currently under development;

variations in manufacturing yields, materials costs and other manufacturing risks;

costs of acquiring other businesses and integrating the acquired operations; and

profitability of our business.

We expect our cash expenditures to continue to exceed receipts in 2014, as our revenues will not be sufficient to offset our operating expenses, which include significant research and development expenditures for the expansion and fabrication of our IC products. We believe our existing cash, cash equivalents and investments, along with our existing capital and cash generated from operations, if any, to be sufficient to meet our capital requirements for the foreseeable future. We believe that we need to obtain additional capital prior to achieving positive operating cash flows. There can be no assurance that our capital is sufficient to fund operations until such time as we begin to achieve positive cash flows. We might decide to raise additional capital, and there can be no assurance that such funding will be available to us on favorable terms, if at all. The failure to raise capital when needed could have a material adverse effect on our business and financial condition.

Disclosures about Contractual Obligations and Commercial Commitments

The impact that our contractual obligations as of December 31, 2013 are expected to have on our liquidity and cash flow in future periods is as follows (in thousands):

	Total	Payment Due by Period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Operating leases	\$ 4,964	\$ 756	\$ 1,448	\$ 1,490	\$ 1,270
Purchase commitments	5,808	2,875	2,933		
	\$ 10,772	\$ 3,631	\$ 4,381	\$ 1,490	\$ 1,270

Table of Contents

As of December 31, 2013, our purchase commitments related to licenses for computer-aided design tools.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements or obligations that are reasonably likely to have a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

Indemnifications

In the ordinary course of business, we enter into contractual arrangements under which we may agree to indemnify the counter-party from losses relating to a breach of representations and warranties, a failure to perform certain covenants, or claims and losses arising from certain external events as outlined within the particular contract, which may include, for example, losses arising from litigation or claims relating to past performance. Such indemnification clauses may not be subject to maximum loss clauses. We have also entered into indemnification agreements with our officers and directors. No material amounts are reflected in our consolidated financial statements for the years ended December 31, 2013, 2012 or 2011 related to these indemnifications.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements in Item 15 of this report for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

We have exposure to interest rate risk due to our investment portfolio. Our investments are made in accordance with an investment policy under the guidance of the audit committee of our board of directors. The primary objective of our investment activities is to preserve principal and meet liquidity needs. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of securities, including U.S. government agency debt, municipal notes, corporate notes and bonds, certificates of deposit, and money market funds. We place our investments with high-credit quality issuers and, by policy, limit the amount of credit exposure with any one issuer or fund.

The investments, other than money market funds, are classified as available-for-sale and are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive income. Securities with an original maturity of three months or less are considered cash equivalents. Securities with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Securities with remaining maturities greater than one year are classified as long-term investments. All investments have a maturity of less than two years. No single security should exceed 5% of the portfolio or \$2.0 million at the time of purchase. The portfolio's dollar-weighted average maturity of investments is within 12 months. These securities, which approximated \$46.1 million as of December 31, 2013 and earned an average annual interest rate of approximately 0.3% in 2013, are subject to interest rate and credit risks. As of December 31, 2013, we performed a sensitivity analysis on our investment portfolio. According to our analysis, parallel shifts in the yield curve of both +/- 0.5% would result in changes in fair market values for these investments of approximately \$0.2 million. We do not have any investments denominated in foreign currencies, and therefore are not subject to foreign currency risk on such investments.

Table of Contents

Foreign currency exchange rate risk

Currently, all of our international sales are denominated in U.S. dollars and, as a result, we have not experienced significant foreign exchange gains or losses to date. However, the expenses of our foreign subsidiaries are denominated in their local currencies, therefore we have risk of foreign exchange gains and losses through the funding of those expenditures. We do not currently enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. However, in the event our exposure to foreign currency risk increases, we may choose to hedge those exposures. For most currencies, we are a net payer of foreign currencies and, therefore, benefit from a stronger U.S. dollar and are adversely affected by a weaker U.S. dollar relative to those foreign currencies.

Item 8. Financial Statements and Supplementary Data

Reference is made to the consolidated financial statements listed under the heading (a) (1) Financial Statements and Reports of Burr Pilger Mayer, Inc. of Item 15, which consolidated financial statements are incorporated by reference in response to this Item 8.

Quarterly Results of Operations

The following tables set forth unaudited results of operations data for each of the eight quarters in the two year period ended December 31, 2013. This unaudited information has been prepared on a basis consistent with our audited financial statements appearing elsewhere in this report and, in the opinion of our management, includes all adjustments, consisting only of normal recurring adjustments, except as disclosed below, necessary for a fair presentation of the information for the periods

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

presented. The unaudited quarterly information should be read in conjunction with the financial statements and notes included elsewhere in this report.

	Dec. 31, 2013	Sep. 30, 2013	Jun. 30, 2013	Mar. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012
(In thousands, except per share data)								
(Unaudited All periods)								
Net revenue:								
Licensing and other	\$ 231	\$ 141	\$ 160	\$ 249	\$ 227	\$ 248	\$ 644	\$ 221
Royalty	755	816	960	1,086	1,368	1,079	1,092	1,203
Total net revenue	986	957	1,120	1,335	1,595	1,327	1,736	1,424
Cost of net revenue:								
Licensing and other	220	158	77	19	45	53	179	57
Total cost of net revenue	220	158	77	19	45	53	179	57
Gross profit	766	799	1,043	1,316	1,550	1,274	1,557	1,367
Operating expenses:								
Research and development	5,779	6,243	5,983	5,320	7,260	7,026	6,688	7,506
Selling, general and administrative	1,483	1,595	1,460	1,623	2,126	1,738	1,428	2,926
Gain on sale of assets				(630)		(1,435)		(1,856)
Total operating expenses	7,262	7,838	7,443	6,313	9,386	7,329	8,116	8,576
Operating loss	(6,496)	(7,039)	(6,400)	(4,997)	(7,836)	(6,055)	(6,559)	(7,209)
Other income, net	43	122	24	20	34	61	36	24
Loss before income taxes	(6,453)	(6,917)	(6,376)	(4,977)	(7,802)	(5,994)	(6,523)	(7,185)
Income tax provision (benefit)	3	28	20	20	(29)	79	30	30
Net loss	\$ (6,456)	\$ (6,945)	\$ (6,396)	\$ (4,997)	\$ (7,773)	\$ (6,073)	\$ (6,553)	\$ (7,215)
Net loss per share:								
Basic and diluted	\$ (0.13)	\$ (0.14)	\$ (0.15)	\$ (0.12)	\$ (0.19)	\$ (0.15)	\$ (0.17)	\$ (0.19)
Shares used in computing net loss per share:								
Basic and diluted	48,543	48,164	43,892	40,264	39,958	39,299	38,880	38,566

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Edgar Filing: MoSys, Inc. - Form 10-K

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, our management concluded that as of December 31, 2013, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. In designing and evaluating the disclosure controls and procedures, management

Table of Contents

recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework (1992 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Burr Pilger Mayer, Inc., an independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of December 31, 2013, as stated in their report, which is included under Item 15 below.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth fiscal quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our directors and corporate governance will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about June 9, 2014, which information is incorporated into this report by reference. However, certain information regarding current executive officers found under the heading "Executive Officers" in Item 1 of Part I hereof is also incorporated by reference in response to this Item 10.

We have adopted a code of ethics that applies to all of our employees. The code of ethics is designed to deter wrongdoing and to promote, among other things, honest and ethical conduct, full, fair, accurate, timely, and understandable disclosures in reports and documents submitted to the SEC and other public communications, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code and accountability for adherence to such code.

The code of ethics is available on our website, www.mosys.com. If we make any substantive amendments to the code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer or Chief Financial Officer, or persons performing similar functions, where such amendment or waiver is required to be disclosed under applicable SEC rules, we intend to disclose the nature of such amendment or waiver on our website.

Item 11. Executive Compensation

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about June 9, 2014, which information is incorporated into this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required to be provided in response to this item, including information relating to securities authorized for issuance under equity compensation plans, will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about June 9, 2014, which information is incorporated into this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about June 9, 2014, which information is incorporated into this report by reference.

Item 14. Principal Accountant Fees and Services

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on or about June 9, 2014, which information is incorporated into this report by reference.

Table of Contents

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)

The following documents are filed as part of this report:

(1)

Consolidated Financial Statements and Reports of Independent Registered Public Accounting Firm, which are set forth in the Index to Consolidated Financial Statements on pages 40 through 63 of this report.

