MoSys, Inc.
Form 10-K
March 16, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year December 31, 2008 or

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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	**77-0291941**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

755 N. Mathilda Avenue, Suite 100
Sunnyvale, California 94085
(Address of principal executive offices)

(408) 731-1800
(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	Global Market of the NASDAQ Stock Market, LLC

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

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 o No ý

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 o No ý

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 ý No o

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. ý

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, as of June 30, 2008 was approximately $139,545,107 based upon the last sale price reported for such date on the Global 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 February 28, 2009, 31,197,798 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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009 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.

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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 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.

Item 1. Business

Company Overview

We design, develop, market and license embedded memory intellectual property, or IP, used by the semiconductor industry and electronic product manufacturers. We have developed a patented semiconductor memory technology, called 1T-SRAM, which 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, or ICs, such as system-on-chips, or SoCs.

We signed our first license agreement related to our 1T-SRAM technologies at the end of the fourth quarter of 1998 and recognized our first licensing revenue from our 1T-SRAM technologies 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. In 2005, we began delivering our 1T-SRAM CLASSIC Memory Macro products to licensees. These macros are pre-configured, silicon-proven and high-density solutions offering customers rapid memory block integration into their SoC designs with minimal additional customization.

We generate revenue from the licensing of our memory technology, and our customers pay us fees for licensing, non-recurring engineering services, royalties, and maintenance and support. Royalty revenues are typically earned under our license agreements when our licensees manufacture or sell products that incorporate any of our technologies. 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 technologies, to run from 18 to 24 months. Historically, the portion of our sales cycle from the initial discussion to the receipt of license fees may run from six to 12 months, depending on the complexity of the proposed project and degree of development services required.

In the third quarter of 2007, we acquired analog/mixed-signal integrated circuit designs, intellectual property, related assets and subsidiaries from Atmel Corporation, or Atmel, and LSI Design and Integration Corporation, or LDIC. In December 2008, as part of our initiative to exit unprofitable and non-core product lines, we announced our plan to cease all further work and sales activities on the acquired analog/mixed-signal products, close our subsidiaries in China and Romania, and eliminate approximately 90 employees in the first half of 2009.

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Industry Background

The personal computer, wireless communications, networking equipment and consumer electronics markets are characterized by intensifying competition, rapid innovation, increasing performance requirements and continuing cost pressures. To manufacture electronic products that achieve optimal performance and cost levels, semiconductor companies must produce integrated circuits that offer higher performance, greater functionality and lower cost.

Two important measures of performance are speed and power consumption. Higher speed integrated circuits allow electronic products to operate faster, enabling the performance of more functions. Reducing the power consumption of integrated circuits contributes to increased battery life and reduced heat and electro-magnetic field, generation in electronic products. Reduced power consumption also enables integrated circuit designers to overcome costly design hurdles, such as meeting the thermal limitations of low-cost packaging materials.

In addition to offering high-performance products, semiconductor companies must produce integrated circuits that are cost effective. High-density integrated circuits require less silicon, thus reducing their size and cost. Cost reductions also can be achieved by simplifying the integrated circuit's manufacturing process and improving the manufacturing yield.

To avoid the high cost of substantial redesign, semiconductor companies typically use technology that is scalable, which means it can be readily incorporated into multiple generations of manufacturing process technologies. Process technology generations are distinguished in terms of the dimension of the integrated circuit's smallest topographical features, as measured in microns (one millionth of a meter) or nanometers (one billionth of a meter) (nm). The semiconductor industry has continuously developed advanced process technologies that enable the reduction of silicon area on integrated circuits and consequently lower costs.

Importance of Integration

For decades, the semiconductor industry has continuously increased the value of integrated circuits by improving their density, power consumption, speed and cost. The main driver for these improvements has been the success of shrinking the size of the basic semiconductor building block, or transistor. Transistors have become small enough to make it economical to combine multiple functions, such as microprocessors, graphics, memory, analog components and digital signal processors, on a SoC. Highly integrated circuits such as SoCs often offer advantages in density, power consumption, speed and cost that cannot be matched using separate, discrete integrated circuits. SoCs are essential for most electronic products, such as cellular phones, video game consoles, portable media players, communication and networking equipment and internet appliances, to achieve increasing performance requirements at a reasonable cost.

For many large volume IC market opportunities, semiconductor companies and integrated device manufacturers, or IDMs, are developing and using a single complex SoC to replace two or three integrated circuits. Development costs for these complex SoCs continue to escalate at a rapid rate due to the use of lower process technology solutions (e.g., 65nm and below) resulting in greater demand for license semiconductor intellectual property. Semiconductor companies and IDMs prefer to purchase verified IP from either an IP vendor, such as us, or a foundry that manufactures their integrated circuits. Foundries may have their own internally developed IP or may license the IP from an IP vendor.

Importance of Embedded Memory

Historically, semiconductor companies implemented memory by using stand-alone integrated circuits. Rather than using stand-alone memory chips, many semiconductor companies today are

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embedding memory on SoCs in order to optimize performance and power consumption. At the same time, the increasing sophistication of electronic products is driving a rapid increase in the amount of memory required. The amount of embedded memory area on an SoC continues to grow due to the increasing complexity of embedded applications and the rich multimedia capabilities they support requiring more data and program code storage with corresponding system price and size constraints. These constraints dictate that more information is processed in local memories on the chip rather than in discrete external memory devices.

The high cost of incorporating the memory component represents a major challenge to achieving high levels of integration. As embedded memories account for an increasing percentage of the size of a highly integrated circuit, they are often the slowest or limiting function in the circuit. Not only must integrated circuits contain a larger amount of embedded memory, this memory must be dense enough to be economically attractive and must offer sufficiently high speed and low power consumption. In many applications, embedded memory has become a crucial design consideration for determining the overall cost and performance of highly integrated circuits and the growing number of electronic products in which they are incorporated. In addition, embedded memory density requirements are continually increasing.

The most common form of embedded memory today is implemented using traditional static random access memory, or SRAM. This technology is in the public domain and can be designed by any semiconductor company. As memory requirements increase, however, traditional SRAM becomes more expensive compared to the total cost of the integrated circuit because it requires a substantial amount of silicon area due to its low density and consumes a significant amount of power when operating at high speeds.

To overcome the density limitations of traditional SRAM, some SoC manufacturers have utilized embedded dynamic random access memory, or embedded DRAM. While embedded DRAM is denser than traditional SRAM, it is dramatically slower. Manufacturing embedded DRAM also requires additional process steps and results in lower yields, which translate into increased manufacturing time and cost. Additionally, because of its more complex interface requirements, embedded DRAM is more difficult to incorporate on integrated circuits, leading to a higher risk of failure. As integrated circuit designers have experimented with embedded DRAM, they have discovered that these limitations of embedded DRAM preclude its use in many applications. Therefore, traditional SRAM continues to be the most widely used technology for embedded memory. One of the major challenges for the semiconductor industry today is to find an embedded memory solution that combines high-density, low-power consumption, high-speed and low cost.

Our Solution

Our innovative 1T-SRAM technologies provide major advantages over traditional SRAM in density, power consumption and cost, making it more economical for designers to incorporate large amounts of embedded memory in their designs. In addition, our 1T-SRAM technologies offer all the benefits of traditional SRAM, such as high-speed, simple interface and ease of manufacturability. Our 1T-SRAM technologies can achieve these advantages while utilizing standard logic manufacturing processes and providing the simple, standard SRAM interface that designers are accustomed to.

High Density

The high density of our 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. Increased density enables manufacturers of electronic products, such as

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cellular phones, video game consoles and digital cameras and camcorders, to incorporate additional functionality into a single integrated circuit, resulting in overall cost savings.

Low Power Consumption

Embedded memory utilizing our 1T-SRAM technologies can consume as little as one-half the active power and generates less heat than traditional SRAM when operating at the same speed. This facilitates longer battery life, reduces system level heat dissipation costs and enables reliable operation using lower cost packaging.

High Speed

Embedded memory utilizing our 1T-SRAM technologies typically provides speeds equal to or greater than the speeds of traditional SRAM, particularly for larger memory sizes. Our 1T-SRAM memory designs can sustain random access cycle times of less than three nanoseconds.

Demonstrate Manufacturing Process Independence

We have been able to implement our technology with minimal changes to the standard logic process flow. 1T-SRAM's portability, or the ease with which it can be implemented in different semiconductor manufacturing facilities, has been proven operational in the fabrication of chips at the world's largest independent foundries, including Silterra Ltd., or Silterra, Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, United Microelectronics Corporation, or UMC, Chartered Semiconductor Manufacturing Ltd., or Chartered, and Semiconductor Manufacturing International Corporation, or SMIC. It has also been proven in the manufacturing processes of integrated device manufacturers, such as Fujitsu Limited, or Fujitsu, and NEC Electronics, or NEC. 1T-SRAM's scalability, or the ease with which it can be implemented in different generations of manufacturing processes, has already been demonstrated in the fabrication of chips in 0.25 micron, 0.18 micron, 0.15 micron, 0.13 micron, 90nm, and 65nm process generations, with smaller geometries under development. We expect our technology to continue to scale to future process generations. This portability and scalability provides for wide availability, inexpensive implementation and quick product time to market for our licensees and has demonstrated our success with the large foundries.

Our Strategy

Our strategy is to increase our percentage coverage of embedded IP in targeted SoCs. We believe the high growth connected consumer, converged mobile, and embedded computing market segments provide significant growth opportunities for our embedded memory IP. We intend to achieve this goal by continuing to license our technology on a non-exclusive and worldwide basis to foundries, IDMs and semiconductor companies.

