

MoSys, Inc.
Form 10-Q
May 04, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 000-32929

MOSYS, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of Incorporation or organization)

77-0291941
(I.R.S. Employer
Identification Number)

755 N. Mathilda Avenue

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Sunnyvale, California, 94085

(Address of principal executive office and zip code)

(408) 731-1800

(Registrant's telephone number, including area code)

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 filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 1, 2007, 31,917,474 shares of the Registrant's common stock, \$0.01 par value, were outstanding.

MOSYS, INC.

FORM 10-Q
March 31, 2007

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements****MOSYS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except par value and per share data)**

| | March 31, 2007 (unaudited) | December 31, 2006* |
|---|---|-------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,468 | \$ 11,118 |
| Short-term investments and auction rate securities | 64,314 | 70,689 |
| Accounts receivable, net | 1,072 | 2,491 |
| Unbilled contract receivable | 386 | 360 |
| Prepaid expenses and other current assets | 2,596 | 2,831 |
| Total current assets | 81,836 | 87,489 |
| Long-term investments | 8,462 | 2,492 |
| Property and equipment, net | 830 | 855 |
| Goodwill | 12,326 | 12,326 |
| Other assets | 404 | 598 |
| Total assets | \$ 103,858 | \$ 103,760 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 231 | \$ 307 |
| Accrued expenses and other liabilities | 1,621 | 1,865 |
| Deferred revenue | 924 | 619 |
| Total current liabilities | 2,776 | 2,791 |
| Long-term portion of restructuring liability | 29 | 54 |
| Total liabilities | 2,805 | 2,845 |
| Commitment and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value; 20,000 shares authorized; none issued and outstanding at March 31, 2007 and December 31, 2006 | | |
| Common stock, \$0.01 par value; 120,000 shares authorized; 31,756 shares and 31,638 shares issued and outstanding at March 31, 2007 and December 31, 2006 | 317 | 316 |
| Additional paid-in capital | 107,924 | 106,850 |
| Accumulated other comprehensive loss | (47) | (79) |
| Retained deficit | (7,141) | (6,172) |
| Total stockholders' equity | 101,053 | 100,915 |
| Total liabilities and stockholders' equity | \$ 103,858 | \$ 103,760 |

* Derived from audited financial statements.

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

MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2007 | 2006 |
| Net revenue: | | |
| Licensing | \$ 1,158 | \$ 2,268 |
| Royalty | 1,979 | 1,254 |
| Total net revenue | 3,137 | 3,522 |
| Cost of net revenue | | |
| Licensing | 564 | 353 |
| Total cost of net revenue | 564 | 353 |
| Gross profit | 2,573 | 3,169 |
| Operating expenses: | | |
| Research and development | 2,078 | 1,952 |
| Selling, general and administrative | 2,580 | 2,629 |
| Total operating expenses | 4,658 | 4,581 |
| Loss from operations | (2,085) | (1,412) |
| Interest and other income | 1,064 | 452 |
| Loss before income taxes | (1,021) | (960) |
| Income tax benefit (provision) | 52 | (14) |
| Net loss | \$ (969) | \$ (974) |
| Net loss per share: | | |
| Basic | (\$0.03) | (\$0.03) |
| Diluted | (\$0.03) | (\$0.03) |
| Shares used in computing net loss per share: | | |
| Basic | 31,689 | 31,022 |
| Diluted | 31,689 | 31,022 |
| Allocation of stock-based compensation to cost of net revenue and operating expenses included above: | | |
| Cost of revenue | \$ 100 | \$ 52 |
| Research and development | 250 | 227 |
| Selling, general and administrative | 412 | 324 |
| | \$ 762 | \$ 603 |

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

MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net loss | \$ (969) | \$ (974) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Credit for doubtful accounts | | (25) |
| Depreciation and amortization | 112 | 128 |
| Stock-based compensation | 762 | 603 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 1,419 | 82 |
| Unbilled contract receivable | (26) | (920) |
| Prepaid expenses and other assets | 439 | (96) |
| Deferred revenue | 305 | (793) |
| Accounts payable | (76) | (62) |
| Accrued expenses and other liabilities | (200) | 55 |
| Restructuring liability | (69) | (18) |
| Net cash provided by (used in) operating activities | 1,697 | (2,020) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (87) | (17) |
| Proceeds from sales and maturity of marketable securities | 64,173 | 59,900 |
| Purchase of marketable securities | (63,736) | (46,421) |
| Net cash provided by investing activities | 350 | 13,462 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 303 | 1,427 |
| Net cash provided by financing activities | 303 | 1,427 |
| Net increase in cash and cash equivalents | 2,350 | 12,869 |
| Cash and cash equivalents at beginning of period | 11,118 | 9,171 |
| Cash and cash equivalents at end of period | \$ 13,468 | \$ 22,040 |

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

MOSYS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. The Company and Summary of Significant Accounting Policies

The Company

MoSys, Inc. (the Company) was incorporated in California on September 16, 1991 to design, develop and market high performance semiconductor memory products and technologies used by the semiconductor industry and electronic product manufacturers. On September 12, 2000, the stockholders approved the Company's reincorporation in Delaware.

The Company has developed an innovative embedded-memory technology, called 1T-SRAM, which the Company licenses on a non-exclusive and worldwide basis to semiconductor companies and electronic product manufacturers. From its inception in 1991 through 1998, the Company focused primarily on the sale of stand-alone memory products. In the fourth quarter of 1998, the Company changed the emphasis of its business model to focus primarily on the licensing of its 1T-SRAM technologies and completed this transition in 2002 when a majority of the Company's revenues were derived from licensing its 1T-SRAM technologies. In the second quarter of 2004, the Company discontinued sales of its memory chip products and focused on licensing its technology.