<u>Reports of Independent Registered Public Accounting Firm Burr Pilger Mayer, Inc.</u>	<u>50</u>
<u>Consolidated Balance Sheets</u>	<u>52</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss)</u>	<u>53</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>54</u>
<u>Consolidated Statements of Cash Flows</u>	<u>55</u>
<u>Notes to Consolidated Financial Statements</u>	<u>56</u>

(2)

Financial Statement Schedule Schedule II Valuation and Qualifying Accounts

(3)

Exhibits

2.1(1)	Agreement and Plan of Merger by and among MoSys, Inc., MLI Merger Corporation, MagnaLynx, Inc., and the Representative of the Shareholders of MagnaLynx, Inc. dated as of March 24, 2010
3.1(2)	Restated Certificate of Incorporation of the Registrant
3.2(3)	Amended and Restated Bylaws of the Registrant
4.1(4)	Specimen common stock certificate
4.4(5)	Rights Agreement, dated November 10, 2010, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
4.4.1(5)	Form of Right Certificate
4.4.2(5)	Summary of Rights to Purchase Preferred Shares
4.4.3(6)	Amendment No. 1 to Rights Agreement, dated July 22, 2011, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
4.4.4(7)	Amendment No. 2 to Rights Agreement, dated May 18, 2012, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
10.1(4)	Form of Indemnity Agreement between Registrant and each of its directors and executive officers
10.2	Reserved
10.3(8)*	2000 Stock Option Plan and form of Option Agreement thereunder
10.3.1(9)*	Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.4(10)*	Form of Stock Option Agreement pursuant to Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.5(11)*	Form of New Employee Inducement Grant Stock Option Agreement
10.6(12)*	Employment offer letter agreement and Mutual Agreement to Arbitrate between Registrant and Leonard Perham dated as of November 8, 2007
10.7.1(13)*	New Employee Inducement Grant Stock Option Agreements between Registrant and Leonard Perham dated as of November 28, 2007
10.7.2(14)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.7.3(15)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.8(16)*	Employment offer letter agreement between Registrant and James Sullivan dated December 21, 2007

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

10.9(17)*	Change-in-control Agreement between Registrant and James Sullivan dated January 18, 2008
10.10(18)*	2010 Equity Incentive Plan
10.11(19)*	Form of Option Agreement for Stock Option Grant pursuant to 2010 Equity Incentive Plan
10.12(20)*	2010 Employee Stock Purchase Plan
10.13	Reserved
10.14(21)*	Form of Notice of Restricted Stock Unit Award and Agreement
10.15(22)	Lease Agreement between Registrant and M West Propco XII, LLC. dated July 19, 2010
10.16(23)*	Employment offer letter agreement between Registrant and Thomas Riordan dated May 6, 2011
10.17(23)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Thomas Riordan dated May 10, 2011
10.18	Reserved
10.19(24)*	Form of New Employee Inducement Grant Stock Option Agreement (revised February 2012)
10.20(25)*	Stock Option Agreement between Registrant and Leonard Perham dated as of November 1, 2011
10.21(26)*	Stock Option Agreement between Registrant and Thomas Riordan dated as of December 21, 2011
10.22(27)	Form of Indemnification Agreement used from June 5, 2012
10.23(28)*	Advisor agreement between Registrant and David DeMaria dated January 25, 2013
10.24*	Form of Notice of Grant of Restricted Stock Unit Award and Agreement under the 2010 Equity Incentive Plan
10.25*	Employment offer letter agreement between Registrant and John Monson dated February 21, 2012
21.1	List of subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm Burr Pilger Mayer, Inc.
24.1	Power of Attorney (see signature page)
31.1	Rule 13a-14 certification
31.2	Rule 13a-14 certification
32	Section 1350 certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

-
- (1) Incorporated by reference to Exhibit 2.4 to Form 10-K filed by the Company on March 26, 2010 (Commission File No. 000-32929).
- (2) Incorporated by reference to Exhibit 3.6 to Form 8-K filed by the Company on November 12, 2010 (Commission File No. 000-32929).
- (3) Incorporated by reference to Exhibit 3.4 to Form 8-K filed by the Company on October 29, 2008 (Commission File No. 000-32929).
- (4) Incorporated by reference to the same-numbered exhibit to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 27, 2001 (Commission file No. 333-43122).

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

- (5) Incorporated by reference to the same-numbered exhibit to Form 8-K filed by the Company on November 12, 2010 (Commission File No. 000-32929).
- (6) Incorporated by reference to Exhibit 4.2.3 to the Current Report on Form 8-K, filed on July 27, 2011 (Commission File No. 000-32929).
- (7) Incorporated by reference to Exhibit 4.2.4 to Current Report on Form 8-K filed by the Company on May 24, 2012 (Commission File No. 000-32929).
- (8) Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 17, 2001 (Commission File No. 333-43122).
- (9) Incorporated by reference to Appendix B to the Company's proxy statement on Schedule 14A filed by the Company on October 7, 2004 (Commission File No. 000-32929).
- (10) Incorporated by reference to Exhibit 10.15 to Form 10-Q filed by the Company on August 9, 2005 (Commission File No. 000-32929).
- (11) Incorporated by reference to Exhibit 10.25 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
- (12) Incorporated by reference to Exhibit 10.24 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
- (13) Incorporated by reference to Exhibit 10.25.1 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
- (14) Incorporated by reference to Exhibit 10.25.2 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
- (15) Incorporated by reference to Exhibit 10.25.3 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
- (16) Incorporated by reference to Exhibit 10.26 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
- (17) Incorporated by reference to Exhibit 10.27 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
- (18) Incorporated by reference to Appendix A to the proxy statement on Schedule 14A filed by the Company on May 26, 2010 (Commission File No. 000-32929).
- (19) Incorporated by reference to Exhibit 4.10 to Form S-8 filed by the Company on July 28, 2010 (Commission File No. 333-168358).
- (20) Incorporated by reference to Appendix B to the proxy statement on Schedule 14A filed by the Company on May 26, 2010 (Commission File No. 000-32929).
- (21) Incorporated by reference to Exhibit 4.8 to Form S-8 filed by the Company on June 5, 2009 (Commission File No. 333-159753).
- (22)

Edgar Filing: MoSys, Inc. - Form 10-K

Incorporated by reference to Exhibit 10.35 to Form 8-K filed by the Company on July 22, 2010 (Commission File No. 000-32929).

(23) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on August 8, 2011 (Commission File No. 000-32929).

(24) Incorporated by reference to Exhibit 10.19 to Form 10-K filed by the Company on March 15, 2012 (Commission File No. 000-32929).

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

- (25) Incorporated by reference to Exhibit 10.20 to Form 10-Q filed by the Company on May 9, 2012 (Commission File No. 000-32929).
- (26) Incorporated by reference to Exhibit 10.21 to Form 10-Q filed by the Company on May 9, 2012 (Commission File No. 000-32929).
- (27) Incorporated by reference to Exhibit 10.22 to Form 10-Q filed by the Company on August 9, 2012 (Commission File No. 000-32929).
- (28) Incorporated by reference to Exhibit 10.23 to Form 10-Q filed by the Company on May 3, 2013 (Commission File No. 000-32929).
- * Management contract, compensatory plan or arrangement.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of March 2014.

MOSYS, INC.

By: /s/ LEONARD PERHAM

Leonard Perham

President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Leonard Perham and James W. Sullivan as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ LEONARD PERHAM</u> Leonard Perham	President, Chief Executive Officer, and Director (Principal Executive Officer)	March 14, 2014
<u>/s/ JAMES W. SULLIVAN</u> James W. Sullivan	Vice President of Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 14, 2014
<u>/s/ STEPHEN L. DOMENIK</u> Stephen L. Domenik	Director	March 14, 2014
<u>/s/ TOMMY ENG</u> Tommy Eng	Director	March 14, 2014
<u>/s/ CHI-PING HSU</u> Chi-Ping Hsu	Director	March 14, 2014
<u>/s/ VICTOR K. LEE</u> Victor K. Lee	Director	March 14, 2014

Table of Contents

MOSYS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Reports of Independent Registered Public Accounting Firm Burr Pilger Mayer, Inc.</u>	<u>50</u>
<u>Consolidated Balance Sheets</u>	<u>52</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss)</u>	<u>53</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>54</u>
<u>Consolidated Statements of Cash Flows</u>	<u>55</u>
<u>Notes to Consolidated Financial Statements</u>	<u>56</u>
<u>Schedule II: Valuation and Qualifying Accounts</u>	<u>77</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of MoSys, Inc.

We have audited the accompanying consolidated balance sheets of MoSys, Inc. and its subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index to this Annual Report on Form 10-K at Part IV Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MoSys, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ Burr Pilger Mayer, Inc.

San Jose, California
March 14, 2014

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of MoSys, Inc.

We have audited the internal control over financial reporting of MoSys, Inc. and its subsidiaries (the "Company") as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Annual Report on Internal Control over Financial Reporting*, appearing in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MoSys, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control-Integrated Framework (1992 Framework)* by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MoSys, Inc. and its subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013, and the related financial statement schedule and our report dated March 14, 2014 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ Burr Pilger Mayer, Inc.