The following are integral aspects of our strategy:

Target Large and Growing Markets

We target the large and growing market for SoC applications requiring large embedded memories, which are typically in excess of one megabyte, with our 1T-SRAM technologies that offer chip designers improved performance in embedded memories thus optimizing the cost and performance of the SoC.

Although our 1T-SRAM technologies are applicable to many markets, we presently focus on rapidly growing product segments within the consumer electronics and communications sectors. These sectors increasingly require embedded memory solutions with higher density, lower power consumption, higher speeds and lower cost. We also will focus over the longer term on other markets that are projected to achieve strong, long-term growth.

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For example, a target market we have penetrated is the small-to-medium-sized liquid crystal display driver interface, or DDI, integrated circuit market. Historically, the memory required by DDI integrated circuits, has been provided by separate ICs. We believe that embedded 1T-SRAM embedded on an SoC or DDI IC can provide significant cost savings due to its higher density and reduced active power consumption.

Work Closely with Semiconductor Companies and Foundries to Deliver Optimal Technology Solutions

We work closely with semiconductor companies and foundries to gain broad and detailed insight into their and their customers' current and next-generation technology requirements. This insight helps us identify trends and focus our development efforts on optimizing our technology solution, resulting in shorter product time to market and lower costs. We plan to continue to qualify and license our technology with the leading IDMs and foundries in order to provide a wide range of manufacturing choices for our customers.

Extend our Technology Offerings

Our goal is to continue to enhance our 1T-SRAM technologies and increase our share of the embedded memory market. We will continue to develop our technology in order to offer even higher-density, lower-power consumption, higher-speed and lower-cost solutions for our licensees in smaller process geometries. In addition, we will continue to identify and develop application-specific solutions for specific markets, such as for the display driver integrated circuit market. We continue to invest heavily in research to develop more advanced memory technologies, including our embedded non-volatile memory solution, 1T-FLASH.

Licensing and Distribution Strategy

We offer our technology on a non-exclusive and 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 license our technology to semiconductor companies who incorporate our technology into integrated circuits that they sell to their customers. In addition, we engage in joint marketing activities with foundries, intellectual property companies and design companies to promote our technology to a wide base of customers. These distribution channels have broadened the acceptance and availability of our technology in the industry. As our technology becomes available through an increasing number of channels, we believe it will be less likely that customers will have to alter their procurement practices in order to acquire our technology. We intend to continue to significantly expand this base of strategic relationships to further proliferate our technology.

Sales to customers in Japan accounted for 62%, 76% and 60% of our revenues in 2008, 2007 and 2006, respectively. Sales to customers in Taiwan accounted for 16%, 6% and 11% of our revenues in 2008, 2007 and 2006, respectively. Sales to customers in the United States accounted for 13%, 16%, and 21% of our revenues in 2008, 2007 and 2006, respectively. The remaining sales were to customers in the rest of Asia and Europe.

Project Licenses

We form product development and licensing relationships directly with semiconductor companies. In these relationships, the prospective licensee's implementation of our 1T-SRAM technologies typically includes customized development. Usually, these relationships involve both engineering work to implement our technology in the specified product and licensing the technology for manufacture and sale of the product. Although the precise terms contained in our 1T-SRAM macro development and license agreements vary, they generally include licensing fees, development fees for customizations

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based on the achievement of specified development milestones and royalties. The vast majority of our contracts allow for milestone billings based on work performed. If we perform the contracted services, usually the licensee is obligated to pay the license fees even if the licensee cancels the project prior to completion. The agreements often also provide for the payment of additional contract fees if we provide engineering or manufacturing support services related to the manufacture of the product. Provisions in all of our license agreements require the payment of royalties to us based on the future sale or manufacture of products utilizing our 1T-SRAM technologies. Generally, our project licenses grant rights on a non-exclusive, non-transferable basis, limited to the use of our technology as modified for the project covered by the license agreement. Our license agreements generally have a fixed five-year term and are subject to renewal. Each new project requires a separate agreement or an addendum to modify an existing agreement.

We have license agreements with many companies, including, but not limited to, Agilent Technologies, Analog Devices, Inc., Broadcom Corporation, Dialog Semiconductor, eSilicon Corporation, Fujitsu, Himax Technologies, Ltd., Hitachi, Ltd., Kawasaki Micoroelectronics, Inc., Keyasic Ltd., LG Electronics, Inc., LSI Logic Corporation, Marvell Semiconductor, Inc., Matsushita Communication Industrial Co., Ltd., National Semiconductor Corporation, NEC, Nexuschips Co. Ltd., Open-Silicon, Inc., Orise Technology Co. Inc., Philips Semiconductors, Inc., Pixelworks, Inc., Pixim, Inc., Progate Group Corporation, Realtek Semiconductor Corporation, Sicon Semiconductor AB, Silterra, SMIC, Sanyo Electric Co., Ltd., Sony Corporation, TSMC, UMC, Via Technologies, Inc., and Yamaha Corporation.

Design Licenses

We offer directly to our licensees customized memory designs to meet their specific design parameters. We also offer a variety of options for optimizing the design specification in order to improve performance and cost effectiveness.

Companies also can license standard off-the-shelf memory designs from us, known as CLASSIC Macros. These readily available and verified standard memory designs can assist the licensee in getting its SoC quickly to market.

Technology Licenses

We also offer our technology to semiconductor companies and foundries through 1T-SRAM technology license agreements, under which we grant the licensee the additional right to create and modify 1T-SRAM designs to offer to its own customers. The contract fees associated with these arrangements typically require the licensee to pay us to port our technology to its manufacturing process and develop a template design that the licensee will be able to use to generate future designs. These agreements also may obligate the licensee to pay contract fees upon the achievement of specified development milestones and may provide for the payment of additional contract fees for engineering or manufacturing support services. Royalties are payable based on the future sale or manufacture of products utilizing our 1T-SRAM technologies. The licenses are non-exclusive and non-transferable and authorize the licensee to modify designs for its customers from the template design that we provide under the agreement. Typically, the template design applies only to a specified manufacturing process generation. The licensee may add future process generations to the license agreement for additional contract fees.

Research and Development

Our ability to compete in the future depends on 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 even higher density, lower power consumption, higher speed and lower cost memory designs. We expect to continue to focus our research and development efforts by extending our 1T-SRAM and 1T-FLASH technologies to smaller process geometries, porting our technology to additional foundries and semiconductor manufacturing facilities and developing new memory technologies, such as the DDI macros.

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As of December 31, 2008, we employed 164 individuals in engineering and research and development. As a result of the plan to exit the analog/mixed-signal product lines, approximately 90 of these positions in our China and Romania subsidiaries will be eliminated in the first half of 2009. For the years ended December 31, 2008, 2007, and 2006, research and development expenditures totaled approximately $17.2 million, $12.0 million and $8.2 million, respectively. Research and development expenditures related to the analog/mixed signal product lines were $5.8 million and $2.9 million for the years ended December 31, 2008 and 2007, respectively.

Sales and Marketing

As of December 31, 2008, we had 15 sales and marketing personnel managing and supporting our licensing activities. Our sales and marketing personnel are located in the United States, Japan and Korea. In addition to our direct sales team, we sell our technologies through sales representatives in Europe and Asia. The sales personnel manage the negotiation of license agreements, provide technical support during the sales cycle to licensees and administer the contracts.

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, 2008, NEC and TSMC represented 55% and 13% of total revenue, respectively. For the year ended December 31, 2007, NEC represented 70% of total revenue. For the year ended December 31, 2006, NEC, Fujitsu and TSMC represented 27%, 25% and 10% 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, 2008, we held approximately 95 U.S. and approximately 48 foreign patents on various aspects of our memory technology, with expiration dates ranging from 2012 to 2027. We currently have approximately 64 pending patent applications in the U.S. and abroad. There can be no assurance that others will not independently develop similar or competing technology or design around any patents that may be issued to us, or that we will be able to enforce our patents against infringement.

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 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:

density and cost;

power consumption;

speed;

portability to different manufacturing processes;

scalability to different manufacturing process generations;

reliability and low manufacturing costs;

interface requirements;

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

level of technical support provided.

In order to remain competitive, we believe we must continue to provide higher density, lower power consumption, higher speed and lower cost technology solutions. Our 1T-SRAM technologies compete primarily with traditional SRAM, which is currently the preferred choice for embedded memory solutions in SoCs requiring less density, and embedded DRAM. Companies providing traditional SRAM embedded memories include ARM Holdings PLC and Virage Logic Corporation. Embedded DRAM is primarily offered by DRAM suppliers, who utilize their own manufacturing process to compete in the semiconductor foundry business. Suppliers of embedded DRAM include substantial competitors such as Toshiba Ltd. and International Business Machines Corporation, or IBM, among others.

Not all embedded memory applications benefit sufficiently from technological advantages offered by our 1T-SRAM technologies to justify the increased cost to the licensee, however. Our licensees and prospective licensees can meet their current needs for embedded memory using other memory solutions with different cost and performance parameters. For example, our technologies are not suitable for replacing lower-cost traditional DRAM memory chips if higher access speed is unnecessary. In addition, alternative solutions may be more cost-effective for memory block sizes of less than one megabit, or applications in which the embedded memory portion is less than 20% of the total chip area.

Moreover, some companies assess greater uncertainty and risk in relying on our newer generations of 1T-SRAM technologies. As a result, our ability to compete effectively may be limited because such companies may prefer to use more established traditional memory solutions that are freely available without a license. In the current macroeconomic environment and decline in the semiconductor industry, we believe that, notwithstanding the competitively superior features of our technology, companies, including some of our current and past licensees will continue to seek new ways to reduce their costs, which could include modifying designs to accommodate traditional memory solutions instead of licensing 1T-SRAM from us or our technology licensees.