The accompanying condensed consolidated financial statements of the Company have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission. The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company's financial statements and notes thereto included in its most recent annual report on Form 10-K filed with the Securities and Exchange Commission.

In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position, results of operations and cash flows for the interim periods presented. The operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or for any other future period.

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 reports financial results on a calendar fiscal year. Certain amounts reported in the previous periods have been reclassified to conform to the presentation in the first quarter of 2007.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

Licensing

Licensing revenue consists of fees earned for technology license agreements, engineering development and engineering support services. For the license agreements that do not require significant development, modification or customization, revenues are generally recognized when there is persuasive evidence of an arrangement, fees are fixed or determinable, delivery has occurred and collectibility is probable. If any of these criteria

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are not met, revenues are deferred until such time as all criteria have been met. For those license agreements where a license is granted and no other deliverables are required, revenues are recognized when there is persuasive evidence of an arrangement, fees are fixed or determinable and collectibility is probable.

For those contracts requiring the Company to develop a design that meets a licensee's specifications, the Company applies SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts. In accordance with SOP 81-1, when license agreements include deliverables that require significant production, modification or customization, contract accounting is applied. When the Company has significant experience in meeting the design specification involved 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. The direct labor hours for the development of the licensee's design are estimated at the

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beginning of the contract. As these direct labor hours are incurred, they are used as a measure of progress towards completion. The Company has the ability to reasonably estimate the direct labor hours on a contract-by-contract basis based on its experience in developing prior licensee designs. The Company periodically evaluates the actual status of each project to ensure that the estimates to complete each contract remain accurate and updates its estimated costs to complete as necessary. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recognized in the period in which the likelihood of such losses is determined. Revenue recognized in any period is dependent on the Company's progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviation from these estimates could have a material effect on the amount of revenue the Company recognizes in any period. If inherent risks make estimates doubtful, the contract is accounted for under the completed contract method.

For contracts involving design specifications that the Company has not previously met, the Company defers the recognition of all revenue until the design meets the contractual design specifications and expenses the cost of revenue as incurred. When the Company has experience in meeting design specifications but does not have significant experience to reasonably estimate the cost of services to meet a design specification, the Company defers both the recognition of revenue and the cost. For these arrangements, the Company recognizes revenue using the completed contract method. In the first three months of 2007 and 2006, none of the Company's license revenue was recognized under the completed contract method.

The Company also provides support and maintenance. 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. When the Company provides a combination of services related to licensing and support and maintenance to customers, in addition to the considerations noted above, the Company evaluates the arrangements under EITF 00-21, Revenue Arrangements with Multiple Deliverables to determine if objective and reliable evidence exists for the undelivered elements. Currently, the Company believes it has established vendor specific objective evidence, or VSOE, for its support and maintenance arrangements. These arrangements are renewable annually by the customer. Support and maintenance revenue is recognized at its fair value ratably over the period during which the obligation exists, typically 12 months. Revenue from support and maintenance service represented \$95,000 and \$172,000 in the first quarter of 2007 and 2006, respectively, and was included in licensing revenue in the statement of operations.

From time to time, a licensee may cancel a project during the development phase. Such a cancellation is not within the Company's control and is often caused by changes in market conditions or the licensee's business. Cancellations of this nature are an aspect of the Company's licensing business, and, in general license contracts signed since the beginning of 2002 allow the Company to retain all payments that the Company has received or is entitled to collect for items and services provided before the cancellation occurs. Typically under the Company's license agreements, the licensee is obligated to complete the project within a stated timeframe, including assisting the Company in completing the final milestone, and if the Company performs the contracted services, is obligated to pay the license fees even if the licensee fails to complete verification or cancels the project prior to completion. For accounting purposes the Company will consider a project to have been canceled even in the absence of specific notice from its licensee, if there has been no activity under the contract for six months or longer, and the Company believes that completion of the contract is unlikely. In this event, the Company recognizes revenue in the amount of cash received, if the Company has performed a sufficient portion of the development services. If a cancelled contract had been entered into before the establishment of technological feasibility, the costs associated with the contract would have been expensed prior to the recognition of revenue. In that case, there would be no costs associated with that revenue recognition, and gross margin would increase for the corresponding period. During the three months ended March 31, 2007 and 2006, the Company had no significant cancelled contracts.

Royalty

Licensing contracts also provide for royalty payments at a stated rate based on actual units produced and require licensees to report the manufacture or sale of products that include the Company's 1T-SRAM technologies after the end of the quarter in which the sale or manufacture occurs. The Company generally recognizes royalties in the quarter in which the Company receives the licensee's report. However, due to a contract amendment with a customer in the fourth quarter of 2006, the Company started to recognize royalty revenue in the same quarter in which the units are sold by this customer. In addition, beginning with the first quarter of 2006, the Company has been recognizing revenue from two types of prepaid royalties: pre-production royalties, which cover a fixed number of future unit shipments and are paid in a lump sum when the Company enters into the licensing contract, and post-production royalties, which are paid in a lump sum after the licensee commences production of the royalty-bearing product and applied against future unit shipments. In either case, these prepaid royalties are non-refundable. Under current contracts, pre-production prepaid royalties are inseparable from the Company's licensing activities. Thus, the Company includes pre-production prepaid royalties in licensing revenue as contract services are performed. Post-production prepaid royalties, which are recognized at the time of billing provided that no future performance obligations exist, are included in royalty revenue.