San Jose, California
March 14, 2014

Table of Contents

MOSYS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except par value data)

	December 31,	
	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,364	\$ 2,529
Short-term investments	32,192	30,798
Accounts receivable, net	148	287
Prepaid expenses and other current assets	1,671	1,362
Total current assets	38,375	34,976
Long-term investments	13,926	7,383
Property and equipment, net	706	1,238
Goodwill	23,134	23,134
Intangible assets, net	1,655	2,654
Other assets	193	149
Total assets	\$ 77,989	\$ 69,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 276	\$ 393
Accrued expenses and other liabilities	1,909	3,947
Deferred revenue	170	481
Total current liabilities	2,355	4,821
Long-term liabilities	216	171
Commitments and contingencies (Note 12)		
Stockholders' equity		
Preferred stock, \$0.01 par value; 20,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value; 120,000 shares authorized; 48,894 shares and 40,054 shares issued and outstanding at December 31, 2013 and 2012, respectively	489	401
Additional paid-in capital	192,723	157,143
Accumulated other comprehensive income	13	11
Accumulated deficit	(117,807)	(93,013)
Total stockholders' equity	75,418	64,542
Total liabilities and stockholders' equity	\$ 77,989	\$ 69,534

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

MOSYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Year Ended December 31,		
	2013	2012	2011
Net revenue			
Licensing and other	\$ 781	\$ 1,340	\$ 5,987
Royalty	3,617	4,742	8,120
Total net revenue	4,398	6,082	14,107
Cost of net revenue			
Licensing and other	474	334	3,295
Total cost of net revenue	474	334	3,295
Gross profit	3,924	5,748	10,812
Operating expenses			
Research and development	23,325	28,480	26,216
Selling, general and administrative	6,161	8,218	8,869
Gain on sale of assets	(630)	(3,291)	(35,611)
Total operating expenses	28,856	33,407	(526)
Income (loss) from operations	(24,932)	(27,659)	11,338
Other income, net	209	155	206
Income (loss) before income taxes	(24,723)	(27,504)	11,544
Income tax provision	71	110	288
Net income (loss)	\$ (24,794)	\$ (27,614)	\$ 11,256
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on available-for-sale securities	2	10	(3)
Comprehensive income (loss)	\$ (24,792)	\$ (27,604)	\$ 11,253
Net income (loss) per share			
Basic	\$ (0.55)	\$ (0.70)	\$ 0.30
Diluted	\$ (0.55)	\$ (0.70)	\$ 0.28
Shares used in computing net income (loss) per share			
Basic	45,246	39,176	37,861
Diluted	45,246	39,176	40,377

Edgar Filing: MoSys, Inc. - Form 10-K

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

MOSYS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance at January 1, 2011	37,225	\$ 372	\$ 143,336	\$ 4	\$ (76,655)	\$ 67,057
Issuance of common stock for exercise of options, employee stock purchase plan and release of awards	1,198	12	3,391			3,403
Stock-based compensation			3,780			3,780
Other comprehensive loss change in unrealized loss on available-for-sale investments				(3)		(3)
Net income					11,256	11,256
Balance at December 31, 2011	38,423	384	150,507	1	(65,399)	85,493
Issuance of common stock for exercise of options, employee stock purchase plan and release of awards	1,881	19	3,627			3,646
Repurchase of common stock	(250)	(2)	(826)			(828)
Stock-based compensation			3,835			3,835
Other comprehensive income change in unrealized gain on available-for-sale investments				10		10
Net loss					(27,614)	(27,614)
Balance at December 31, 2012	40,054	401	157,143	11	(93,013)	64,542
Issuance of common stock for exercise of options, employee stock purchase plan and release of awards	1,365	13	4,211			4,224
Issuance of common stock, net of costs of \$2,154	7,475	75	27,671			27,746
Stock-based compensation			3,698			3,698
Other comprehensive income change in unrealized gain on available-for-sale investments				2		2
Net loss					(24,794)	(24,794)
Balance at December 31, 2013	48,894	\$ 489	\$ 192,723	\$ 13	\$ (117,807)	\$ 75,418

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

MOSYS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income (loss)	\$ (24,794)	\$ (27,614)	\$ 11,256
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	679	952	1,110
Amortization of intangible assets	999	1,746	2,618
Stock-based compensation	3,698	3,811	3,766
Gain on sale of assets	(630)	(3,291)	(35,611)
Recovery of doubtful accounts			(125)
Other non-cash items	7		19
Changes in assets and liabilities, net of effects of acquisition:			
Accounts receivable	139	682	235
Prepaid expenses and other assets	(314)	371	2,375
Deferred revenue	(311)	(439)	(881)
Accounts payable	(125)	(84)	(763)
Accrued expenses and other liabilities	(1,993)	1,850	305
Net cash used in operating activities	(22,645)	(22,016)	(15,696)
Cash flows from investing activities:			
Purchases of property and equipment	(154)	(738)	(349)
Net cash paid for purchase of businesses			(1,500)
Net proceeds from sale of assets	630	3,437	34,831
Proceeds from sales and maturities of marketable securities	49,267	34,371	36,836
Purchases of marketable securities	(57,202)	(54,592)	(31,587)
Net cash (used in) provided by investing activities	(7,459)	(17,522)	38,231
Cash flows from financing activities:			
Proceeds from the sale of common stock, net of issuance costs	27,746		
Proceeds from issuance of common stock	4,193	3,636	3,336
Repurchase of common stock		(1,444)	
Payments on capital lease obligations		(150)	(186)
Net cash provided by financing activities	31,939	2,042	3,150
Net increase (decrease) in cash and cash equivalents	1,835	(37,496)	25,685
Cash and cash equivalents at beginning of year	2,529	40,025	14,340
Cash and cash equivalents at end of year	\$ 4,364	\$ 2,529	\$ 40,025
Supplemental disclosure:			
Cash paid for income taxes	\$ 92	\$ 345	\$ 53
Patent license recorded in connection with patent sale	\$	\$	\$ 780

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

MOSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: The Company and Summary of Significant Accounting Policies

The Company

MoSys, Inc. (the "Company") was incorporated in California in September 1991, and reincorporated in September 2000 in Delaware. The Company has been designing, developing, marketing and licensing high-performance semiconductor memory and high-speed parallel and serial interface, or SerDes, intellectual property (IP) used by the semiconductor industry and communications, networking and storage equipment manufacturers. In February 2010, the Company announced the commencement of a new product initiative to develop a family of integrated circuit (IC) products under the "Bandwidth Engine" product name. Bandwidth Engine ICs combine the Company's proprietary high-density embedded memory with its high-speed 10 gigabits per second and higher interface (I/O) technology. In March 2013, the Company announced another IC product line under the "LineSpeed" product name. LineSpeed ICs are non-memory based, high-speed SerDes devices with gearbox or retimer functionality, which convert lanes of data received on line cards into different configurations and/or ensure signal integrity. Both product lines are initially being marketed to networking and telecommunications systems companies. The Company's strategy and primary business objective is to become an IP-rich fabless semiconductor company focused on development and sale of IC products. The Company's future success and ability to achieve and maintain profitability depends on its success in developing a market for its ICs.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company's fiscal year ends on December 31 of each calendar year.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management 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 revenues recognized under the percentage of completion method and expenses recognized during the reported period. Actual results could differ from those estimates.

Foreign Currency

The functional currency of the Company's foreign entities is the U.S. dollar. The financial statements of these entities are translated into U.S. dollars and the resulting gains or losses are included in other income, net in the consolidated statements of operations and comprehensive income (loss). Such gains and losses were not material for any period presented.

Cash Equivalents and Investments

The Company has invested its excess cash in money market accounts, certificates of deposit, corporate debt, government agency and municipal debt securities and considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Investments with remaining maturities greater than one year are classified as long-term investments. Management generally determines the appropriate

Table of Contents

classification of securities at the time of purchase. All securities are classified as available-for-sale. The Company's available-for-sale short-term and long-term investments are carried at fair value, with the unrealized holding gains and losses reported in accumulated other comprehensive income. Realized gains and losses and declines in the value judged to be other than temporary are included in the other income, net line item in the consolidated statements of operations and comprehensive income (loss). The cost of securities sold is based on the specific identification method.

Fair Value Measurements

The Company measures the fair value of financial instruments using a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1 Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 Pricing is provided by third party sources of market information obtained through the Company's investment advisors rather than models. The Company does not adjust for or apply any additional assumptions or estimates to the pricing information it receives from advisors. The Company's Level 2 securities include cash equivalents and available-for-sale securities, which consisted primarily of certificates of deposit, corporate debt, and government agency and municipal debt securities from issuers with high quality credit ratings. The Company's investment advisors obtain pricing data from independent sources, such as Standard & Poor's, Bloomberg and Interactive Data Corporation, and rely on comparable pricing of other securities because the Level 2 securities are not actively traded and have fewer observable transactions. The Company considers this the most reliable information available for the valuation of the securities.

Level 3 Unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment are used to measure fair value. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions. The determination of fair value for Level 3 investments and other financial instruments involves the most management judgment and subjectivity.

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts to ensure that its trade receivables balances are not overstated due to uncollectibility. The Company performs ongoing customer credit evaluations within the context of the industry in which it operates and generally does not require collateral from its customers. A specific allowance of up to 100% of the invoice value is provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is remote. The Company grants credit only to customers deemed creditworthy in the judgment of management. There was no allowance for doubtful accounts receivable at December 31, 2013 or December 31, 2012.

Inventory

The Company values its inventories at the lower of cost, which approximates actual cost on a first-in, first-out basis, or market value. The Company records inventory reserves for estimated obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of. If actual market conditions are less favorable than those expected by management, additional adjustment to inventory valuation may be required. As of December 31, 2013 and 2012, inventory has been included in the prepaid expenses and other current assets line item of the consolidated balance sheets.

Table of Contents**Property and Equipment**

Property and equipment are originally recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Depreciation is recorded in operating expenses in the consolidated statements of operations and comprehensive income (loss). Leasehold improvements and assets acquired through capital leases are amortized over the shorter of their estimated useful life or the lease term.

Valuation of Long-lived Assets

The Company evaluates the recoverability of long-lived assets with finite lives whenever events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. Finite-lived intangible assets are being amortized on a straight-line basis over their estimated useful lives of three to seven years. An impairment charge is recognized as the difference between the net book value of such assets and the fair value of such assets at the date of measurement. The measurement of impairment requires management to estimate future cash flows and the fair value of long-lived assets.