Our recently developed 1T-FLASH technology requires significant analysis by customers on the qualification data of this technology to address the risk versus other established technologies. However, we believe our 1T-FLASH technology achieves higher density and can be used in widely accepted semiconductor manufacturing processes. Our 1T-FLASH technology competes with technology of other IP vendors and internally developed technologies of IDMs.

Employees

As of December 31, 2008, we had 191 employees, consisting of 164 in research and development and engineering, 15 in sales and marketing and 12 in finance and administration. Under our plan to exit the analog/mixed-signal product lines, we expect to eliminate 90 research and development and engineering positions in the first half of 2009. 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.

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

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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 copy 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	65	President and Chief Executive Officer
James W. Sullivan	40	Vice President of Finance and Chief Financial Officer
David DeMaria	47	Vice President of Business Operations

Leonard Perham, Mr. Perham was appointed President and Chief Executive Officer in November 2007. Mr. Perham was one of the original investors of MoSys and served on our Board of Directors from 1991 to 1997. Until his retirement from Integrated Device Technology, Inc., or IDT, in 2000, Mr. Perham served as its Chief Executive Officer from 1991 and President and board member from 1986. In his role at IDT, one of our early investors, Mr. Perham served on our board of directors from 1991 to 1997. Mr. Perham has served as chairman of the board of directors of NetLogic Microsystems, a fabless semiconductor company, and 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 on January 18, 2008. From July 2006 until January 2008, Mr. Sullivan served as Vice President of Finance & 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 Vice President of Finance and 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.

David DeMaria, Mr. DeMaria became our Vice President of Business Operations on August 18, 2008. From November 2007 until August 2008, Mr. DeMaria served as Senior Vice President at Apache Design Solutions, an electronic design automation software company. From January 2006 until November 2007, Mr. DeMaria was Chief Executive Officer of Optimal Corporation, an electronic design automation software company that he helped grow and ultimately merge with Apache Design Solutions. From October 1999 to March 2004, Mr. DeMaria served in various positions, including Executive Vice President of the systems business unit and Senior Vice President of worldwide marketing and strategy, at Cadence Design Systems. Mr. DeMaria attended Boston University for a Bachelor of Science degree in computer engineering.

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Item 1A. Risk Factors

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

Our success depends upon the semiconductor market's acceptance of our 1T-SRAM technologies.

The future prospects of our business depend on the acceptance by our target markets of our 1T-SRAM technologies for embedded memory applications and any future technology we might develop. We have not achieved substantial or rapid growth in our 1T-SRAM technology licensing revenue since we began selling and marketing the technology and cannot be assured of realizing such growth in the future. Our memory technology is intended to allow our licensees to develop embedded memory integrated circuits to replace other embedded memory technology with different cost and performance parameters. Our memory technologies utilize fundamentally different internal circuitry that is not widely known in the semiconductor industry. Therefore, one of our principal challenges, which we might fail to meet, is to convince a substantial percentage of SoC designers to adopt our technology instead of other memory solutions, which may have proven effective in their products. We have invested significant resources to expand our embedded IP technology offerings for the SOC market, but may not introduce these new technology offerings successfully or obtain significant revenue from them.

An important part of our strategy to gain market acceptance is to penetrate new markets by targeting market leaders as licensees of our technology. This strategy is designed to encourage other participants in those markets to follow these leaders in adopting our technology. If a high-profile industry participant adopts our technology for one or more of its products but fails to achieve success with those products, or is unable to successfully implement our technology, other industry participants' perception of our technology could be harmed. Any such event could reduce the number of future licenses of our technology. Likewise, if a market leader were to adopt and achieve success with a competing technology, our reputation and licensing program could be harmed.

Our lengthy licensing cycle and our licensees' lengthy product development cycles make the operating results of our licensing business difficult to predict.

We anticipate difficulty in accurately predicting the timing and amounts of revenue generated from licensing our technologies. The establishment of a business relationship with a potential licensee is a lengthy process, generally taking from three to nine months, and sometimes longer during slower periods in our industry. Following the establishment of the relationship, the negotiation of licensing terms can be time-consuming, and a potential licensee may require an extended evaluation and testing period.

Once a license agreement has been executed, the timing and amount of licensing and royalty revenue from our licensing business remain difficult to predict. The completion of the licensee's development projects and the commencement of production are subject to the licensee's efforts, development risks and other factors outside our control. Our royalty revenue will depend on such factors as the success of the licensee's project, the licensee's production and shipment volumes, the timing of product shipments, selling price of the products and when the licensee reports to us the manufacture or sale of products that include our technologies. All of these factors will prevent us from making predictions of revenue with any certainty and could cause us to experience substantial period-to-period fluctuations in our operating results.

None of our licensees are under any obligation to incorporate our technology in any present or future product or to pursue the manufacture or sale of any product incorporating our technology. A licensee's decision to complete a project or manufacture a product is subject to changing economic, marketing or strategic factors. The long development cycle of a licensee's products increases the risk

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that these factors will cause the licensee to change its plans. In the past, some of our licensees have discontinued development of products incorporating our technology. Although in most cases their decisions were based on factors unrelated to our technology, it is unlikely that we will receive royalties in connection with those products. We expect that occasionally our licensees will discontinue a product line or cancel a product introduction, which could adversely affect our future operating results and business.

If the market for SoC integrated circuits does not expand, our business will suffer.

Our ability to achieve sustained revenue growth and profitability in the future will depend on the continued development of the market for SoC integrated circuits, particularly those requiring embedded memory sizes of one megabit or more. In addition, our ability to achieve design wins with customers is dependent upon the growth of embedded memories required in SoCs. SoCs are characterized by rapid technological change and competition from an increasing number of alternate design strategies such as combining multiple integrated circuits to create a System-in-a-Package.

We cannot be certain that the market for SoCs will continue to develop or grow at a rate sufficient to support our business, or that if such growth does occur, that it will lead to significant growth in our business. SoC providers depend on the demand for products requiring SoCs, such as cellular phones, game consoles, PDAs, digital cameras, DVD players and digital media players to name a few. The demand for such products is uncertain and difficult to predict and depends on factors beyond our control. If the market fails to grow or develops more slowly than expected, our business will suffer.

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. We believe that we are currently in the early stages of such a downturn. 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.

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

We recorded an operating loss of $20.5 million for the year ended December 31, 2008 and ended the period with an accumulated deficit of $33.1 million. In addition, we recorded operating losses of $13.0 million and $8.5 million for the years ended December 31, 2007 and 2006, respectively. We may continue to incur operating losses for the foreseeable future, and such losses may be substantial. We will need to increase revenues in order to generate sustainable operating profit. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to achieve profitability on either a quarterly or annual basis in the future.

Our investments in auction-rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of December 31, 2008, we held $7.5 million (net of $1.6 million in realized losses) of investments, classified as long-term investments, with an auction reset feature (auction-rate securities) whose underlying assets were primarily in student loans. All of the issuers of our auction-rate securities had a AAA credit rating as of December 31, 2008. Auctions for all of these auction-rate securities

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failed in early 2008, which means that the parties wishing to sell their securities could not do so as a result of a lack of buying demand. As a result of auction failures, our ability to liquidate and fully recover the carrying value of our auction-rate securities was limited. In November 2008, we accepted an offer from UBS Financial Services, Inc. (UBS) by which UBS will purchase the auction-rate securities from us, at our election, at par value at any time during the period from June 30, 2010 to July 2, 2012. In lieu of our making this election, the auction-rate securities will continue to accrue and pay interest, as determined by the auction process or the terms specified in the prospectus of the auction-rate securities, if the auction process fails. UBS's obligations under the offer are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the offer. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the offer. If UBS has insufficient funding to buy back the auction-rate securities and the auction process continues to fail, then we may incur further losses on the carrying value of the auction-rate securities.

We might be unable to deliver our customized technology within an agreed technical specification in the time frame demanded by our licensees, which could damage our reputation, harm our ability to attract future licensees and adversely impact operating results.

Many of our licenses require us to deliver a customized memory block, within an agreed technical specification by a certain delivery timetable. This requires us to furnish a unique design for each customer, which can make the development schedule difficult to predict and involves extensive interaction with our customers' engineers. From time to time, we have experienced delays in delivering our customized memory technology that meets the agreed technical specifications, which can result from slower engineering progress than we originally anticipated or there might be factors outside of our control, such as the customer's delay in completing verification of the customer's integrated circuit or manufacturing process issues at the foundries. Such delays may affect the timing of recognition of revenues and collection of amounts due from a particular project and can adversely affect our operating results and financial condition.

In addition, any failure to meet our customers' timetables, as well as the agreed upon technical specifications of our customized memory technology could lead to the failure to collect, or a delay in collecting royalties and licensing fee payments from our licensees, damage our reputation in the industry, harm our ability to attract new licensees and negatively impact our operating results. Furthermore, a customer may assert that we are responsible for delays and cost overruns and demand reimbursement for some of its costs, which we may elect to reimburse in whole or in part in order to address the customer's concerns.

Our business model relies on royalties as a key component in the generation of revenues from the licensing of our technologies, and if we fail to realize expected royalties our operating results will suffer.

We believe that our long-term success is substantially dependent on the receipt of future royalties. 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 the 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 cannot be certain that our business strategy will be successful in expanding the number of licensees, nor can we be certain that we will receive significant royalty revenue in the future. If we are unable to generate significant royalty revenue in the future, our future operating results, financial condition and business would suffer.

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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 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, 2008, our two largest customers represented 55% and 13% of total revenue, respectively. For the year ended December 31, 2007, one customer represented 70% of total revenue. For the year ended December 31, 2006, our two largest customers represented 27% and 25% 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.