Cost of revenue

Licensing

Cost of licensing revenue consists primarily of engineering costs directly related to engineering development projects specified in agreements the Company has with licensees of 1T-SRAM technologies. These projects typically include customization of 1T-SRAM circuitry to enable embedding our memory on a licensee's integrated circuit and may include engineering support to assist in the commencement of production of a licensee's products. The Company recognizes costs of licensing revenue in the following manner:

- If licensing revenue is recognized using the percentage of completion method, the associated cost of licensing revenue is recognized in the period in which the Company incurs the engineering costs.
- If licensing revenue is recognized using the completed contract method, and to the extent that the amount of engineering cost does not exceed the amount of the related licensing revenue, this cost is deferred on a contract-by-contract basis from the time the Company has established technological feasibility of the product to be developed under the license. Technological feasibility is established when the Company has completed all activities necessary to demonstrate that the licensee's product can be produced to meet the performance specifications when incorporating the Company's technology. Deferred costs are charged to cost of licensing revenue when the related revenue is recognized.
- For contracts entered into prior to establishing technological feasibility, the Company does not defer related development costs, but rather expenses them in the period in which they are incurred. Consequently, upon completion of these contracts, the Company recognizes the related revenues without any corresponding costs.

In addition, cost of licensing revenue includes costs related to support and maintenance services.

Royalty

There are no reported costs associated with royalty revenue.

Goodwill

The Company reviews goodwill recorded from the acquisition of ATMOS Corp. in August 2002 for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with the Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. Using the guidance in SFAS No. 142, the Company has determined that it has only one reporting unit at the entity level. For step one, the Company determines the fair value of its reporting unit using the market approach. Under the market approach, the Company estimates the fair value based on the market value of the reporting unit at the entity level. If the fair value of the reporting unit exceeds the carrying value of net assets to the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the net assets of the reporting unit exceeds the fair value of the reporting unit, the Company must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company must record an impairment loss equal to the difference. The Company performed its annual impairment test during the third quarter of 2006, and the test did not indicate impairment of goodwill as of September 30, 2006. In addition, the Company assesses whether there are indicators of potential impairment every quarter. As of March 31, 2007, the Company found no indicators of potential impairment.

Foreign Currency Translation

The Company has foreign offices located in Korea and Japan, which are operated by the subsidiaries of the Company. The functional currency of the Company's foreign entities is the U.S. dollar. Accordingly, the financial statements of these entities, which are maintained in the local currency, are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, Foreign Currency

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Translation. Exchange gains or losses from remeasurement of monetary assets and liabilities that are not denominated in U.S. dollar were not material for any period presented and are included in the consolidated statements of operations.

Cash Equivalents, Short-term and Long-term Investments

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities . These investments generally include commercial and U.S. government agency papers, corporate notes, U.S. government debt securities and market auction rate certificates. Management determines the appropriate classification of debt securities at the time of purchase. All securities are classified as available-for-sale. The Company's short-term and long-term investments are carried at fair value, based on quoted market prices, with the unrealized holding gains and losses reported in stockholders' equity. The Company evaluates declines in market value for potential impairment if the decline results in a value below cost and is determined to be other-than-temporary. Realized gains and losses and declines in the value judged to be other-than-temporary are included in interest income. The cost of securities sold is based on the specific identification method.

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The Company invests its excess cash in money market accounts and debt instruments 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.

Allowance for Doubtful Accounts.

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The Company determines its allowance for doubtful accounts to ensure its trade receivables balances are not overstated due to uncollectibility. The Company performs ongoing customer credit evaluation within the context of the industry in which it operates. A specific allowance of up to 100% of the invoice value will be provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is not possible. There was no recorded allowance for doubtful accounts as of March 31, 2007 and December 31, 2006, respectively.

Unbilled contracts receivable

Under the percentage of completion method, if the amount of revenue recognized exceeds the amount of billings to a customer, the excess amount is carried as an unbilled contract receivable. The Company reported a balance of \$386,000 and \$360,000 of unbilled contracts receivable as of March 31, 2007 and December 31, 2006, respectively.

Research and development

Engineering cost is generally recorded as research and development expense in the period incurred.

Stock-based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* , (SFAS 123(R)), which establishes accounting for recognizing the fair value of the stock-based payment awards. Accordingly, the expense of these awards is recognized over the requisite service period, usually the vesting period, based on the grant-date fair value. The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R). This method requires the Company to apply the provisions of SFAS 123(R) to all stock-based payment awards after the adoption date.

The adoption of SFAS 123(R) had and will have a material impact on the Company's consolidated financial position and results of operations. See Note 7 for further information regarding the stock-based compensation assumptions and expenses.

Per Share Amounts

Basic net loss per share is computed by dividing net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is the same as basic net loss per share because the impact of including potential common shares is anti-dilutive. Potential common shares are composed of incremental shares of common stock issuable upon the exercise of stock options. Excluded from the computations of diluted net loss per share for the three months ended March 31, 2007 and 2006 were stock options to purchase 922,000 and 1.2 million shares, respectively. All of those options had exercise prices greater than the average market prices of common stock at the end of each period as their inclusion would be anti-dilutive.

Income taxes

The Company accounts for deferred income taxes under the asset and liability approach whereby the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities are recognized as deferred tax assets and liabilities. A valuation allowance is established for any deferred tax assets for which realization is more likely than not that all or a portion of the deferred tax assets will not be realized. As of March 31, 2007 and December 31, 2006, net deferred tax assets of \$1.3 million were included in prepaid expenses and other current assets.