Intangible Assets

Intangible assets acquired in business combinations, referred to as purchased intangible assets, are accounted for based on the fair value of assets purchased and are amortized over the period in which economic benefit is estimated to be received. In December 2011, the Company sold 73 of its memory technology patents and received a license to those patents for use in its Bandwidth Engine ICs and other limited instances. The fair value of the patent rights received was recorded as a patent license (see Note 5). Identifiable intangible assets relating to business combinations and the patent license were as follows (dollar amounts in thousands):

	Life (years)	December 31, 2013		Net Carrying Amount
		Gross Carrying Amount	Accumulated Amortization	
Developed technology	3-5	\$ 9,240	\$ 8,142	\$ 1,098
Patent license	7	780	223	557
Total		\$ 10,020	\$ 8,365	\$ 1,655

	Life (years)	December 31, 2012		Net Carrying Amount
		Gross Carrying Amount	Accumulated Amortization	
Developed technology	3-5	\$ 9,240	\$ 7,255	\$ 1,985
Customer relationships	3	390	390	
Subtotal purchased intangible assets		9,630	7,645	1,985
Patent license	7	780	111	669
Total		\$ 10,410	\$ 7,756	\$ 2,654

Edgar Filing: MoSys, Inc. - Form 10-K

Amortization expense has been included in research and development expense in the consolidated statements of operations and comprehensive income (loss). The estimated aggregate amortization expense to be recognized in future years is approximately \$1.0 million for 2014, \$0.3 million for 2015 and \$0.1 million annually for 2016 and 2018.

Table of Contents

Goodwill

The Company reviews goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company first assesses qualitative factors to determine whether it is more-likely-than-not that the fair value of the reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If the qualitative assessment warrants further analysis, the Company compares the fair value of the reporting unit to its carrying value. The fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds the carrying value of net assets of the reporting unit, goodwill is not impaired, and the Company is not required to perform further testing. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then the Company must record an impairment charge equal to the difference. The Company has determined that it has a single reporting unit for purposes of performing its goodwill impairment test. As the Company uses the market approach to assess impairment in the second step of the analysis, the price of its common stock is an important component of the fair value calculation. If the Company's stock price continues to experience significant price and volume fluctuations, this will impact the fair value of the reporting unit, which can lead to potential impairment in future periods. The Company performed step one of the annual impairment test in September 2013, and concluded no factors indicated impairment of goodwill. As of December 31, 2013, the Company had not identified any factors to indicate there was an impairment of its goodwill and determined that no additional impairment analysis was required.

Revenue Recognition

General

The Company generates revenue from the licensing of its IP and sales of IC products. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured. Evidence of an arrangement generally consists of signed agreements or customer purchase orders.

Licensing

Licensing revenue consists of fees earned from license agreements, development services and support and maintenance. For stand-alone license agreements or license deliverables in multi-deliverable arrangements that do not require significant development, modification or customization, revenues are recognized when all revenue recognition criteria have been met. Delivery of the licensed technology is typically the final revenue recognition criterion met, at which time revenue is recognized. If any of the criteria are not met, revenue recognition is deferred until such time as all criteria have been met.

When sales arrangements contain multiple deliverables (e.g., license and services), the Company reviews each deliverable to determine the separate units of accounting that exist within the agreement. If more than one unit of accounting exists, the consideration payable to the Company under the agreement is allocated to each unit of accounting using the relative fair value method. Revenue is recognized for each unit of accounting when the revenue recognition criteria have been met for that unit of accounting. The Company allocates revenue among the deliverables using the relative selling price method. Revenue allocated to each element is recognized when the basic revenue recognition criteria is met for each element. Under GAAP, the Company is required to apply a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of the selling price (ESP). In general, the Company is unable to establish VSOE or TPE for

Table of Contents

license fees and development services. Therefore, revenue is allocated to these elements based on the Company's ESP, which the Company determines after considering multiple factors such as management approved pricing guidelines, geographic differences, market conditions, competitor pricing strategies, internal costs and gross margin objectives. These factors may vary over time depending upon the unique facts and circumstances related to each deliverable. If the facts and circumstances underlying the factors considered change or should future facts and circumstances lead the Company to consider additional factors, the Company's ESP for license fee and development services could change.

For license agreements involving deliverables that do require significant production, modification or customization, and where the Company has significant experience in meeting the design specifications in the contract and the direct labor hours related to services under the contract can be reasonably estimated, the Company recognizes revenue over the period in which the contract services are performed. For these arrangements, the Company recognizes revenue using the percentage of completion method. Under this method, revenue recognized in any period depends on the Company's progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. These judgmental elements include determining that the Company has the experience to meet the design specifications and estimate the total direct labor hours to perform the contract services, based on experience in developing prior licensees' designs. The direct labor hours for the development of the licensee's design are estimated at the beginning of the contract. As the direct labor hours are incurred, they are used as a measure of progress towards completion. During the contract performance period, the Company reviews estimates of direct labor hours to complete the contracts and will revise its estimates of revenue and gross profit under the contract if it revises the estimations of the direct labor hours to complete. The Company's policy is to reflect any revision in the contract gross profit estimate in reported income or loss in the period in which the facts giving rise to the revision become known. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recorded in the period in which such losses are determined to be likely.

The Company provides support and maintenance under many of its license agreements. Under these arrangements, the Company provides unspecified upgrades, design rule changes and technical support. No other upgrades, products or other post-contract support are provided. Support and maintenance revenue is recognized at its fair value established by VSOE, ratably over the period during which the obligation exists, typically 12 months. These arrangements are generally renewable annually by the customer.

Royalty

The Company's licensing contracts typically also provide for royalties based on the licensee's use of the Company's memory technology in their currently shipping commercial products. The Company recognizes royalties in the quarter in which it receives the licensee's report.

IC products

The Company sells products both directly to customers, as well as through distributors. Revenue from sales directly to customers is generally recognized at the time of shipment. The Company records an estimated allowance, at the time of shipment, for future returns and other charges against revenue consistent with the terms of sale. IC product revenue and costs relating to sales made through distributors with rights of return or stock rotation are deferred until the distributors sell the product to end customers due to the Company's inability to estimate future returns and credits to be issued. Distributors are generally able to return up to 10% of their purchases for slow, non-moving or obsolete inventory for credit every six months. At the time of shipment to distributors, an accounts receivable for the selling price is recorded, as there is a legally enforceable right to receive payment, and inventory is relieved, as legal title to the inventory is transferred upon shipment. Revenues are

Table of Contents

recognized upon receiving notification from the distributors that products have been sold to end customers. Distributors provide information regarding products and quantity, end customer shipments and remaining inventory on hand. The associated deferred margin is included in the deferred revenues line item in the consolidated balance sheet. The Company recorded initial IC product revenue in 2012, and a significant reserve for returns has been recorded due to the product's early stage of testing and deployment in customer systems. IC product revenue has been included in the licensing and other revenue line item in the consolidated statements of operations and comprehensive income (loss).

Cost of Revenue

Cost of licensing and other revenue consists primarily of direct and indirect costs of IC product sales and engineering personnel costs directly related to maintenance and support services specified in licensing agreements. Maintenance and support typically includes engineering support to assist in the commencement of production of a licensee's products.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were not significant in the years ended December 31, 2013, 2012 and 2011.

Research and Development

Engineering costs are recorded as research and development expense in the period incurred.

Stock-Based Compensation

The Company recognizes stock-based compensation for awards on a straight-line basis over the requisite service period, usually the vesting period, based on the grant-date fair value.

The Company records stock-based compensation expense for stock options granted to non-employees, excluding non-employee directors, based upon the estimated then-current fair value of the equity instrument using the Black-Scholes pricing model. Assumptions used to value the equity instruments are consistent with equity instruments issued to employees. The Company charges the value of the equity instrument to earnings over the term of the service agreement and the unvested shares underlying the option are subject to periodic revaluation over the remaining vesting period.

Per Share Amounts

Basic net income (loss) per share is computed by dividing net income (loss) for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share gives effect to all potentially dilutive common shares outstanding during the period. Potential common shares are composed of incremental shares of common stock issuable upon the exercise of stock options or restricted stock awards. As of December 31, 2013, 2012 and 2011, stock awards to purchase approximately 10,072,000, 10,384,000 and 9,015,000 shares, respectively, were excluded from the computation of diluted net income (loss) per share as their inclusion would be

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

anti-dilutive. The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share amounts):

	Year Ended December 31,		
	2013	2012	2011
Numerator:			
Net income (loss)	\$ (24,794)	\$ (27,614)	\$ 11,256
Denominator:			
Add: weighted-average common shares outstanding	45,246	39,176	37,942
Less: unvested common shares subject to repurchase			(81)
Total shares: basic	45,246	39,176	37,861
Add: weighted-average stock options outstanding			2,435
Add: common shares subject to repurchase			81
Total shares: diluted	45,246	39,176	40,377
Net income (loss) per share:			
Basic	\$ (0.55)	\$ (0.70)	\$ 0.30
Diluted	\$ (0.55)	\$ (0.70)	\$ 0.28

Income Taxes

The Company determines deferred tax assets and liabilities based upon the differences between the financial statement and tax basis of the Company's assets and liabilities using tax rates in effect for the year in which the Company expects the differences to affect taxable income. A valuation allowance is established for any deferred tax assets for which it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Company files U.S. federal and state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company is currently under tax examination in India. The 2003 through 2013 tax years generally remain subject to examination by federal, state and foreign tax authorities.