Our royalty revenue also 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 2008, 2007 and 2006 has come from the licenses for integrated circuits used by one electronics manufacturing company. Royalties earned from the production of this company's gaming devices incorporating our 1T-SRAM technology represented 47%, 41% and 16% of total revenue in 2008, 2007 and 2006, respectively. This manufacturer faces intense competitive pressure in the video game market, which is characterized by extreme volatility, costly new product introductions and rapidly shifting consumer preferences, and we cannot be certain whether their sales of products incorporating our technology will increase or decrease beyond prior or current levels.

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.

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, 2008, five customers represented 87% 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.

Anything that negatively affects the businesses of our licensees could negatively impact our revenue.

The timing and level of our licensing and royalty revenues are dependent on our licensees and the business environment in which they operate. Licensing and royalty revenue are the largest source of our revenues; anything that negatively affects a significant licensee or group of licensees could negatively affect our results of operations and financial condition. Many factors beyond our control influence the success of our licensees, including, for example, the highly competitive environment in which they operate, the strength of the markets for their products, their engineering capabilities and their financial and other resources.

Likewise, we have no control over the product development, pricing and marketing strategies of our licensees, which directly affect the licensing of our technology and corresponding future royalties payable to us from our licensees. Our royalty revenues are subject to our licensees' ability to market, produce and ship products incorporating our technology. A decline in sales of our licensees' royalty-generating products for any reason would reduce our royalty revenue. In addition, seasonal and other fluctuations in demand for our licensees' products could cause our operating results to fluctuate, which could cause our stock price to fall.

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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, Silterra, 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. 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. The foundries' promotions of alternative technologies reduce the size of our potential market and may adversely affect our revenues and operating results.

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.

Our embedded memory technology is unique and the occurrence of manufacturing difficulties or low production yields, if not corrected, could hinder market acceptance of our technology and reduce future revenue.

Complex technologies like ours could be adversely affected by difficulties in adapting our 1T-SRAM and 1T-FLASH technologies to our licensees' product designs or to the manufacturing process technology of a particular foundry or semiconductor manufacturer. Some of our customers have experienced lower than expected yields when initially integrating our designs into their SoCs. We work closely with our customers to resolve any design or process issues in order to achieve the optimum production yield.

Any decrease in manufacturing yields of integrated circuits utilizing our technology could impede the acceptance of our technology in the industry. The discovery of defects or problems regarding the reliability, quality or compatibility of our technology could require significant expenditures and resources to fix, significantly delay or hinder market acceptance of our technology, reduce anticipated revenues and damage our reputation.

Our failure to compete effectively in the market for embedded memory could reduce our revenue.

Competition in the market for embedded memory solutions is intense. Our licensees and prospective licensees can meet their need for embedded memory solutions by using traditional memory solutions with different cost and performance parameters, which they may internally develop or acquire from third-party vendors. In recent years, the demand for applications for which our 1T-SRAM technologies provide distinct advantages has not experienced significant growth. If alternative technologies are developed that provide comparable system performance at lower cost than our 1T-SRAM technologies for certain applications and/or do not require the payment of comparable royalties, or if the industry generally demonstrates a preference for applications for which our 1T-SRAM technologies do not offer significant advantages, our ability to realize revenue from our 1T-SRAM technologies could be impaired.

We might be challenged by competitive developers of alternative technologies who are more established, benefit from greater market recognition and have substantially greater financial, development, manufacturing and marketing resources than we have. These advantages might permit

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these developers to respond more quickly to new or emerging technologies and changes in licensee requirements. We cannot assure you that future competition will not have a material adverse effect on the adoption of our technology and our market penetration.

We have invested significant resources to expand our embedded IP technology offerings for the SOC market, but we might not successfully introduce these new technology offerings or obtain significant revenue from them.

We have and will continue to invest significant financial and personnel resources in new embedded IP technology offerings for the SoC market, including our 1T-FLASH technology. To date, substantially all of our revenue has been generated from our 1T-SRAM technologies. We intend for our new embedded IP technologies under development to significantly increase our revenues and expand our business with existing and new customers. These technology offerings require further development and have not been silicon verified or tested in production or commercial use, however, and, as with our existing 1T-SRAM technologies, these new embedded IP technologies are inherently complex. Our success with those new technologies will depend on many presently uncertain factors, including:

- the total investment required before we can determine their commercial viability;
- our ability to demonstrate silicon verified IP in customer product applications;
- our ability to generate revenues in excess of development costs incurred;
- the extent to which we may create new proprietary IP to establish entry barriers for our competitors;
- acceptance of these technologies by our customers and the ease of integrating them with their existing or future SOC designs;
- overall demand for these new embedded technologies and the willingness of customers to pay significant non-recurring engineering fees and royalties in order to license them from us;
- the length of the sales cycle, which has taken up to 24 months in the case of our existing 1T-SRAM technology; and
- the potential introduction by our competitors of alternative products with better or comparable features or at a lower price.

Any of these factors could adversely affect our ability to successfully introduce these new embedded IP technologies and generate significant revenue from them. If we fail to achieve our objectives for these technologies it may affect our cash flows and results of operations adversely and result in a material decline in the trading price of our common stock. In addition, even if we successfully license these new technologies to customers and they do not work as anticipated, our reputation and ability to do business in the marketplace could be affected adversely.

Our failure to continue to enhance our technology or develop new technology on a timely basis could diminish our ability to attract and retain licensees and product customers.

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

In addition, the semiconductor industry might adopt or develop a completely different approach to utilizing memory technology for many applications, which could render our existing technology

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unmarketable or obsolete. We might not be able to successfully develop new technology, or adapt our existing technology, to comply with these innovative standards.

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

- identify target markets and relevant emerging technological trends, including new standards and protocols;
- develop and maintain competitive technology by improving performance and adding innovative features that differentiate our technology from alternative technologies;
- enable the incorporation of enhanced technology in our licensees' and customers' products on a timely basis and at competitive prices;
- implement our technology at future manufacturing process generations; and
- respond effectively to new technological developments or new product introductions by others.

Since its introduction in 1998, we have introduced enhancements to our 1T-SRAM technology designed to meet market requirements. However, we cannot assure you that the design and introduction schedules of any additions and enhancements to our existing and future technology will be met, that this technology will achieve market acceptance or that we will be able to license this technology on terms that are favorable to us. Our failure to develop future technology that achieves market acceptance could harm our competitive position and impede our future growth.

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. For example, on March 31, 2004, we were sued by UniRAM Technology, Inc. in United States District Court for the Northern District of California based on claims of patent infringement and misappropriation of trade secrets that were allegedly disclosed by UniRAM to TSMC, which allegedly improperly provided them to us. In the fourth quarter of 2006, we settled this litigation and paid $2.4 million to UniRAM. Our licensees, 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, particularly patent litigation such as the UniRAM suit, 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 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 implemented a royalty audit process, in which we audit licensees' records on a rotation plan in accordance with the terms of the agreement, to attempt to verify the information provided to us in the royalty reports. These audits can be expensive and time consuming, and potentially detrimental to the business relationship. 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.

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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. A very large number of new and existing products utilize embedded memory, 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 protect adequately 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, 2008, we held approximately 95 patents in the United States, which expire at various times from 2013 to 2025, and approximately 48 corresponding foreign patents, which expire at various times from 2012 to 2027. In addition, as of December 31, 2008, we had approximately 26 patent applications pending in the United States and approximately 38 pending foreign applications. We cannot be sure that any patents will issue 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. 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 and impair our ability to increase our licensing revenue.

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

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

Our failure to manage the expansion of our operations could reduce our potential revenue and threaten our future profitability.

The size of our company has increased substantially as we have grown from 43 employees in January 2001 to 191 employees in December 2008, largely due to the acquisition of two design teams in Romania and China in the third quarter of 2007. The efficient management of our planned expansion

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of the development, licensing and marketing of our technology, including through the acquisition of other companies will require us to continue to:

- implement and manage new marketing channels to penetrate different and broader markets for our memory technologies;
- manage an increasing number of complex relationships with licensees and co-marketers and their customers and other third parties;
- expand our capabilities to deliver our technologies to our customers;
- improve our operating systems, procedures and financial controls on a timely basis;
- hire additional key management and technical personnel; and
- expand, train and manage our workforce and, in particular, our development, sales, marketing and support organizations.

The significant expansion of our foreign operations and decisions to exit certain of those foreign operations have resulted in increased difficulty, expense and risk in managing such operations. We cannot assure you that we will adequately manage our growth or meet the foregoing objectives. A failure to do so could jeopardize our future revenues, adversely impact our results of operations and cause our stock price to fall.

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 delivery under our existing agreements, our ability to 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;
- political and economic instability; and
- reduced or limited protection of our intellectual property.

Because we anticipate that licenses to companies that operate primarily outside the United States will account for a substantial portion of our licensing 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.

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

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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.

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 have adopted a stockholder rights plan, which entitles our stockholders to rights to acquire additional shares of our common stock generally 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. In 2004, we amended our stockholder rights plan twice; once, in connection with the proposed acquisition of us by Synopsys, Inc, and a second time 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. Notwithstanding amendments of this nature, 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. Recently, 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 each of 2007 and 2008, our board of directors approved stock repurchase programs, the latter of which expires in October 2009. The currently active program, as well as 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 and resources, harm our reputation in the industry and the securities markets and negatively impact our operating results.

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

As part of our growth strategy, we might 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. To date, we purchased assets from Atmel Corporation and LDIC in 2007 and acquired ATMOS in 2002. In 2004, we commenced the shutdown of the Atmos operations. In December 2008, we announced the exit of the product lines related to the assets purchased from Atmel and LDIC. The total cost of this shutdown is expected to be approximately $1.8 million, which is in addition to the losses we incurred while we owned and operated these product lines. 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 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; and

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

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 Sunnyvale, California. We currently occupy approximately 26,000 square feet of space in the Sunnyvale facility, the lease for which extends through June 2010. We have leased office space in Seoul, South Korea for our engineering design center and in Tokyo, Japan for our sales office. As part of the plan to exit the analog/mixed-signal product lines, in the first quarter of 2009, we began vacating our leased research and development facilities in Romania and China. We believe that our existing facilities are adequate to meet our current needs.