Comprehensive loss

Statement of Financial Accounting Standards No. 130 *Reporting Comprehensive Income* (SFAS No. 130) requires the Company to display comprehensive income and its components as part of the financial statements. The Company's only component of comprehensive income (loss) is unrealized gains and losses on available-for-sale securities. Accumulated other comprehensive loss as of March 31, 2007 and December 31, 2006 was \$47,000 and \$79,000, respectively.

The changes in other comprehensive loss were as follows, for the three months ended March 31, 2007 and 2006 (amounts in thousands):

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2007 | 2006 |
| Net loss | \$ (969) | \$ (974) |
| Change in net unrealized loss on available-for-sale securities | 32 | 32 |
| Comprehensive loss | \$ (937) | \$ (942) |

Note 2. Restructuring

On November 10, 2004, the Company announced its plan to close the ATMOS research and development facility in Canada to reduce operating expenses and to further align the Company's business with market conditions, future revenue expectations and planned future product direction. As part of this plan, the Company implemented a reduction in workforce of approximately 20 employees, which represented 20% of its workforce. On July 15, 2005, the Company signed an agreement to sublease the ATMOS facility, which the Company occupies under the long-term operating lease through 2008.

In February 2007, the Company entered a lease amendment with the landlord to reduce the rental area of the lease premises. As a result of this arrangement, on March 31, 2007, the Company's remaining restructuring estimated lease abandonment accrual was adjusted to \$139,000 in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

The following table summarizes the activities under the 2004 Restructuring Plan in the first quarter of 2007 (amounts in thousands):

| | Abandoned Space |
|--|----------------------------|
| Restructuring liability at December 31, 2006 | \$ 208 |
| Cash payments | (32) |
| Adjustment | (37) |
| Restructuring liability at March 31, 2007 | \$ 139 |
| Current portion | \$ 110 |
| Long term portion | \$ 29 |

Note 3. Guarantees

Indemnifications

In the ordinary course of business, the Company enters into contractual arrangements under which the Company may agree to indemnify the other party to such arrangements from any losses incurred relating to losses arising from certain events as defined within the particular contract, which may include, for example, litigation or claims relating to patent infringement. The maximum amount of indemnification the Company could be required to make under these agreements is generally limited to the fees received by the Company, although in some contracts the Company's potential obligation may be greater. 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 indemnifications.

Note 4. Segment Information

The Company operates in a single industry segment, supplying semiconductor memories to the electronics industry. The Company sells its products and technology to customers in the Far East, North America and Europe. Net revenue by geographic area was as follows (amounts in thousands):

| | Three Months Ended | |
|-----------------------|---------------------------|-------------|
| | March 31, | |
| | 2007 | 2006 |
| United States | \$ 743 | \$ 992 |
| Japan | 2,296 | 2,344 |
| Other Asian Countries | 98 | 186 |
| Total | \$ 3,137 | \$ 3,522 |

For the three months ended March 31, 2007, NEC represented 65% of total revenue. For the three months ended March 31, 2006, Fujitsu, NEC, Yamaha and eSilicon represented 27%, 18%, 17% and 11% of total revenue, respectively.

Note 5. Contingencies

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. As of March 31, 2007, no legal proceedings or claims resulted in such contingencies.

Note 6. Provision for Income Taxes

The Company's effective tax rate is based on the estimated annual effective tax rate in accordance with Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes. A provision (benefit) for income taxes of \$(52,000) and \$14,000 was recorded in the first quarter of 2007 and 2006, respectively. The effective income tax rate was 5.1% and (1.5%) for the three months ended March 31, 2007 and 2006, respectively, principally for accrued liability for state tax and foreign income taxes. The effective tax rate for 2007 differed from the statutory federal income tax rate primarily due to the Company's net operating loss and its valuation allowance related to deferred tax assets. The release of the valuation allowance creates a tax benefit when deferred tax assets such as net operating loss carryforwards are expected to be utilized. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance against its net operating loss carryforward and credits due to uncertainty of realizing future benefits.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on its evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The evaluation was performed for the tax years ended December 31, 2002, 2003, 2004, 2005 and 2006, the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2007.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Company has received an assessment for interest and/or penalties, it has been classified in the financial statements as income tax expense.

Note 7. Stock-based compensation

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Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment , (SFAS 123(R)), which establishes accounting for recognizing the fair value of the stock-based payment awards, using the modified prospective transition method . Accordingly, the expense of these awards is recognized over the requisite service period, usually the vesting period, based on the grant-date fair value.

Stock-based compensation expense of \$762,000 and \$603,000 was recognized in the unaudited condensed consolidated statement of operation for the three months ended March 31, 2007 and 2006, respectively. The total compensation cost of options granted, but not yet vested, as of March 31, 2007 was \$8.0 million, which is expected to be recognized as expense over a weighted average period of approximately 2.62 years.

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SFAS 123(R) requires the Company 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 Statement of Cash Flows. Such tax benefit would have been presented as operating cash flows under SFAS 123. For the quarter ended March 31, 2007 and 2006, there were no such tax benefits associated with the exercise of stock options due to the Company's loss position.