As of December 31, 2013, the Company did not have any unrecognized tax benefits nor expect its unrecognized tax benefits to change significantly over the next 12 months. The Company recognizes interest related to unrecognized tax benefits in its income tax expense and penalties related to unrecognized tax benefits as other income and expenses. During the years ended December 31, 2013, 2012 and 2011, the Company did not recognize any interest or penalties related to unrecognized tax benefits.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with limited exceptions. ASU 2013-11 is effective for interim and annual periods beginning after December 15, 2013 and may be applied retrospectively. The adoption of the provisions of ASU 2013-11 is not expected to have any impact on the Company's financial position or results of operations.

Table of Contents**Note 2: Consolidated Balance Sheets and Statements of Operations and Comprehensive Income (Loss) Components**

	December 31,	
	2013	2012
	(in thousands)	
Prepaid expenses and other current assets:		
Inventory	\$ 567	\$ 252
Interest receivable	382	263
Prepaid expenses and other assets	722	847
	\$ 1,671	\$ 1,362

Property and equipment:

Equipment, furniture and fixtures and leasehold improvements	\$ 3,923	\$ 4,135
Acquired software	686	651
	4,609	4,786
Less: Accumulated depreciation and amortization	(3,903)	(3,548)
	\$ 706	\$ 1,238

Property and equipment included \$198,000 of testing equipment purchased through capital leases.

	December 31,	
	2013	2012
Accrued expenses and other liabilities:		
Accrued wages and employee benefits	\$ 818	\$ 881
Employee stock purchase plan withholdings	286	292
Professional fees	61	503
Other	744	2,271
	\$ 1,909	\$ 3,947

Other income, net:

	2013	2012	2011
	(in thousands)		
Interest income	\$ 174	\$ 171	\$ 143
Other income (expense), net	35	(16)	63

\$ 209 \$ 155 \$ 206

Table of Contents**Note 3: Fair Value of Financial Instruments**

The estimated fair values of financial instruments outstanding were as follows (in thousands):

	Cost	December 31, 2013		Fair Value
		Unrealized Gains	Unrealized Losses	
Cash and cash equivalents	\$ 4,364	\$	\$	\$ 4,364

Short-term investments:

U.S. government debt securities	\$ 19,944	\$ 11	\$ (1)	\$ 19,954
Corporate notes	7,245	2	(2)	7,245
Certificates of deposit	4,994	1	(2)	4,993

Total short-term investments	\$ 32,183	\$ 14	\$ (5)	\$ 32,192
------------------------------	-----------	-------	--------	-----------

Long-term investments:

U.S. government debt securities	\$ 3,016	\$	\$	\$ 3,016
Corporate notes	9,466	9	(1)	9,474
Certificates of deposit	1,440		(4)	1,436

Total long-term investments	\$ 13,922	\$ 9	\$ (5)	\$ 13,926
-----------------------------	-----------	------	--------	-----------

	Cost	December 31, 2012		Fair Value
		Unrealized Gains	Unrealized Losses	
Cash and cash equivalents	\$ 2,529	\$	\$	\$ 2,529

Short-term investments:

U.S. government debt securities	\$ 15,852	\$ 6	\$ (2)	\$ 15,856
Corporate notes	14,471	8	(4)	14,475
Certificates of deposit	467			467

Total short-term investments	\$ 30,790	\$ 14	\$ (6)	\$ 30,798
------------------------------	-----------	-------	--------	-----------

Edgar Filing: MoSys, Inc. - Form 10-K

Long-term investments:					
U.S. government debt securities	\$	6,330	\$	2	\$ 6,332
Corporate notes		1,050		1	1,051
Total long-term investments	\$	7,380	\$	3	\$ 7,383

U.S. government debt securities include securities for government-sponsored enterprises and state and local municipalities.

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

The estimated fair values of available-for-sale securities with unrealized losses were as follows (in thousands):

	December 31, 2013		
	Cost	Unrealized Losses	Fair Value
Short-term investments:			
U.S. government debt securities	\$ 5,289	\$ (1)	\$ 5,288
Corporate notes	3,844	(2)	3,842
Certificates of deposit	3,080	(2)	3,078
Total short-term investments	\$ 12,213	\$ (5)	\$ 12,208

Long-term investments:			
U.S. government debt securities	\$ 1,253	\$	\$ 1,253
Corporate notes	1,001	(1)	1,000
Certificates of deposit	1,440	(4)	1,436
Total long-term investments	\$ 3,694	\$ (5)	\$ 3,689

	December 31, 2012		
	Cost	Unrealized Losses	Fair Value
Short-term investments:			
U.S. government debt securities	\$ 2,546	\$ (2)	\$ 2,544
Corporate notes	5,668	(4)	5,664
Total short-term investments	\$ 8,214	\$ (6)	\$ 8,208

As of December 31, 2013 and 2012, all of the available-for-sale securities with unrealized losses had been in a loss position for less than 12 months.

Cost and fair value of investments based on two maturity groups were as follows (in thousands):

	December 31, 2013			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within 1 year	\$ 32,183	\$ 14	\$ (5)	\$ 32,192
Due in 1-2 years	13,922	9	(5)	13,926

Edgar Filing: MoSys, Inc. - Form 10-K

Total	\$ 46,105	\$ 23	\$ (10)	\$ 46,118
-------	-----------	-------	---------	-----------

	December 31, 2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within 1 year	\$ 30,790	\$ 14	\$ (6)	\$ 30,798
Due in 1-2 years	7,380	3		7,383
Total	\$ 38,170	\$ 17	\$ (6)	\$ 38,181

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) as of December 31, 2013 and 2012 (in thousands):

December 31, 2013				
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 3,012	\$ 3,012		\$
U.S. government debt securities	22,970		22,970	
Corporate notes	16,719		16,719	
Certificates of deposit	6,429		6,429	
Total assets	\$ 49,130	\$ 3,012	\$ 46,118	\$

December 31, 2012				
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 1,407	\$ 1,407		\$
U.S. government debt securities	22,289		22,289	
Corporate notes	16,226		16,226	
Certificates of deposit	467		467	
Total assets	\$ 40,389	\$ 1,407	\$ 38,982	\$

There were no transfers in or out of Level 1 and Level 2 securities during the years ended December 31, 2013 and 2012.

Note 4: Acquisitions

In March 2010, the Company acquired all of the outstanding stock of MagnaLynx, Inc. (MagnaLynx), a provider of semiconductor interface technology. Under the terms of the merger agreement, the Company paid approximately \$2.2 million to settle debt and certain other liabilities of MagnaLynx and approximately \$1.2 million to MagnaLynx shareholders. An additional \$0.5 million, referred to as the indemnification holdback, was payable 18 months after the closing, net of any costs related to indemnification claims that may have arisen during such 18 month period. An additional \$1.0 million was payable six months after the closing as earn-out consideration based on MagnaLynx meeting certain contractually agreed-upon development milestones. Both the indemnification holdback and earn-out were paid in 2011. The earn-out consideration was included in the acquisition price because the Company expected that it was more likely than not that the objectives related to this earn-out would be met.

Note 5: Patent Sale and License

In December 2011, the Company entered into a patent purchase agreement for the sale of 43 United States and 30 related foreign memory technology patents for \$35 million in cash and a license for the use of those patents in the Bandwidth Engine ICs and other limited uses. The Company recognized a \$35.6 million gain on this transaction, which was recorded as a reduction of operating expenses in the consolidated statements of operations and comprehensive income (loss). The gain was comprised of the \$35 million of cash proceeds, plus \$0.8 million for the patent license, less transaction costs.

Under the patent purchase agreement, the Company received a license to the sold patents to cover its Bandwidth Engine IC product line and technology partners, along with related rights to offer sublicenses to current and future partners. This right to use the patents was valued to be \$0.8 million and has been recorded as an intangible asset, referred to as a patent license in Note 1. The value was determined based on the

present value of the future cash flows that could potentially be generated by

Table of Contents

the patent license over its estimated remaining life. The patent license is being amortized over its estimated useful life of seven years.

Note 6: Sale of I/O Technology

In March 2012, the Company entered into an asset purchase agreement for an exclusive license of a portion of its intellectual property pertaining to its high-speed serial I/O technology for approximately \$4.3 million. As part of the agreement, the Company provided certain technology transfer support services, and 15 employees of the Company's India subsidiary accepted employment with the purchaser. The Company received approximately \$2.2 million, net of transaction costs, in cash upon execution of the agreement. The agreement provided for an additional \$1.9 million, referred to as the holdback payment, to be paid upon providing technology transfer support services, achievement of certain contractually agreed-upon development milestones and expiration of an indemnification period. In July 2012 and March 2013, \$1.3 million and \$0.6 million, respectively, of the holdback payments were received, and no further amounts are due to the Company. These amounts have been recorded as gains on sale of assets and reductions of operating expenses in the consolidated statements of operations and comprehensive income (loss).

Note 7: Income Taxes

The income tax provision (benefit) consisted of the following (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current portion:			
Federal	\$	\$ (5)	\$ 247
State	2	3	3
Foreign	69	112	38
	\$ 71	\$ 110	\$ 288

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Federal and state loss carryforwards	\$ 39,455	\$ 30,977
Reserves, accruals and other	372	341
Depreciation and amortization	1,797	1,991
Deferred stock-based compensation	3,793	3,319
Research and development credit carryforwards	9,512	7,476
Foreign tax and other credits	1,326	1,326
Total deferred tax assets	56,255	45,430
Deferred tax liabilities:		
Acquired intangible assets and other	1,618	1,652
Less: Valuation allowance	(54,637)	(43,778)
Net deferred tax assets	\$	\$

The valuation allowance increased by \$10.9 million and \$11.4 million for the years ended December 31, 2013 and December 31, 2012, respectively. The valuation allowance at December 31, 2013 includes \$1.8 million related to stock option deductions incurred prior to January 1, 2006, the benefit of which will be credited to additional paid-in capital if they become realized.