Item 3. Legal Proceedings

The Company is not a party to any material legal proceeding which would 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. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

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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 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, 2008	$4.12	$1.75
September 30, 2008	$4.85	$3.92
June 30, 2008	$5.78	$4.02
March 31, 2008	$5.00	$3.37
December 31, 2007	$7.41	$4.71
September 30, 2007	$8.83	$6.05
June 30, 2007	$9.06	$7.85
March 31, 2007	$9.60	$7.31

We had 24 stockholders of record as of February 28, 2009.

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.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

A summary of issuer repurchase activity for the fourth quarter of 2008 follows:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet be Repurchased Under the Plan (in thousands)
October 2008	199,501	$ 3.59	199,501	$ 4,285
November 2008	75,410	$ 3.45	75,410	$ 4,025
Total Q4 2008	274,911	$ 3.55	274,911	

In October 2008, our board of directors authorized the purchase of up to $5.0 million of common stock over a twelve month period. The share repurchases may be made from time to time in the open market subject to market conditions and other factors, in accordance with SEC requirements. These repurchases may be commenced or suspended at any time or from time to time without prior notice. All the share repurchases reflected in the table above were made pursuant to this plan. As of December 31, 2008, we had repurchased and retired approximately 275,000 shares of common stock for approximately $975,000 under the plan authorized in October 2008.

The total purchase price of the common stock repurchased was reflected as a decrease to stockholders' equity during the period of repurchase. Common stock repurchased was recorded based upon the prices on the dates of the applicable trades for accounting purposes.

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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 2003 through 2008. The comparison assumes that $100 was invested on December 31, 2003 in our common stock, the stocks included in the S&P 500 Index and the stocks included in the S&P Technology Sector Index.

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 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

	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008
MOSYS, INC.	100.00	72.70	64.18	107.93	56.59	24.50
S & P 500	100.00	108.99	112.26	127.55	132.06	81.23
S & P TECHNOLOGY SECTOR	100.00	102.13	102.52	110.42	127.57	71.84

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

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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,				
	2008(1)	2007(2)	2006(3)	2005(4)	2004(5)
	(In thousands, except per share data)				
Net revenue	$ 14,026	$ 14,334	$ 14,909	$ 12,282	$ 10,821
Cost of net revenue	2,800	2,737	1,498	1,986	2,268
Gross profit	11,226	11,597	13,411	10,296	8,553
Operating expenses	31,756	24,613	21,926	15,880	22,012
Loss from operations	(20,530)	(13,016)	(8,515)	(5,584)	(13,459)
Other income, net	2,243	4,520	3,286	2,591	11,578
Loss before income tax benefit (provision)	(18,287)	(8,496)	(5,229)	(2,993)	(1,881)
Income tax benefit (provision)	(132)	(25)	(109)	11	(26)
Net loss	$ (18,419)	$ (8,521)	$ (5,338)	$ (2,982)	$ (1,907)
Net loss per share:					
Basic and diluted	$ (0.58)	$ (0.27)	$ (0.17)	$ (0.10)	$ (0.06)
Shares used in computing net loss per share:					
Basic and diluted	31,698	31,994	31,298	30,534	30,750
Allocation of stock-based compensation to cost of net revenue and operating expenses:					
Cost of net revenue	$ 408	$ 495	$ 225	$	$
Research and development	1,197	1,162	993		44
Selling, general and administrative	2,972	2,109	1,528	36	24
	$ 4,577	$ 3,766	$ 2,746	$ 36	$ 68

(1) Operating expenses include restructuring charges of $1.3 million, impairment charges for intangible assets of $1.4 million and $0.7 million of amortization of intangible assets from asset acquisitions.

(2) Operating expenses include a $1.0 million charge for acquired in-process research and development and $0.4 million of amortization of intangible assets from asset acquisitions.

(3) Operating expenses include a $2.4 million charge relating to a litigation settlement.

(4) Operating expenses include restructuring charges of $0.1 million.

(5) Operating expenses include restructuring charges of $0.6 million.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				

Balance Sheet Data:					
Cash, cash equivalents and investments	$67,470	$78,654	$ 84,299	$ 85,989	$ 86,911
Working capital	43,304	66,262	84,698	68,179	62,535
Total assets	85,933	98,797	103,760	103,637	104,582
Deferred revenue	639	201	619	1,309	501
Long-term obligations			54	196	239
Stockholders' equity	81,888	96,292	100,915	99,332	100,408

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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

We design, develop, market and license memory intellectual property, or IP, used by the semiconductor industry. Our patented memory solutions include 1T-SRAM and 1T-FLASH high-density alternatives to traditional volatile and non-volatile embedded memory. We license these technologies to companies that incorporate, or embed, memory on complex integrated circuits, such as Systems on Chips, or SoCs.

Our customers typically include fabless semiconductor companies, integrated device manufacturers, or IDMs, and foundries. We generate revenue from the licensing of our IP, and our customers pay us fees for licensing, non-recurring engineering services, royalties and maintenance and support. Royalty revenues are typically earned under our license agreements when our licensees manufacture or sell products that incorporate any of our technologies. 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 technologies, to run from 18 to 24 months. The portion of our sales cycle from the initial discussion to the receipt of license fees may run from 6 to 12 months, depending on the complexity of the proposed project and degree of development services required.

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

In the third quarter of 2007, we acquired analog/mixed-signal integrated circuit designs, intellectual property, related assets and subsidiaries from Atmel Corporation, or Atmel, and LSI Design and Integration Corporation, or LDIC. In December 2008, we announced our plan to shut down these acquired assets and incur up to $1.8 million of exit costs.

Sources of Revenue

We generate two types of revenue: licensing and royalties.

Licensing. Licensing revenue consists of fees earned from license agreements, development services, prepaid pre-production royalties, and support and maintenance.

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

Our licensing revenue consists primarily of fees for providing circuit design, layout and design verification and granting licenses to customers that embed our technology into their products. 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 extent of 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 for milestone billing based on work performed. Fees billed prior to revenue recognition are recorded as deferred revenue.

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Royalty. Royalty revenue represents amounts earned under provisions in our licensing contracts 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 technologies. We generally recognize royalties in the quarter in which we receive the licensee's report.

Generally our license agreements provide 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 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. Many of the products of our licensees that are currently subject to licenses from us are used in consumer products, such as electronic game consoles, for which demand can be seasonal.

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 Part II, Item 8 of this report describes the significant accounting policies and methods used in the preparation of our consolidated financial statements.

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

General

We generate revenue from the licensing of our IP, and customers pay fees for licensing, development services, royalties and maintenance and support. We apply the principles of the SEC Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," and recognize revenue when persuasive evidence of an arrangement exists, delivery or performance has occurred, 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 apply the provisions of the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables," 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 either the relative fair value method or residual method as prescribed by EITF 00-21. Revenue is recognized for each unit of accounting when the revenue recognition criteria of SAB No. 104 have been met for that unit of accounting.

Licensing

For license agreements that do not require significant development, modification or customization, revenues are generally recognized when the criteria of SAB No. 104 have been met. If any of these criteria are not met, we defer revenue recognition until such time as all criteria have been met.

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For license agreements that include deliverables that require significant production, modification or customization, we apply American Institute of Certified Public Accountants' Statement of Position 81-1 (SOP 81-1), "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." When we have 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, 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 estimation of 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 direct labor hours on a contract-by-contract basis from our experience in developing prior licensee's 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 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 the likelihood of such losses is determined. For the year ended December 31, 2008, we recorded loss accruals on two agreements for a total of $256,000. No loss accruals were recorded during the years ended December 31, 2007 and 2006. If the amount of revenue recognized under the percentage of completion accounting method exceeds the amount of billings to a customer, then we account for the excess amount as an unbilled contract receivable. Our total unbilled contract receivables were $428,000 and $518,000 as of December 31, 2008 and 2007, respectively.

For contracts involving design specifications that we have not previously met or if inherent risks make estimates doubtful, the contract is accounted for under the completed contract method, and we defer the recognition of all revenue until the design meets the contractual design specifications. In this event, the cost of revenue is expensed as incurred. When we have experience in meeting design specifications, but believe that we do not have significant experience to reasonably estimate the direct labor hours related to services to meet a design specification, we defer both the recognition of revenue and the cost. We recognized $128,000 of revenue under the completed contract method in 2007. In 2008 and 2006, no revenue was recognized using the completed contract method.

We also 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. We recognize support and maintenance revenue at its fair value established by objective evidence, ratably over the period during which the obligation exists, typically 12 months. These arrangements are renewable annually by the customer. Revenue from support and maintenance was $501,000, $484,000 and $287,000 in 2008, 2007 and 2006, respectively, and was included in licensing revenue.

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, in general, license 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. Typically under our license agreements, the licensee is obligated to complete the project within a stated timeframe, including assisting us in completing the final milestone. If we perform the contracted services, the licensee is obligated to pay

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the license fees even if the licensee fails to complete verification or cancels the project prior to completion. For accounting purposes we 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 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 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. No license revenue from cancelled contracts was recognized in 2008 and 2007. License revenue from cancelled contracts was $225,000 in 2006.

We also recognize pre-production prepaid royalties as license revenues. These are lump sum payments made when we enter into licensing agreements that cover future shipments of a product that is not commercially available from the licensee. We characterize such payments as license revenues because they are paid as part of the initial license fee and not with respect to products being produced by the licensee.