Valuation Assumptions and Expense Information under SFAS 123(R)

As prescribed in SFAS 123(R), the fair value of the Company's share-based payment awards for three months ended March 31, 2007 and 2006 was estimated on the grant date using a Black-Scholes valuation method and an option-pricing model with the following assumptions:

| | Three Months Ended | |
|--------------------------------|--------------------|----------------|
| | March 31, 2007 | 2006 |
| Employee stock options: | | |
| Risk-free interest rate | 4.5% - 4.8 % | 4.6% - 4.7 % |
| Volatility | 45.5% - 47.7 % | 55.2% - 56.0 % |
| Expected life(years) | 4.0 | 4.0 |
| Dividend yield | 0 % | 0 % |

The risk-free interest rate is derived from the Daily Treasury Yield Curve Rates as published by Department of the Treasury as of the grant date for terms equal to the expected terms of the options. The expected volatility is based on the combination of historical volatility, excluding the volatility during the period of one time non-recurring event, which was the aborted Synopsis acquisition for the Company in 2004, and the expected future volatility of the Company's stock price. The expected term of options granted is derived from historical data based on employee exercises and post-vesting employment termination behavior. The dividend yield of zero is applied because the Company never has paid dividends and has no intention to pay dividends in the near future.

The stock-based compensation expense of \$762,000 and \$603,000 for the three months ended March 31, 2007 and 2006 included compensation expense for share-based awards granted prior to, but not yet vested as of January 1, 2006 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). As required by SFAS 123(R), the stock-based compensation expense is calculated with the estimated forfeiture rate. An annualized forfeiture rate of 15% is used as a best estimate of future forfeitures based on the Company's historical forfeiture experience. Under the true-up provisions of SFAS 123(R), the stock-based compensation expense will be adjusted in later periods if the actual forfeiture rate is different from the estimate.

A summary of the option activity under all the Company's stock option plans during the three months ended March 31, 2007 is as follows (amounts in thousands, except exercise price):

| | Options Outstanding | | Weighted Average Exercise Prices |
|---|------------------------|----------------------|---|
| | Available for Grant | Number of Options | |
| Balance at December 31, 2006 | 1,006 | 6,143 | \$ 6.27 |
| Additional authorized under the 2000 Plan | 500 | | |
| Granted | (278) | 278 | \$ 8.18 |
| Cancelled | 187 | (187) | \$ 6.52 |
| Exercised | | (122) | \$ 2.77 |
| Balance at March 31, 2007 | 1,415 | 6,112 | \$ 6.42 |

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A summary of the status of the Company's restricted stock awards during the three months ended March 31, 2007 is as follows (amounts in thousands, except fair value):

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|--|---------------------|---|
| Non-vested shares at December 31, 2006 | 74 | \$ 5.91 |
| Granted | | \$ |
| Vested | (22) | \$ |
| Cancelled | | \$ |
| Non-vested shares at March 31, 2007 | 52 | \$ 5.91 |

The following table summarizes significant ranges of outstanding and exercisable options as of March 31, 2007 (amounts in thousands, except contractual life and exercise price):

| Range of Exercise Price | Options Outstanding | | Options Exercisable | | |
|-------------------------|-----------------------|---|------------------------------------|-----------------------|------------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (in Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$1.00-\$4.09 | 1,228 | 7.25 | \$ 3.78 | 690 | \$ 3.73 |
| \$4.10-\$8.00 | 3,766 | 7.39 | \$ 6.23 | 1,384 | \$ 6.17 |
| \$8.01-\$10.00 | 718 | 5.18 | \$ 9.33 | 374 | \$ 9.68 |
| \$10.01-\$15.69 | 400 | 4.85 | \$ 11.00 | 401 | \$ 11.00 |
| \$1.00-\$15.69 | 6,112 | 6.94 | \$ 6.42 | 2,849 | \$ 6.72 |

Note 8. Related Party Transaction

One of the Company's directors is an executive officer of eSilicon Corporation, a customer of the Company. There was no transaction related to this party during the three months ended March 31, 2007. Revenue for the three months ended March 31, 2006 included \$403,000 generated from eSilicon, which represented 11% of the Company's total revenue in the quarter. At March 31, 2007 and December 31, 2006, there was no account receivable due from this customer.

ITEM 2. 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 condensed consolidated financial statements and notes included in this report. This Form 10-Q contains 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 technology, our strategy, competition, expected financial performance, all information disclosed under Item 3 of this Part I, and other aspects of our business identified in the Company's most recent annual report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2006 and in 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 Form 10-Q 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 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 events occur in the future.

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MoSys® and 1T-SRAM® are our trademarks. Product names, trade names and trademarks of other companies are also referred to in this report.

Overview

We design, develop, market and license memory technologies used by the semiconductor industry and electronic product manufacturers. We have developed a patented semiconductor memory technology, called 1T-SRAM, that offers a combination of high density, low power consumption and high speed at performance and cost levels that other available memory technologies do not match. We license this technology to companies that incorporate, or embed, memory on complex integrated circuits, such as SoCs.

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Using elements of our existing memory technology as a foundation, however, we completed development of our first memory chips incorporating our 1T-SRAM technologies in the fourth quarter of 1998. We signed our first license agreement related to our 1T-SRAM technologies at the end of the fourth quarter of 1998 and recognized licensing revenue from our 1T-SRAM technologies for the first time in the first quarter of 2000. Since then, we have introduced improved and enhanced versions of our technology, such as 1T-SRAM-R, 1T-SRAM-M, and 1T-SRAM-Q.