As of December 31, 2013, the Company had net operating loss carryforwards of approximately \$103.6 million for federal income tax purposes and approximately \$94.3 million for state income tax purposes. These losses are available to reduce future taxable income and expire at various times from 2014 through 2033. Approximately \$5.6 million of federal net operating loss carryforwards and \$4.8 million of state net operating loss carryforwards are related to excess tax benefits from stock-based compensation and will be charged to additional paid-in capital when realized.

The Company also had federal research and development tax credit carryforwards of approximately \$6.3 million, which will begin expiring in 2018, and California research and development credits of approximately \$5.2 million, which do not have an expiration date. The Company had foreign tax credits available for federal income tax purposes of approximately \$1.1 million which will begin to expire in 2014.

The Company considers its undistributed earnings of its foreign subsidiary permanently reinvested in foreign operations and has not provided for U.S. income taxes on such earnings. As of December 31, 2013 the Company's unremitted earnings from its foreign subsidiary was \$0.7 million. The determination of the unrecognized deferred U.S. income tax liability, if any, is not practicable.

Utilization of the Company's net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration or elimination of the net operating loss and tax credit carryforwards before utilization. Management does not believe it is likely that utilization will in fact be significantly limited due to ownership change limitation provisions.

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

A reconciliation of income taxes provided at the federal statutory rate (35%) to actual income tax provision (benefit) follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Income tax benefit computed at U.S. statutory rate	\$ (8,653)	\$ (9,626)	\$ 4,040
Federal alternative minimum tax			247
State income tax (net of federal benefit)	2	2	2
Foreign income tax at rate different from U.S. statutory rate	(11)	(13)	(9)
Research and development credits	(1,196)	(691)	(1,254)
Foreign tax credit			(17)
Stock-based compensation	91	252	292
Amortization of intangible assets	(100)	(100)	(657)
Valuation allowance changes affecting tax provision	9,915	10,526	(2,363)
Other	23	(240)	7
Income tax provision	\$ 71	\$ 110	\$ 288

The domestic and foreign components of income (loss) before income tax provision were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
U.S.	\$ (24,906)	\$ (27,737)	\$ 11,363
Non-U.S.	183	233	181
	\$ (24,723)	\$ (27,504)	\$ 11,544

Note 8: Stock-Based Compensation

Equity Compensation Plans

Common Stock Option Plans

In 2000, the Company adopted the 2000 Stock Plan, which was amended in 2004 (Amended 2000 Plan), and terminated in 2010. As of December 31, 2013, no options were available for future issuance under the Amended 2000 Plan and options to purchase approximately 1,879,000 shares were outstanding with a weighted-average exercise price of \$3.79 per share. The Amended 2000 Plan will remain in effect as to outstanding equity awards granted under the plan prior to the date of expiration.

In June 2010, the Company's stockholders approved the 2010 Equity Incentive Plan (2010 Plan). The 2010 Plan authorizes the board of directors or the compensation committee of the board of directors to grant a broad range of awards including stock options, stock appreciation rights, restricted stock, performance-based awards, and restricted stock units. Under the 2010 Plan, 4,000,000 shares were initially reserved for issuance and there will be an automatic annual increase in the share reserve of 500,000 on January 1 of each year. The 2010 Plan has a 10 year term and provides for annual option grants or other awards to our non-employee directors to acquire up to 40,000 shares and for a one-time grant of an option or other award to a non-employee director to acquire up to 120,000 shares upon his or her initial appointment or election to the board of directors.

The term of options granted under the 2010 Plan may not exceed ten years. The term of all incentive stock options granted to a person who, at the time of grant, owns stock representing more than 10% of the voting power of all classes of the Company's stock may not exceed five

years.

Table of Contents

The exercise price of stock options granted under the 2010 Plan must be at least equal to the fair market value of the shares on the date of grant. Generally, options granted under the 2010 Plan will vest over a four-year period and will have a six or ten-year term. In addition, the 2010 Plan provides for automatic acceleration of vesting for options granted to non-employee directors upon a change of control of the Company.

The Amended 2000 Plan and 2010 Plan are referred to collectively as the "Plans."

The Company may also award shares to new employees outside the Plans, as material inducements to the acceptance of employment with the Company. These grants must be approved by the compensation committee of the board of directors, a majority of the independent directors or an authorized executive officer.

Employee Stock Purchase Plan

In June 2010, the Company's stockholders approved the 2010 Employee Stock Purchase Plan (ESPP). A total of 2,000,000 shares of common stock have been reserved for issuance under the ESPP. The ESPP, which is intended to qualify under Section 423 of the Internal Revenue Code, is administered by the board of directors or the compensation committee of the board of directors. The ESPP provides that eligible employees may purchase up to \$25,000 worth of the Company's common stock annually over the course of two six-month offering periods. The purchase price to be paid by participants is 85% of the price per share of the Company's common stock either at the beginning or the end of each six-month offering period, whichever is less. On September 1, 2010, the Company commenced the first offering period under the ESPP. For the year ended December 31, 2013, approximately 275,000 shares of common stock were issued at an aggregate purchase price of approximately \$0.8 million under the ESPP. For the year ended December 31, 2012, approximately 351,000 shares of common stock were issued at an aggregate purchase price of approximately \$1.1 million under the ESPP. For the year ended December 31, 2011, approximately 313,000 shares of common stock were issued at an aggregate purchase price of approximately \$1.1 million under the ESPP. As of December 31, 2013, there were approximately 1,061,000 shares authorized and unissued under the ESPP.

Stock-Based Compensation Expense

The Company recorded \$3.7 million, \$3.8 million and \$3.8 million of stock-based compensation expense in the years ended December 31, 2013, 2012 and 2011, respectively. The Company is required to present the tax benefits resulting from tax deductions in excess of the compensation cost recognized from the exercise of stock options as financing cash flows in the consolidated statements of cash flows. For the years ended December 31, 2013, 2012 and 2011, there were no such tax benefits associated with the exercise of stock options.

In June 2011, the Company's executive vice president of engineering resigned from the Company and agreed to act as a consultant. As compensation for the consulting services, an option to purchase 675,000 shares of the Company's common stock that was granted to the executive vice president on June 26, 2009, of which the unvested and unexercised portion would have otherwise terminated by its terms following the termination of employment with the Company, remained in effect and continued to vest in accordance with its vesting terms until termination of the consulting agreement in August 2012. The Company accounted for this option as a variable award and the fair value compensation expense was recognized each period over the vesting term of the option.

Table of Contents**Valuation Assumptions and Expense Information for Stock-based Compensation**

The fair value of the Company's share-based payment awards for the years ended December 31, 2013, 2012 and 2011 was estimated on the grant dates using the Black-Scholes valuation option-pricing model with the following assumptions:

Employee stock options:	Year Ended December 31,		
	2013	2012	2011
Risk-free interest rate	0.5% - 1.7%	0.2% - 0.8%	0.2% - 1.7%
Volatility	57.7% - 62.9%	59.5% - 73.1%	40.7% - 65.4%
Expected life (years)	4.0-5.0	4.0	4.0
Dividend yield	0%	0%	0%

The risk-free interest rate was derived from the Daily Treasury Yield Curve Rates as published by the U.S. Department of the Treasury as of the grant date for terms equal to the expected terms of the options. The expected volatility was based on the historical volatility of the Company's stock price over the expected term of the options. The expected term of options granted was derived from historical data based on employee exercises and post-vesting employment termination behavior. A dividend yield of zero is applied because the Company has never paid dividends and has no intention to pay dividends in the near future.

The stock-based compensation expense recorded is adjusted based on estimated forfeiture rates. An annualized forfeiture rate has been used as a best estimate of future forfeitures based on the Company's historical forfeiture experience. The stock-based compensation expense will be adjusted in later periods if the actual forfeiture rate is different from the estimate.