Royalty

Licensing contracts also provide for royalties based on licensees' use of our technology in their currently shipping commercial products. We generally recognize royalties in the quarter in which we receive the licensee's report. We may also recognize revenue from post-production prepaid royalties, which are paid in a lump sum after the licensee commences production of the royalty-bearing product and applied against future unit shipments regardless of the actual level of shipments by the licensee. The criteria for revenue recognition of prepaid royalties are that a formal agreement with the licensee is executed, no deliverables, development or support services related to prepaid royalties are required, the fees are non-refundable and not contingent upon future product shipments by the licensee, and the fees are payable by the licensee in a time period consistent with the our normal billing terms. If any of these criteria are not met, we defer revenue recognition until such time as all criteria have been met.

Fair Value Measurements

Our investment portfolio may at any time contain investments in money market accounts, auction-rate securities, corporate debt, commercial paper, government agency securities and municipal debt securities. In the current market environment, the assessment of the fair value of the securities can be difficult and subjective. The volume of trading activity of certain securities has declined, and the rapid changes occurring in today's financial markets can lead to changes in the fair value of financial instruments in the relatively short periods of time. Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Each level of input has different levels of subjectivity and difficulty involved in determining fair value.

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. Therefore, determining fair value for Level 1 investments generally does not require significant judgment, and the estimation is not difficult.

Level 2 Pricing is provided by third party sources of market information obtained through our investment advisors. We do not adjust for or apply any additional assumptions or estimates to the pricing information we receive from the advisors. For Level 2 securities, we base the fair value of our cash equivalents and available-for-sale securities on pricing from third party sources of market information obtained through our investment advisors rather than models. These cash equivalents

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and available-for-sale securities consisted primarily of commercial paper, corporate debt securities, and government agency and municipal bonds 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 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 Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. 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 involves the most management judgment and subjectivity.

All of our investments classified as Level 3 are auction-rate securities collaterized by student loans substantially guaranteed by the U.S. government. Since February 2008, there has not been a successful auction in that there were insufficient buyers for these auction-rate securities. Therefore, we transferred them from the Level 2 to Level 3 category as of March 31, 2008. In accordance with SFAS No. 157, we used the concept of fair value based on estimated discounted future cash flows that included the following significant inputs and considerations:

projected interest income and principal payments through the expected holding period;

a market risk adjusted discount rate, which was based on actual securities traded in the open market that had similar collateral composition to the auction-rate securities as of December 31, 2008, adjusted for an expected yield premium to compensate for the current lack of liquidity resulting from failing auctions for such securities; and

no default or collateral value risk adjustments were considered for the discount rate, because all of the issuers were AAA-rated by nationally recognized rating agencies at December 31, 2008, and the auction-rate securities were collateralized by student loans, the repayments of which were substantially guaranteed by the U.S. Department of Education.

In November 2008, we accepted an offer ("the right") from UBS Financial Services, Inc. (UBS) by which UBS will purchase the auction-rate securities from us, at our election, at par value at any time during the period from June 30, 2010 through July 2, 2012. Prior to June 30, 2010, UBS can redeem the securities at par value at its sole election. Additionally, the auction-rate securities are still subject to redemptions by the underlying issuers at any time. As a result of the right, we no longer have the intent to hold the securities until maturity and the purchase of the securities by UBS may occur before the markets for these securities recover. Therefore, we have changed the classification of the auction-rate securities to the trading securities category and reversed the unrecognized losses previously recorded in stockholders' equity. In the fourth quarter of 2008, we recorded a realized loss on investments of $1.6 million in the other income, net, line item in the consolidated statement of operations. However, as we can elect to have UBS purchase the auction-rate securities from us, we have accounted for the right as a separate freestanding financial asset measured at fair value, resulting in the recording of a long-term asset with an offsetting gain of approximately $1.6 million recorded in the Other income, net, line item in the Consolidated Statements of Operations. We valued the right using a discounted cash flow approach including estimates of, based on data available as of December 31, 2008, interest rates, timing and amount of cash flow, adjusted for any bearer risk associated with UBS's financial ability to repurchase the auction-rate securities beginning June 30, 2010. These assumptions are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

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On January 1, 2008, we adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. We did not elect the fair value option for our financial assets and liabilities existing on January 1, 2008, and did not elect the fair value option for any financial assets and liabilities transacted during the twelve months ended December 31, 2008, except for the right related to our auction-rate securities, which permits us to elect the fair value option for recognized financial assets, in order to match the changes in the fair value of the right. We will be required to assess the fair value of the right and auction-rate securities and record changes each period until the right is exercised or the auction-rate securities are redeemed. We will continue to classify the auction-rate securities as long-term investments until June 30, 2009, one year prior to the expected settlement.

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, patents and workforce, on a straight-line basis over their estimated useful lives of three to five 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 annually on September 30 and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142 (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, we compare the fair value of each reporting unit to its carrying value. For step one, we determine the fair value of its reporting unit using the market approach. Under the market approach, we estimate 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 we are not required to perform further testing. If the carrying value of the net assets to the reporting unit exceeds the fair value of the reporting unit, then we 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, then we must record an impairment loss equal to the difference. We performed the annual impairment test during the third quarter of 2008, and the test did not indicate impairment of goodwill. As of December 31, 2008, we determined that there was no impairment of our goodwill. If our 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.

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

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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. As of December 31, 2008, we had a valuation allowance of approximately $24.5 million, of which approximately $6.0 million was attributable to Canadian loss and research and development pool carryforwards, $15.1 million was attributable to U.S. and state net operating loss and tax credit carryforwards, and $3.4 million to other temporary differences.

Stock-based compensation

We account for stock-based compensation costs in accordance with SFAS No. 123 (revised 2004) (SFAS 123R), "Share- Based Payment," and apply the provisions of Staff Accounting Bulletin No. 107. 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 and implied volatility of our stock price.

Results of Operations

The following discussion compares the historical results of operations based on U.S. generally accepted accounting principles for the years ended December 31, 2008, 2007 and 2006.

Revenues.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Licensing	$3,156	$5,253	$9,096	$(2,097)	(40)%	$(3,843)	(42)%
Percentage of total revenues	23%	37%	61%				

The $2.1 million decrease in 2008 was primarily due to a decline in the value of license agreements for our 1T-SRAM licenses compared with 2007, although the total number of licensees increased in 2008. Specifically, we signed new licenses for our 1T-SRAM display driver interface application, which have lower license fees than our traditional 1T-SRAM.

The $3.8 million decrease in 2007 was primarily due to a significant decline in new customers and agreements for our CLASSIC Macro products and 1T-SRAM technology licenses. Licensing revenue from CLASSIC Macros declined primarily because in the fourth quarter of 2006, we entered into a royalty bearing technology license agreement with TSMC that allows them to develop and distribute 1T-SRAM macro designs for which TSMC pays us royalties when they ship integrated circuits to their customers.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Royalty	$10,870	$9,081	$5,813	$1,789	20%	$3,268	56%
Percentage of total revenues	77%	63%	39%				

Royalty revenue increased $1.8 million in 2008 primarily due to an increase in royalties earned on the sales of SoCs incorporating our technology by NEC for the Nintendo Wii game console, an increase in royalties received from a major foundry partner as production on the 65nm manufacturing

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process increased, and royalties received from a major OEM customer that licenses our 1T-SRAM for advanced mobile phone applications. The increases were offset by decreased royalties received from licensees with products incorporating older generation technologies, such as products manufactured on the 180nm and 130nm processes.

Royalty revenue increased $3.3 million in 2007 primarily due to an increase in royalties earned on the sales of SoCs incorporating our technology by NEC for the Nintendo Wii game console which reached volume production in the last quarter of 2006.

Cost of Net Revenues and Gross Profit.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Cost of net revenue	$2,800	$2,737	$1,498	$63	2%	$1,239	83%
Percentage of total revenues	20%	19%	10%				

Cost of net revenues consists of personnel costs for engineers assigned to revenue-generating licensing arrangements and related overhead allocation costs.

The increase in cost of net revenues for 2008 was primarily due to licensing arrangements for our 1T-SRAM display driver interface application, which required the development of new macros for new foundry processes. Cost of revenue in 2008 included stock-based compensation expense of $0.4 million, a decrease of $0.1 million over 2007. As a result of the increased engineering costs to fulfill our delivery obligations, our gross profit decreased from $11.6 million in 2007 to $11.2 million in 2008 and, as a percentage of total revenue, decreased slightly to 80% of total revenue in 2008 from 81% in 2007. We expect that cost of licensing revenues will continue to grow in absolute dollars because we anticipate entering into license agreements on smaller process geometries, such as the 45nm process and below, which require more development. As a percentage of revenue, we expect to maintain the levels reported in 2008 and 2007.

The increase in cost of net revenues for 2007 was primarily due to new licensing arrangements we entered into in 2007, which required significantly increased engineering services. Those contracts required us to develop new memory macros for smaller manufacturing process geometries, and we incurred higher costs to fulfill our obligations. Cost of revenue in 2007 included stock-based compensation expense of $0.5 million, an increase of $0.3 million over 2006. As a result of the significant increase in engineering costs under new licensing arrangements, our gross profit decreased from $13.4 million in 2006 to $11.6 million in 2007 and, as a percentage of total revenue, decreased to 81% of total revenue in 2007 from 90% in 2006.

Research and Development.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Research and development	$17,168	$11,988	$8,156	$5,180	43%	$3,832	47%
Percentage of total revenues	122%	84%	55%				

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, development of our 1T-FLASH technology solution, costs related to the development of the analog/mixed-signal design technology, and amortization of intangible assets. We expense research and development costs as they are incurred.