We generate revenue from the licensing of our memory technologies, which consists of licensing revenues, customization services, maintenance and support fees and royalties. Royalty revenues are earned under each of our license agreements when our licensees manufacture or sell products that incorporate any of our 1T-SRAM technologies and report the results to us. Generally, we expect our total sales cycle, or the period from our initial discussion with a prospective licensee to our receipt of royalties from the licensee's use of our 1T-SRAM technologies, to run from 18 to 24 months after the commencement of the project. The portion of our sales cycle from the initial discussion to the receipt of license fees may run from six to twelve months, depending on the complexity of the proposed project and degree of customization required.

In 2005, we began delivering our new family of 1T-SRAM CLASSIC Memory Macro products to licensees. These macros are silicon-proven, high-density solutions offering customers rapid memory block integration into their SoC designs. They are pre-configured and require minimal additional customization and we believe they will enable us to increase our penetration of the market for very dense, low power, high speed embedded memory applications.

Sources of Revenue

We generate two types of revenue: licensing and royalties.

Licensing. Our license agreements involve long sales cycles, which make it difficult to predict when the agreements will be signed and when, if ever, we will recognize revenues under the agreements. In addition, our licensing revenues fluctuate from period-to-period, and, it is difficult for us to predict the timing and magnitude of such revenues from quarter-to-quarter. Moreover, we believe that the amount of licensing revenues for any period is not necessarily indicative of results in any future period.

Our licensing revenue consists of fees for providing circuit design, layout and design verification and granting a license to a customer for embedding our memory technology into its product. For some customers, we also provide engineering support services to assist in the initial production of products utilizing the licensed 1T-SRAM technologies. License fees generally range from \$100,000 to several million dollars per contract, depending on the scope and complexity of the development project, and the licensee's rights. The licensee generally pays the license fees in installments at the beginning of the license term and upon the attainment of specified milestones. The vast majority of our contracts allow billing between milestones based on work performed. Fees billed prior to revenue recognition are recorded as deferred revenue.

For license agreements that do not require significant development, modification or customization, revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, fees are fixed or determinable and collectibility is probable. If any of these criteria is not met, we defer recognizing the revenue until such time as all criteria are met. For license agreements where a license is granted and no other deliverables are required, revenues are recognized when persuasive evidence of an arrangement exists, fees are fixed or determinable and collectibility is probable. However, if the agreement involves performance specifications that we have significant experience in meeting and the cost of contract completion can be reasonably estimated, we recognize revenue over the period in which the contract services are performed under the percentage of completion accounting method. We use actual direct labor hours incurred to measure progress towards completion. We periodically evaluate the actual status of each project to determine whether the estimates to complete each contract remain accurate and update our estimated costs to complete as necessary. 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. Changes in or deviations from these estimates could have a material effect on the amount of revenue we recognize in any period. If the amount of revenue recognized under the percentage of completion method exceeds the amount of billings to a customer, then under the percentage of completion accounting method, we account for the excess amount as an unbilled contract receivable. For agreements involving performance specifications that we have not met and for which we lack the historical experience to reasonably estimate the costs, we defer recognition of all revenue and related direct costs until all deliverables are met and recognize revenue under the completed contract accounting method.

From time to time, a licensee may cancel a project during the development phase. Such a cancellation is not within our control and is often caused by changes in market conditions or the licensee's business. Cancellations of this nature are an aspect of our licensing business, and most of our contracts allow us to retain all payments that we have received or are entitled to collect for items and services provided before the cancellation occurs. We will consider a project to have been canceled even in the absence of specific notice from our licensee, if there has been

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no activity under the contract for more than six months, and we believe that completion of the contract is unlikely. In this event, we recognize revenue in the amount of cash received, if we have performed a

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sufficient portion of the development services. If a cancelled contract had been entered into before the establishment of technological feasibility, the costs associated with the contract would have been expensed prior to the recognition of revenue. In that case, there would be no costs associated with that revenue recognition, and gross margin would increase for the corresponding period. During the three months ended March 31, 2007 and 2006, there were no significant cancelled contracts.

Royalties. Each of our license agreements provides for royalty payments at a stated rate. We negotiate royalty rates by taking into account such factors as the anticipated volume of the licensee's sales of products utilizing our technologies and the cost savings to be achieved by the licensee through the use of our technology. Our license agreements generally 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.

As with our licensing revenues, 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. Many of the products of our licensees that are currently subject to licenses from us are consumer products, such as electronic game consoles, for which demand can be seasonal and generally highest in the fourth quarter.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operation are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis we make these estimates based on our historical experience and on assumptions that we consider reasonable under the circumstances. Actual results may differ from these estimates, and reported results could differ under different assumptions or conditions.

The following is a brief discussion of the material changes that occurred during the three months ended March 31, 2007 to the significant accounting policies and estimates disclosed in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2006:

New Pronouncement

Effective January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN48), Accounting for Uncertainty in Income Taxes, which is an interpretation of FASB Statement No. 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Upon adoption, we had no unrecognized tax benefits for uncertain tax positions, and there was no significant change during the quarter ended March 31, 2007.

Results of Operations

Three Months Ended March 31, 2007 and 2006

Revenue. Total revenue decreased to \$3.1 million for the three months ended March 31, 2007 from \$3.5 million for the three months ended March 31, 2006. Licensing revenue decreased by \$1.1 million to \$1.1 million in the first quarter of 2007 as revenue recognized from new licensing agreements failed to offset a decline in revenue from existing ones. Licensing revenue represented 37% of total revenue in the first quarter of 2007, compared to 64% in the same period in 2006. Royalty revenue increased to \$2.0 million in the first quarter of 2007 from \$1.3 million in the same period of 2006, and represented 63% of total revenue in the first quarter of 2007 compared to 36% for the same period in 2006. Royalty revenues increased in the first quarter of 2007 because of higher royalties received from existing licensee projects.