A summary of activity under the Plans is presented below (in thousands, except exercise price):

	Shares Available for Grant	Number of Options outstanding	Weighted Average Exercise Prices
Balance at December 31, 2010	3,650	5,594	\$ 4.64
Additional authorized under the 2010 Plan	500		
Options granted	(2,201)	2,201	\$ 4.13
Options cancelled	743	(743)	\$ 5.41
Options exercised		(524)	\$ 3.34
Options expired	(715)		\$ 5.41
Balance at December 31, 2011	1,977	6,528	\$ 4.48
Additional authorized under the 2010 Plan	500		
Options granted	(1,827)	1,827	\$ 3.19
Options cancelled	1,217	(1,217)	\$ 5.42
Options exercised		(266)	\$ 2.38
Options expired	(602)		\$ 6.89
Balance at December 31, 2012	1,265	6,872	\$ 4.05
Additional authorized under the 2010 Plan	500		
Restricted stock units granted	(35)		
Options granted	(1,543)	1,543	\$ 4.27
Options cancelled	1,123	(1,123)	\$ 6.00
Options exercised		(565)	\$ 3.05
Options expired	(888)		\$ 6.49
Balance at December 31, 2013	422	6,727	\$ 3.86

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

A summary of the inducement grant option activity is presented below (in thousands, except exercise price):

	Options Outstanding	
	Number of	Weighted
	Shares	Average
		Exercise
		Prices
Balance at December 31, 2010	4,812	\$ 2.92
Granted	400	\$ 6.06
Cancelled	(48)	\$ 1.54
Exercised	(349)	\$ 1.55
Balance at December 31, 2011	4,815	\$ 3.29
Granted	350	\$ 3.92
Cancelled	(550)	\$ 1.55
Exercised	(1,257)	\$ 1.55
Balance at December 31, 2012	3,358	\$ 4.29
Granted	347	\$ 3.94
Cancelled	(7)	\$ 3.45
Exercised	(520)	\$ 3.28
Balance at December 31, 2013	3,178	\$ 4.42

A summary of restricted stock unit activity is presented below (in thousands, except fair value):

	Number	Weighted
	of	Average
	Shares	Grant-Date
		Fair Value
Non-vested shares at December 31, 2009	46	\$ 1.60
Vested	(15)	\$ 1.60
Non-vested shares at December 31, 2010	31	\$ 1.60
Vested	(16)	\$ 1.60
Non-vested shares at December 31, 2011	15	\$ 1.60
Vested	(12)	\$ 1.62
Cancelled	(3)	\$ 1.55
Non-vested shares at December 31, 2012		
Granted	35	\$ 4.46
Vested	(8)	\$ 4.46
Non-vested shares at December 31, 2013	27	\$ 4.46

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

The following table summarizes significant ranges of outstanding and exercisable options as of December 31, 2013 (in thousands, except contractual life and exercise price):

Range of Exercise Price	Options Outstanding				Options Exercisable			
	Number	Weighted Average Remaining Contractual Life (in Years)	Average Exercise Price	Aggregate Intrinsic value	Number	Weighted Average Remaining Contractual Life (in Years)	Average Exercise Price	Aggregate Intrinsic value
\$1.50 - \$3.23	2,846	3.28	\$ 2.59	\$ 8,330	1,807	2.63	\$ 2.30	\$ 5,814
\$3.24 - \$4.19	2,521	4.34	\$ 3.77	\$ 4,413	1,355	3.72	\$ 3.76	\$ 2,387
\$4.20 - \$5.61	3,621	3.93	\$ 4.88	\$ 2,422	2,493	1.95	\$ 5.07	\$ 1,240
\$5.62 - \$6.50	917	2.94	\$ 5.98		672	2.80	\$ 5.98	
	9,905	3.76	\$ 4.04	\$ 15,165	6,327	2.61	\$ 4.09	\$ 9,441

As of December 31, 2013, the Company had approximately 9.4 million shares subject to outstanding options fully vested and expected to vest, after estimated forfeitures, with a remaining contractual life of 3.62 years, weighted average exercise price of \$4.05 and aggregate intrinsic value of approximately \$14.4 million.

The total fair value of shares subject to outstanding options vested during the years ended December 31, 2013 and December 31, 2012 calculated using the Black-Scholes valuation method was \$3.2 million and \$2.4 million, respectively. The total intrinsic value of employee stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$1.4 million, \$2.7 million and \$2.4 million, respectively.

Options to purchase 6.4 million shares with weighted average exercised prices of \$4.41 per share were exercisable at December 31, 2012. As of December 31, 2013, total compensation costs related to unvested, but not yet recognized, stock-based awards was \$5.5 million, net of estimated forfeitures. This cost will be amortized on a straight-line basis over a weighted average remaining period of 2.5 years and will be adjusted for subsequent change in estimated forfeitures.

Note 9: Stockholders' Equity

In the second quarter of 2013, the Company completed a public offering and issued approximately 7.5 million shares of its common stock for approximately \$27.7 million in net proceeds. The Company's chief executive officer purchased 250,000 shares at the public offering price.

Stockholder Rights Plan

On November 10, 2010, the Company executed a rights agreement in connection with the declaration by the Company's board of directors of a dividend of one preferred stock purchase right (a "Right") to be paid on November 10, 2010 (the "Record Date") for each share of the Company's common stock issued and outstanding at the close of business on the Record Date. Each Right entitles the registered holder to purchase one one-thousandth of a share of Series AA Preferred Stock, \$0.01 par value per share (a "Preferred Share"), of the Company at a price of \$48.00 per one one-thousandth of a Preferred Share, subject to adjustment. The rights will not be exercisable until a third party acquires 15.0% of the Company's common stock or commences or announces its intent to commence a tender offer for at least 15.0% of the common stock, other than holders of "grandfathered stock" as defined below.

Table of Contents

"Grandfathered stock" refers to stock held by Carl E. Berg and his affiliates. The beneficial ownership threshold for a holder of grandfathered stock is 20%, rather than 15%. In 2011, the Company amended the rights agreement to designate Artis Capital Management L.P. and its affiliates (collectively, "Artis") as a holder of grandfathered stock. In 2012, an amendment removed this designation and reduced Artis' ownership threshold to 15%. In addition, under the rights agreement, the firm of Ingalls & Snyder, or I&S, and its managed account beneficial owners collectively will not trigger the rights as long as none of their shares are held for the purpose of acquiring control or effecting change or influence in control of the Company. This exclusion applies only to shares of common stock for which there is only shared dispositive power and I&S has only non-discretionary voting power. The rights agreement could delay, deter or prevent an investor from acquiring the Company in a transaction that could otherwise result in its stockholders receiving a premium over the market price for their shares of common stock.

Note 10: Retirement Savings Plan

Effective January 1997, the Company adopted the MoSys 401(k) Plan (the Savings Plan) which qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. Full-time and part-time employees who are at least 21 years of age are eligible to participate in the Savings Plan at the time of hire. Participants may contribute up to 15% of their earnings to the Savings Plan. No matching contributions were made by the Company in the years ended December 31, 2013, 2012 and 2011.

Note 11: Business Segments, Concentration of Credit Risk and Significant Customers

The Company operates in one business segment and uses one measurement of profitability for its business. Revenue attributed to the United States and to all foreign countries is based on the geographical location of the customer.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term and long-term investments and accounts receivable. Cash, cash equivalents and short-term and long term investments are deposited with high credit quality institutions.

The Company recognized revenue from licensing of its technologies or shipment of ICs to customers in North America, Asia and Europe as follows (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Taiwan	\$ 1,831	\$ 1,700	\$ 3,197
North America	1,318	2,511	5,476
Japan	1,207	1,571	4,700
Rest of Asia	42	214	7
Europe		86	727
Total	\$ 4,398	\$ 6,082	\$ 14,107

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

Customers who accounted for at least 10% of total revenues were as follows:

	Years Ended December 31,		
	2013	2012	2011
Customer A	41%	28%	23%
Customer B	13%	26%	12%
Customer C	*	12%	17%

*

Represents percentage less than 10%.

Two customers accounted for 96% of net accounts receivable at December 31, 2013. Three customers accounted for 100% of net accounts receivable at December 31, 2012.

Net property and equipment, classified by major geographic areas, was as follows at December 31, 2013 and 2012 (in thousands):

	December 31,	
	2013	2012
	(in thousands)	
U.S.	\$ 610	\$ 1,114
Non-U.S.	96	124
Total	\$ 706	\$ 1,238

Note 12: Commitments and Contingencies

Leases and Purchase Commitments

The Company leases its facilities under non-cancelable operating leases that expire at various dates through 2020. Rent expense was approximately \$822,000, \$895,000 and \$915,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The leases provide for monthly payments and are being charged to operations ratably over the lease terms. In addition to the minimum lease payments, the Company is responsible for property taxes, insurance and certain other operating costs.

Future minimum lease payments under non-cancelable operating leases and purchase commitments are as follows (in thousands):

Year ended December 31,	Operating leases	Purchase commitments	Total
2014	\$ 756	\$ 2,875	\$ 3,631
2015	713	2,565	3,278
2016	735	368	1,103
2017	756		756
2018	734		734
Thereafter	1,270		1,270
Total minimum payments	\$ 4,964	\$ 5,808	\$ 10,772

Purchase commitments include licenses related to computer-aided design tools payable through March 2016.

Indemnification

In the ordinary course of business, the Company enters into contractual arrangements under which it may agree to indemnify the counterparties from any losses incurred relating to breach of

Table of Contents

representations and warranties, failure to perform certain covenants, or claims and losses arising from certain events as outlined within the particular contract, which may include, for example, losses arising from litigation or claims relating to past performance. Such indemnification clauses may not be subject to maximum loss clauses. The Company has entered into indemnification agreements with its officers and directors. No material amounts were reflected in the Company's consolidated financial statements for the years ended December 31, 2013, 2012 or 2011 related to these indemnifications.

The Company has not estimated the maximum potential amount of indemnification liability under these agreements due to the limited history of prior claims and the unique facts and circumstances applicable to each particular agreement. To date, the Company has not made any payments related to these indemnification agreements.

Legal Matters

The Company is not a party to any material legal proceeding that the Company believes is likely to have a material adverse effect on its consolidated financial position or results of operations. From time to time the Company may be subject to legal proceedings and claims in the ordinary course of business. These claims, even if not meritorious, could result in the expenditure of significant financial resources and diversion of management efforts.