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The $5.2 million increase in 2008 was primarily due to the following:

- $3.1 million increase, primarily personnel-related, attributable to the analog/mixed-signal technology and personnel acquired at the beginning of the third quarter of 2007;
- $0.8 million increase in costs attributable to the expansion of our engineering team working on our non-volatile 1T-FLASH memory technology and 1T-SRAM display driver interface applications;
- $0.7 million increase in tape-out charges to complete validation of our designs in silicon;
- $0.3 million increase in amortization of purchased intangible assets from the Atmel and LDIC acquisitions; and
- $0.3 million increase in license costs for our CAD tools.

The $3.8 million increase in 2007 was primarily due to the following:

- $2.9 million increase, primarily personnel-related, attributable to the Atmel and LDIC asset acquisitions in the third quarter of 2007;
- $0.3 million attributable to the expansion of our engineering team working on our non-volatile 1T-FLASH memory technology and 1T-SRAM display driver applications;
- $0.4 million of amortization of purchased intangible assets from the Atmel and LDIC asset acquisitions; and
- $0.2 million increase in stock-based compensation expense.

Although we plan to increase our development efforts in 2009 to enable the commercial launch of our new embedded memory IP technologies, we expect total research and development expense to decrease in absolute dollars and as a percentage of revenues as a result of the elimination of the analog/mixed-signal product lines, after excluding the costs of exiting these product lines.

Research and development expenses included stock-based compensation expense of $1.2 million, $1.2 million and $1.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Selling, General and Administrative.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Selling, general and administrative	$11,875	$11,659	$11,370	$ 216	2%	$289	3%
Percentage of total revenues	85%	81%	76%				

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, customer support, finance, human resources and general management.

The $0.2 million increase for 2008 was primarily due to the following:

$0.9 million increase in stock-based compensation expense;

$0.4 million expense reduction from the 2008 reversal of bad debt expense recorded in 2007;

$0.3 million increase attributable to the hiring of additional personnel to expand our sales and marketing organizations to enhance our global presence and add analog/mixed-signal expertise;

$0.3 million reduction in legal costs; and

$0.3 million reduction in personnel costs in the general and administrative function due to lower headcount.

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We expect total selling, general and administrative expenses to decrease in absolute dollars and as a percentage of revenues as a result of cost-saving measures taken to reduce headcount and consulting expenses.

The $0.3 million increase for 2007 was primarily due to the following:

- $0.6 million increase in stock-based compensation expense;
- $0.4 million increase in salary and related costs;
- $0.3 million increase in legal fees related to employment matters;
- $0.2 million increase in bad debt expense attributable to one customer;
- $0.2 million increase in marketing promotional activities;
- $0.2 million of separation costs related to the departures of two executives; and
- $1.6 million decrease in litigation expenses due to UniRAM in 2006.

Stock-Based Compensation.

We recognized $4.6 million, $3.8 million and $2.7 million as stock-based compensation expense during the years ended December 31, 2008, 2007 and 2006, respectively. Expense is recognized on a straight-line basis over the requisite service period. The total compensation cost of options granted, but not yet vested, as of December 31, 2008 was $10.2 million, which is expected to be recognized as expense over a weighted average period of approximately 2.6 years.

Acquired In-Process Research and Development.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
In-process research and development	$	$966	$	$(966)	(100)%	$966	100%
Percentage of total revenues		7%					

We recorded a charge of $1.0 million in 2007 for purchased in-process research and development expenses upon completion of the Atmel and LDIC asset acquisitions because technological feasibility of the acquired technology had not been established and no future alternative uses existed. The fair value of the projects was determined by estimating the present value of the net cash flows we believed would result from the acquired technology.

Litigation Settlement.

	Year ended December 31,			Year-Over-Year Change		
	2008	2007	2006	2007 to 2008	2006 to 2007	
	(dollar amounts in thousands)					
Litigation settlement	$	$	$2,400	$	$(2,400)	(100)%
Percentage of total revenues			16%			

In March 2004, UniRAM Technology, Inc. (UniRAM) filed a complaint against us in the United States District Court for the Northern District of California, alleging trade secret misappropriation and patent infringement. In October 2006, we entered into a settlement agreement with UniRAM under which we and UniRAM agreed to dismiss all outstanding claims and counterclaims with prejudice, and we paid UniRAM

$2.4 million and received a complete release of all claims as well as a future fully

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paid license for ourselves and all of our licensees with respect to UniRAM's relevant intellectual property.

Impairment of Intangible Assets and Restructuring Charges.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Impairment of intangible assets and restructuring charges	$2,713	$	$	$2,713	100%	$	
Percentage of total revenues	19%						

In the fourth quarter of 2008, our management approved and initiated a plan to exit the unprofitable analog/mixed-signal product lines, which we had acquired in 2007 through asset purchase agreements with Atmel and LDIC. In connection with these asset purchases, we had recorded intangible assets, which were being amortized over three to five years. As a result of the plan to exit these product lines, the intangible assets were considered to have no future value and deemed impaired, as no future cash flows will be generated. The remaining net book value, as of the date of management's announcement to exit the product lines, was written off.

This plan resulted in the elimination of approximately 90 employees, mainly located in our subsidiaries in China and Romania. The total costs in 2008 associated with the restructuring were $1.3 million, primarily related to accrued employee severance and the write-off of computer equipment and other assets. We expect to incur future additional restructuring charges related to this exit initiative in the range of $0.2 million to $0.5 million, primarily in the form of facility-related exit costs, in the first half of 2009. Total expected cash expenditures are expected to be $1.2 million, which will primarily be incurred in the first quarter of 2009. This product line exit is expected to result in approximately a $5.5 million reduction in annual operating expenses.

Other Income, net.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Other income, net	$2,243	$4,520	$3,286	$(2,277)	(50)%	$1,234	38%
Percentage of total revenues	16%	32%	22%				

Other income, net primarily consisted of interest income on our investments, which was $2.3 million, $4.5 million and $3.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Interest income declined by $2.2 million in 2008 primarily due to lower interest rates earned, as we transferred most of our cash into very high credit quality investments, such as money market funds that invest in securities of the U.S. government and its agencies and bear interest at lower rates. In addition, we had lower average investment balances during 2008 compared with 2007. The remaining decrease is primarily related to the impact of foreign exchange losses on balances denominated in foreign currencies.

We expect interest income to decline, as we expect to realize lower average interest rates on our portfolio in 2009 as we do not expect interest rates to increase significantly in 2009 from the levels they declined to in the fourth quarter of 2008.

The increase in other income, net for 2007 was primarily due to a $0.7 million increase in interest income due to higher interest rates earned on our investments and a $0.5 million decrease in other

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expenses due to a non-recurring charge recorded in 2006 related to Japan withholding taxes paid by Japanese licensees on our behalf.

Provision for Income Taxes.

	Year ended December 31,			Year-Over-Year Change			
	2008	2007	2006	2007 to 2008		2006 to 2007	
	(dollar amounts in thousands)						
Income tax provision	$(132)	$(25)	$(109)	$(107)	428%	$84	(77)%
Percentage of total revenues	1%		1%				

Our income tax provisions were primarily attributable to foreign jurisdictions.

As of December 31, 2008, we had net operating loss carryforwards of approximately $27.0 million for federal income tax purposes, approximately $27.5 million for state income tax purposes and Canadian loss and research and development pool carryforwards of approximately $15.2 million that are available to reduce future income tax liabilities to the extent permitted under federal, Canadian and applicable state income tax laws. These net operating loss carryforwards expire from 2009 to 2028. In 2009, we anticipate that our effective income tax rate will continue to be less than the federal statutory tax rate.

As of December 31, 2008 and 2007, we had gross deferred tax assets of approximately $24.5 million and $17.4 million, respectively. Because of uncertainties regarding the realization of deferred tax assets, we had recorded a full valuation allowance as of December 31, 2008 and 2007.

Liquidity and Capital Resources

As of December 31, 2008, we had cash and cash equivalents of $17.5 million, short-term investments of $26.6 million and long-term investments of $23.4 million, resulting in a combined balance of $67.5 million compared with a combined balance of $78.7 million at December 31, 2007. Our primary capital requirements are to fund working capital.

Cash used in operating activities was $8.5 million for 2008, which primarily resulted from the net loss of $18.4 million, which was partially offset by non-cash charges, including stock-based compensation expense of $4.6 million, depreciation and amortization of $1.5 million, an intangible asset impairment charge of $1.4 million, non-cash restructuring charges of $0.3 million and $2.1 million generated from changes in operating assets and liabilities.

Cash used in operating activities was $1.1 million for 2007, which primarily resulted from the net loss of $8.5 million, and was partially offset by a decrease in accounts receivable of $1.4 million resulting from a decline in sales, increases in non-cash charges including the in-process research and development charge of $1.0 million, stock-based compensation expense of $3.8 million, $1.0 million for depreciation and amortization and $0.2 million of bad debt expense.

In 2008, we spent approximately $0.5 million of expenditures for property and equipment. In 2007, we spent approximately $1.0 million of expenditures for property and equipment and $1.5 million for the purchase of intangible and other assets from Atmel and LDIC in the third quarter of 2007. Otherwise, our investing activities consisted of investing our cash in marketable securities and rolling over those investments.

Net cash used in financing activities was $0.8 million for 2008, which was primarily attributable to $1.0 million of cash expenditures during the fourth quarter of 2008 to repurchase approximately 275,000 shares of our own common stock under a repurchase plan authorized by our board of directors, partially offset by proceeds of $0.2 million from stock option exercises.

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Net cash used in financing activities was $2.1 million for 2007, which was primarily attributable to $5.1 million of cash expenditures during the third and fourth quarters of 2007 to repurchase approximately 883,000 shares of our own common stock under a repurchase plan authorized by our board of directors, partially offset by proceeds of $2.9 million from stock option exercises.