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A small number of customers continue to account for a significant percentage of our total revenue. For the quarter ended March 31, 2007, NEC represented 65% of total revenue. For the three months ended March 31, 2006, Fujitsu, NEC, Yamaha and eSilicon represented 27%, 18%, 17% and 11% of total revenue, respectively. For information regarding revenues recorded in the three months ended March 31, 2007 from customers, please refer to note 4, Segment Information, of Notes to Consolidated Financial Statements. All of our sales are denominated in U.S. dollars.

Gross Profit. Gross profit was \$2.6 million in the three months ended March 31, 2007, compared to \$3.2 million in the same period of 2006. Gross profit as a percentage of total revenue decreased to 82% in the first quarter of 2007 from 90% in the corresponding period of 2006 due to higher cost for fulfilling our obligations under new license agreements. The cost also included stock-based compensation expense of \$100,000 and \$52,000 recorded under SFAS 123(R) for the three months ended March 31, 2007 and 2006, respectively.

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Research and Development. Our research and development expenses include development and design of variations of the 1T-SRAM technologies for use in different manufacturing processes used by licensees and the development and testing of prototypes to prove the technological feasibility of embedding our memory designs in the licensees products. Research and development expenses increased to \$2.1 million in the first quarter of 2007 from \$2.0 million in the same quarter of 2006 primarily due to the additional engineers onboard. Stock-based compensation expense of \$250,000 and \$227,000 under SFAS 123(R) was recorded for the three months ended March 31, 2007 and 2006, respectively.

Selling, General and Administrative. Selling, general and administrative expenses remained consistent at \$2.6 million in the first quarter of 2007 and 2006 as lower legal expenses were offset by higher salary and employee related benefits resulting from an increased headcounts in the first quarter of 2007. There were no legal expenses for litigation in the first quarter of 2007, compared to \$189,000 in the same period of 2006. Stock-based compensation expense of \$412,000 and \$324,000 under SFAS 123(R) was recorded for the three months ended March 31, 2007 and 2006, respectively.

Interest, Other Income and Expense. Interest, other income and expense increased to \$1.1 million in the first quarter of 2007 from \$452,000 in the same period of 2006 primarily due to higher interest rates and the absence of other significant charges in the three months ended March 31, 2007, compared to the one-time charge of \$347,000 related to the reimbursement of withholding taxes paid on our behalf by our Japanese customers in the corresponding period of 2006. Interest income in the first quarter of 2007 increased to \$1.1 million compared to \$817,000 in the same quarter in 2006.

Provision for Income Taxes. Our effective tax rate is based on the estimated annual effective tax rate in accordance with Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes . A benefit (provision) for income taxes of \$52,000 and (\$14,000) was recorded in the first quarter of 2007 and 2006, respectively, to reflect accrued liability for state minimum tax and foreign taxes.

Liquidity and Capital Resources; Changes in Financial Condition

Cash Flows

As of March 31, 2007, we had cash and cash equivalents and long and short-term investments of \$86.2 million. As of the same date, we had total working capital of \$79.1 million. Our primary capital requirements are to fund working capital needs. We believe that our current focus on licensing and royalty revenues has generally enabled us to steadily improve our liquidity.

Net cash provided by operating activities was \$1.7 million in the first three months of 2007, compared to net cash used in operating activities of \$2.0 million in the corresponding period of 2006. For the first three months of 2007, the net loss of \$969,000 was offset by the non-cash impact of stock-based compensation under SFAS 123(R) and depreciation and amortization expenses and the higher collection from accounts receivables. Net cash used in operating activities in the first three months of 2006 primarily consisted of the net loss of \$974,000, higher unbilled contract receivable as revenue recognized exceeded the amount of billings to customers, and decreased deferred revenue offset by the non-cash impact of stock-based compensation under SFAS 123 (R) and depreciation and amortization expense.

Net cash provided by investing activities was approximately \$350,000 in the first three months of 2007 compared to \$13.5 million in the first three months of 2006. The decrease in the first quarter of 2007 was primarily due to more active trading in marketable securities. We also purchased computer equipment and software upgrades for a total of approximately \$87,000.

Net cash provided by financing activities was \$303,000 in the first three months of 2007 compared to \$1.4 million in the same period of 2006 as there were fewer shares purchased from us upon the exercise of stock options in the first quarter of 2007 compared to the same period of 2006.

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

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- level and timing of licensing and royalty revenues;
- cost, timing and success of technology development efforts, including meeting customer design specifications;
- market acceptance of our existing and future technologies and products;
- competing technological and market developments;
- cost of maintaining and enforcing patent claims and intellectual property rights;
- 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 that existing cash, cash equivalents, short-term and long-term investments, along with cash generated from operations, if any, will be sufficient to meet our capital requirements for the foreseeable future. We expect that a licensing business such as ours generally will require less cash to support operations.

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However, we cannot be certain that we will not require additional financing at some point in time. Should our cash resources prove inadequate, we might need to raise additional funding through public or private financing. There can be no assurance that such additional 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.

Lease Commitments and Off Balance Sheet Financing

The impact that our contractual obligations as of March 31, 2007 are expected to have on our liquidity and cash flow in future periods is as follows (amounts in thousands):

| | Payment Due by Period | | |
|------------------|-----------------------|------------------|-----------|
| | Total | Less than 1 year | 1-3 years |
| Operating Lease: | | | |
| Obligations | \$ 1,697 | \$ 801 | \$ 896 |
| Sublease Income | 225 | 217 | 8 |
| | \$ 1,472 | \$ 584 | \$ 888 |

We did not have any unconditional purchase obligations as of March 31, 2007.