In September 2010, a claimant filed suit against the Company seeking a contractual payment of approximately 200,000 shares of the Company's common stock, among other claims. In November 2010, the suit went to arbitration, and, in December 2010, the Company filed a counter claim against the claimant. On April 3, 2012, the arbitrator ruled against the Company and awarded the claimant a cash award of approximately \$1.4 million, which was paid in the second quarter of 2012 and has been recorded as a repurchase of common stock in the consolidated statements of cash flows. The Company repurchased the disputed shares in the second quarter of 2012, and the shares were retired. In the first quarter of 2012, the value of the disputed shares, \$0.8 million as of the arbitration settlement date, was recorded as a reduction to stockholders' equity as a stock repurchase. The remaining amount of \$0.6 million was recorded as a selling, general and administrative expense in the Company's consolidated statements of operations and comprehensive income (loss).

Note 13: Related Party Transactions

In February 2012, the Company entered into a strategic development and marketing agreement with Credo Semiconductor (Hong Kong) Ltd. (Credo), a privately-funded, fabless semiconductor company, to develop, market and sell integrated circuits. Two of the Company's executive officers between them loaned a total of \$250,000 to Credo for a portion of the seed funding needed by Credo to commence its integrated circuit design efforts. These loans may be converted into minority equity interests in Credo. The agreement called for the Company to make payments to Credo upon Credo achieving certain development and verification milestones towards the development of IC products and provides the Company with exclusive sales and marketing rights for such IC products. In 2012, Credo achieved a number of the milestones set forth in the agreement, and the Company paid Credo \$1.1 million. In 2013, the Company paid Credo an additional \$1.4 million for achievement of additional development milestones, as well as for mask costs and wafer purchases from third-party vendors. All amounts incurred have been recorded as research and development expenses. In the first half of 2013, the Company announced prototype samples of SerDes products developed pursuant to the strategic development and marketing agreement. Under the agreement, the first \$2.3 million of gross profits generated by the sale of these integrated circuits will be retained by the Company, and, thereafter, the gross profits will be shared equally by the Company and Credo. As of December 31, 2013, \$0.2 million of future payments were recorded as a current liability.

Table of Contents

Schedule II Valuation and Qualifying Accounts
(In thousands)

Description	Balance at beginning of period	Additions		Deductions		Balance at end of period
		Charged to costs and expenses	Charged to other accounts	Amounts recovered	Amounts written off	
Allowance for doubtful accounts						
Year ended December 31, 2013	\$	\$	\$	\$	\$	\$
Year ended December 31, 2012	\$	\$	\$	\$	\$	\$
Year ended December 31, 2011	\$ 125	\$	\$	\$ (125)	\$	\$

Table of Contents

INDEX OF EXHIBITS

2.1(1)	Agreement and Plan of Merger by and among MoSys, Inc., MLI Merger Corporation, MagnaLynx, Inc., and the Representative of the Shareholders of MagnaLynx, Inc. dated as of March 24, 2010
3.1(2)	Restated Certificate of Incorporation of the Registrant
3.2(3)	Amended and Restated Bylaws of the Registrant
4.1(4)	Specimen common stock certificate
4.2(5)	Rights Agreement, dated November 10, 2010, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
4.2.1(5)	Form of Right Certificate
4.2.2(5)	Summary of Rights to Purchase Preferred Shares
4.4.3(6)	Amendment No. 1 to Rights Agreement, dated July 22, 2011, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
4.4.4(7)	Amendment No. 2 to Rights Agreement, dated May 18, 2012, by and between Registrant and Wells Fargo Bank, N.A., as Rights Agent
10.1(4)	Form of Indemnity Agreement between Registrant and each of its directors and executive officers
10.2	Reserved
10.3(8)*	2000 Stock Option Plan and form of Option Agreement thereunder
10.3.1(9)*	Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.4(10)*	Form of Stock Option Agreement pursuant to Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.5(11)*	Form of New Employee Inducement Grant Stock Option Agreement
10.6(12)*	Employment offer letter agreement and Mutual Agreement to Arbitrate between Registrant and Leonard Perham dated as of November 8, 2007
10.7.1(13)*	New Employee Inducement Grant Stock Option Agreements between Registrant and Leonard Perham dated as of November 28, 2007
10.7.2(14)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.7.3(15)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.8(16)*	Employment offer letter agreement between Registrant and James Sullivan dated December 21, 2007
10.9(17)*	Change-in-control Agreement between Registrant and James Sullivan dated January 18, 2008
10.10(18)*	2010 Equity Incentive Plan
10.11(19)*	Form of Option Agreement for Stock Option Grant pursuant to 2010 Equity Incentive Plan
10.12(20)*	2010 Employee Stock Purchase Plan
10.13	Reserved
10.14(21)*	Form of Notice of Restricted Stock Unit Award and Agreement
10.15(22)	Lease Agreement between Registrant and M West Propco XII, LLC. dated July 19, 2010
10.16(23)*	Employment offer letter agreement between Registrant and Thomas Riordan dated May 6, 2011
10.17(23)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Thomas Riordan dated May 10, 2011
10.18	Reserved
10.19(24)*	Form of New Employee Inducement Grant Stock Option Agreement (revised February 2012)

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

10.20(25)*	Stock Option Agreement between Registrant and Leonard Perham dated as of November 1, 2011
10.21(26)*	Stock Option Agreement between Registrant and Thomas Riordan dated as of December 21, 2011
10.22(27)	Form of Indemnification Agreement used from June 5, 2012
10.23(28)*	Advisor agreement between Registrant and David DeMaria dated January 25, 2013
10.24*	Form of Notice of Grant of Restricted Stock Unit Award and Agreement under the 2010 Equity Incentive Plan
10.25*	Employment offer letter agreement between Registrant and John Monson dated February 21, 2012
21.1	List of subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm Burr Pilger Mayer, Inc.
24.1	Power of Attorney (see signature page)
31.1	Rule 13a-14 certification
31.2	Rule 13a-14 certification
32	Section 1350 certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to Exhibit 2.4 to Form 10-K filed by the Company on March 26, 2010 (Commission File No. 000-32929).
- (2) Incorporated by reference to Exhibit 3.6 to Form 8-K filed by the Company on November 12, 2010 (Commission File No. 000-32929).
- (3) Incorporated by reference to Exhibit 3.4 to Form 8-K filed by the Company on October 29, 2008 (Commission File No. 000-32929).
- (4) Incorporated by reference to the same-numbered exhibit to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 27, 2001 (Commission file No. 333-43122).
- (5) Incorporated by reference to the same-numbered exhibit to Form 8-K filed by the Company on November 12, 2010 (Commission File No. 000-32929).
- (6) Incorporated by reference to Exhibit 4.2.3 to the Current Report on Form 8-K, filed on July 27, 2011 (Commission File No. 000-32929).
- (7) Incorporated by reference to Exhibit 4.2.4 to the Current Report on Form 8-K filed by the Company on May 24, 2012 (Commission File No. 000-32929).
- (8) Incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 17, 2001 (Commission File No. 333-43122).
- (9) Incorporated by reference to Appendix B to the Company's proxy statement on Schedule 14A filed by the Company on October 7, 2004 (Commission File No. 000-32929).
- (10) Incorporated by reference to Exhibit 10.15 to Form 10-Q filed by the Company on August 9, 2005 (Commission File No. 000-32929).

Edgar Filing: MoSys, Inc. - Form 10-K

Table of Contents

- (11) Incorporated by reference to Exhibit 10.25 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
 - (12) Incorporated by reference to Exhibit 10.24 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
 - (13) Incorporated by reference to Exhibit 10.25.1 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
 - (14) Incorporated by reference to Exhibit 10.25.2 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
 - (15) Incorporated by reference to Exhibit 10.25.3 to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).
 - (16) Incorporated by reference to Exhibit 10.26 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
 - (17) Incorporated by reference to Exhibit 10.27 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).
 - (18) Incorporated by reference to Appendix A to the proxy statement on Schedule 14A filed by the Company on May 26, 2010 (Commission File No. 000-32929).
 - (19) Incorporated by reference to Exhibit 4.10 to Form S-8 filed by the Company on July 28, 2010 (Commission File No. 333-168358).
 - (20) Incorporated by reference to Appendix B to the proxy statement on Schedule 14A filed by the Company on May 26, 2010 (Commission File No. 000-32929).
 - (21) Incorporated by reference to Exhibit 4.8 to Form S-8 filed by the Company on June 5, 2009 (Commission File No. 333-159753).
 - (22) Incorporated by reference to Exhibit 10.35 to Form 8-K filed by the Company on July 22, 2010 (Commission File No. 000-32929).
 - (23) Incorporated by reference to Exhibit 10.35 to Form 10-Q filed by the Company on August 8, 2011 (Commission File No. 000-32929).
 - (24) Incorporated by reference to Exhibit 10.19 to Form 10-K filed by the Company on March 15, 2012 (Commission File No. 000-32929).
 - (25) Incorporated by reference to Exhibit 10.20 to Form 10-Q filed by the Company on May 9, 2012 (Commission File No. 000-32929).
 - (26) Incorporated by reference to Exhibit 10.21 to Form 10-Q filed by the Company on May 9, 2012 (Commission File No. 000-32929).
 - (27) Incorporated by reference to Exhibit 10.22 to Form 10-Q filed by the Company on August 9, 2012 (Commission File No. 000-32929).
 - (28) Incorporated by reference to Exhibit 10.23 to Form 10-Q filed by the Company on May 3, 2013 (Commission File No. 000-32929).
- *
Management contract, compensatory plan or arrangement.