ITEM 3. Qualitative and Quantitative Disclosure about Market Risk

Our investment portfolio consists of money market funds, auction rate securities, corporate-backed debt obligations and mortgage-backed government obligations. The portfolio dollar-weighted average maturity of these investments is within twelve months. Our primary objective with this investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities, which approximated \$83.6 million as of March 31, 2007 and earn an average interest rate of approximately 5.65% during the first quarter of 2007, are subject to interest rate risks. However, based on the investment portfolio contents and our ability to hold these investments until maturity, we believe that if a significant change in interest rates were to occur, it would not have a material effect on our financial condition.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Because of 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.

We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as required by SEC Rule 13a-15(b). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2007 to ensure that information required to be disclosed by us in the reports filed or submitted by us with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting. During the first quarter of 2007, there was no material change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. Risk Factors

We face many significant risks in our business, some of which are unknown to us and not presently foreseen. These risks could have a material adverse impact on our business, financial condition and results of operations in the future. We have disclosed a number of material risks under Item 1A of our annual report on Form 10-K for the year ended December 31, 2006, which we filed with the Securities and Exchange Commission on March 16, 2007. The following discussion is of material changes to risk factors disclosed in that report.

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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 and fail to replace this revenue.

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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, 2006, our two largest customers, NEC and Fujitsu represented 27% and 25% of total revenue, respectively. For the three months ended March 31, 2007, NEC represented 65% of total revenue. For three months ended March 31, 2006, Fujitsu, NEC, Yamaha and eSilicon represented 27%, 18%, 17% and 11% of total revenue, respectively. We expect that a relatively small number of licensees will continue to account for a substantial portion of our revenue for the foreseeable future.

Furthermore, our royalty revenue has been highly concentrated among a few licensees, and we expect this trend to continue for the foreseeable future. In particular, a substantial portion of our licensing and royalty revenue in 2006 has come from the licenses for integrated circuits used by Nintendo. Royalties earned from the production of Nintendo gaming devices incorporating our 1T-SRAM technology represented 16% of total revenue in the 2006.

As a result of this revenue concentration, our results of operations could be impaired 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.

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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, 2006, one customer represented 89% of total trade receivables. As of March 31, 2007, one customer represented 84% 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.

We rely on semiconductor foundries to assist us in attracting potential licensees, and a loss or failure of these relationships could inhibit our growth and reduce our revenue.

Part of our marketing strategy relies upon our relationships and agreements with semiconductor foundries, such as TSMC, UMC, Chartered, and SMIC among others. These foundries have existing relationships, and continually seek new relationships, with companies in the markets we target, and they have agreed to utilize these relationships to introduce our technology to potential licensees. Moreover, the foundries' promotions of alternative technologies reduce the size of our potential market and may adversely affect our revenues and operating results if we fail to maintain and expand our current relationships with these foundries, we might fail to achieve anticipated growth.

Our relationship with these foundries is not exclusive, and they are free to promote or develop other embedded memory technologies, including their own. For example, our technology license agreement with TSMC permits it to license our technologies directly to its semiconductor customers, which may adversely affect the size of our potential market for license fee revenue and direct licensing arrangements with other semiconductor companies, although TSMC's use of our patented IT-SRAM technologies in the products that it provides to its customers will require the payment of royalties to us.

Additionally, we rely on third-party foundries to manufacture our silicon test chips, to provide references to their customers and to assist us in the focus of our research and development activities. If we are unable to maintain our existing relationships with these foundries or enter into new relationships with other foundries, we will be unable to verify our technologies for their manufacturing processes and our ability to develop new technologies will be hampered. We would then be unable to license our intellectual property to fabless semiconductor companies that use these foundries to manufacture their silicon chips, which is a significant source of our revenues.

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 services of such key employees could negatively impact our technology development efforts and our ability to fulfill our obligations under existing agreements and obtain new customers would be highly dependent on our success in identifying and recruiting their replacements. We cannot provide assurance that we would succeed in the timely hiring of suitable replacements for such key employees. 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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The Securities and Exchange Commission declared the Company's first registration statement, filed on Form S-1 under the Securities Act of 1933 (File No. 333-43122) relating to the Company's initial public offering of its common stock, effective on June 27, 2001. The Company realized approximately \$51.5 million after offering expenses, all of which have been invested in short-term and long-term investments.

ITEM 5. Other Events

Wingyu Leung, our founder, Executive Vice President, and Chief Technical Officer, and one of our directors has announced his retirement from MoSys after 15 years of services, effective as of May 15, 2007. He will also step down from the board of directors at that time and is not running for re-election to the board of directors in 2007. Mr. Leung has agreed to consult with us, as requested by our Chief Executive Officer, for two months following his resignation and we will pay for his services at a typical hourly rate for similar services.

ITEM 6. Exhibits

(a) Exhibits

- 31.1 Rule 13a-14 certification
- 31.2 Rule 13a-14 certification
- 32 Section 1350 certification

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Signatures

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

Dated: May 4,
2007

/s/ Chester J. Silvestri
Chester J. Silvestri
Chief Executive Officer and President

Dated: May 4, 2007

/s/ James R. Pekarsky
James R. Pekarsky
Vice President of Finance and Administration and
Chief Financial Officer

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