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

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.

Although we expect to continue to expend cash in 2009 as we continue to expand research and development efforts for our 1T-SRAM and 1T-FLASH technologies, we expect 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. As a result of our plan to exit the analog/mixed-signal product lines, we expect to incur cash expenditures of approximately $1.2 million primarily in the first quarter of 2009. In addition, in October 2008, our board of directors authorized a stock repurchase plan. Since October 2008, we have spent approximately $1.9 million of our cash to repurchase shares under that plan. We cannot be certain, however, that we will not require additional financing at some point in time. Should our cash resources prove inadequate, we may need to raise additional funding through public or private financings. 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.

Disclosures about Contractual Obligations and Commercial Commitments

The impact that our contractual obligations as of December 31, 2008 are expected to have on our liquidity and cash flow in future periods is as follows:

	Payment Due by Period			
	Total	Less than 1 year	1-3 years	More than 3 years
Operating Leases	$1,052	$ 575	$ 477	$
Purchase Commitments	2,131	1,406	725	
	$3,183	$ 1,981	$ 1,202	$

As of December 31, 2008, the Company had purchase commitments of $1.9 million for licenses related to computer-aided design tools payable through December 2010 and a $0.2 million purchase commitment for testing equipment.

Included above is approximately $0.3 million in future minimum lease payments attributable to a facility lease in China. In connection with our exit of the analog/mixed-signal product lines and related

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closure of the China subsidiary, in January 2009 we were able to negotiate a cancellation of the lease and will not be liable for the remaining lease obligation.

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 amounts are reflected in our consolidated financial statements for 2008, 2007 or 2006 related to these indemnifications.

Recent Accounting Pronouncements

See Note 1 of the Consolidated Financial Statements 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 approved by our board of directors. The primary objective of our investment activities is to preserve capital while maximizing yields without significantly increasing risk. 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 agencies, municipal notes, including auction-rate securities, corporate notes and bonds, commercial paper and money market funds. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. We do not use interest rate swaps in our investment portfolio. 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 and auction-rate securities for which we have accepted the right to require their purchase by UBS and reclassified as trading securities) 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 other than our auction-rate securities, discussed further below. No single security should exceed 5% of the portfolio at the time of purchase. These securities, which approximated $55.4 million as of December 31, 2008 and earned an average annual interest rate of approximately 3.0% in 2008, are subject to interest rate and credit risks. As of December 31, 2008, 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

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fair market values for these investments of approximately $0.2 million. We do not have any investments denominated in foreign country currencies, and therefore are not subject to foreign currency risk on such investments.

As of December 31, 2008, we held $7.5 million (net of $1.6 million in recognized losses) of investments, classified as long-term investments, with an auction reset feature (auction-rate securities) whose underlying assets were primarily in student loans. All of the issuers of our auction-rate securities had an AAA credit rating at December 31, 2008. Auctions for all of these auction-rate securities failed in early 2008, which means that the parties wishing to sell their securities could not do so as a result of a lack of buying demand. As a result of auction failures, our ability to liquidate and fully recover the carrying value of our auction-rate securities was limited. In November 2008, we accepted an offer from UBS by which UBS will purchase the auction-rate securities from us, at our election, at par value at any time during the period from June 30, 2010 to July 2, 2012. In lieu of our making this election, the auction-rate securities will continue to accrue and pay interest as determined by the auction process or the terms specified in the prospectus of the auction-rate securities if the auction process fails. UBS's obligations under the offer are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the offer. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the offer. If UBS has insufficient funding to buy back the auction-rate securities and the auction process continues to fail, then we may incur further losses on the carrying value of the auction-rate securities.

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. 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 financial statements listed under the heading (a) (1) Financial Statements and Reports of Burr, Pilger & Mayer LLP and BDO Seidman, LLP of Item 15, which financial statements are incorporated by reference in response to this Item 8.

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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, 2008. 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, necessary for a fair presentation of the information for the periods presented. The unaudited quarterly information should be read in conjunction with the financial statements and notes included elsewhere in this report.

	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007
	(In thousands, except per share data)							
	(Unaudited All periods)							
Net revenue:								
Licensing	$ 859	$ 1,198	$ 667	$ 432	$ 388	$ 1,548	$ 2,159	$ 1,158
Royalty	3,101	2,856	2,528	2,385	2,511	2,421	2,170	1,979
Total net revenue	3,960	4,054	3,195	2,817	2,899	3,969	4,329	3,137
Cost of net revenue:								
Licensing	642	845	833	480	825	670	678	564
Total cost of net revenue	642	845	833	480	825	670	678	564
Gross profit	3,318	3,209	2,362	2,337	2,074	3,299	3,651	2,573
Operating expenses:								
Research and development	4,156	4,175	4,541	4,296	4,371	3,438	2,101	2,078
Selling, general and administrative	2,952	2,641	2,926	3,356	3,309	2,945	2,825	2,580
In-process research and development						966		
Impairment of intangible assets	1,379							
Restructuring charge	1,334							
Total operating expenses	9,821	6,816	7,467	7,652	7,680	7,349	4,926	4,658
Operating loss	(6,503)	(3,607)	(5,105)	(5,315)	(5,606)	(4,050)	(1,275)	(2,085)
Other income, net	217	391	561	1,074	1,015	1,209	1,232	1,064
Loss before income taxes	(6,286)	(3,216)	(4,544)	(4,241)	(4,591)	(2,841)	(43)	(1,021)
Income tax benefit (provision)	(21)	(22)	(46)	(43)	8	18	(103)	52
Net loss	$ (6,307)	$ (3,238)	$ (4,590)	$ (4,284)	$ (4,583)	$ (2,823)	$ (146)	$ (969)
Net loss per share:								
Basic and diluted	$ (0.20)	$ (0.10)	$ (0.14)	$ (0.14)	$ (0.14)	$ (0.09)	$ (0.00)	$ (0.03)
Shares used in computing net loss per share:								
Basic and diluted	31,623	31,777	31,703	31,673	32,117	32,274	31,945	31,689

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

None.

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Item 9A. Controls and Procedures

(a)

Management's Annual Report on Internal Control over Financial Reporting

MoSys, Inc.'s 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 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* 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, 2008.

Burr, Pilger & Mayer LLP, the independent registered public accounting firm that audited our 2008 and 2007 consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting as of December 31, 2008, as stated in their report which is included under Item 15 below.

(b)

Evaluation of Disclosure Controls and Procedures

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, 2008, our disclosure controls and procedures were effective.

(c)

Changes in Internal Control

There were no changes in our internal control over financial reporting during the fourth fiscal quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009, 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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009, 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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009, 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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009, 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 2009 Annual Meeting of Stockholders to be held on or about June 2, 2009, which information is incorporated into this report by reference.

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Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)

The following documents are filed as part of this report:

(1)

Financial Statements and Reports of Independent Registered Public Accounting Firms, which are set forth in the index to Consolidated Financial Statements on pages [42] through [68] of this report.

Reports of Independent Registered Public Accounting Firm Burr, Pilger & Mayer LLP	49
Report of Independent Registered Public Accounting Firm BDO Seidman, LLP	51
Consolidated Balance Sheets	52
Consolidated Statements of Operations	53
Consolidated Statements of Stockholders' Equity	54
Consolidated Statements of Cash Flows	55
Notes to Consolidated Financial Statements	56

(2)

Financial Statement Schedule Schedule II Valuation and Qualifying Accounts

(3)

Exhibits

2.1(1)	Merger Agreement regarding the Registrant's reincorporation in Delaware
2.2(2)	Share Purchase Agreement for the shares of ATMOS Corporation
3.1	Not currently in use
3.2	Not currently in use
3.3(1)	Restated Certificate of Incorporation of the Registrant
3.3.1	Certificate of Amendment to Restated Certificate of Incorporation
3.4(3)	Amended and Restated Bylaws of the Registrant
4.1(1)	Specimen common stock certificate
4.2(1)	Not currently in use
4.3(1)	Rights Agreement
4.3.1(4)	First Amendment to Rights Agreement, dated as of February 23, 2004
4.3.2(5)	Second Amendment to Rights Agreement, dated as of December 14, 2004
10.1(1)	Form of Indemnity Agreement between the Registrant and each of its directors and executive officers
10.2(1)	Not currently in use
10.3(1)*	1996 Stock Plan and form of Option Agreement thereunder
10.4(1)*	Form of Restricted Stock Purchase Agreement
10.5(1)*	2000 Employee Stock Option Plan and form of Option Agreement thereunder
10.5.1(6)*	Amended and Restated 2000 Equity Incentive and Stock Option Plan
10.6(1)*	2000 Employee Stock Purchase Plan and form of Subscription Agreement thereunder
10.13(10)*	Employment Agreement and Release between Registrant and Chester J. Silvestri dated November 8, 2007
10.14	Not currently in use
10.15(7)*	Form of Stock Option Agreement pursuant to Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.16(8)	Lease Agreement between Registrant and Sunnyvale Mathilda Investors, LLC dated as of May 6, 2005
10.17(8)*	Employment offer letter agreement between the Registrant and Dhaval Ajmera dated October 3, 2005
10.18	Not currently in use

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10.19	Not currently in use
10.20	Not currently in use
10.21(9)*	Form of New Employee Inducement Grant Stock Option Agreement
10.22	Not currently in use
10.23	Not currently in use
10.24(10)*	Employment offer letter agreement and Mutual Agreement to Arbitrate between Registrant and Leonard Perham dated as of November 8, 2007
10.25.1(11)*	New Employee Inducement Grant Stock Option Agreements between Registrant and Leonard Perham dated as of November 8, 2007
10.25.2(11)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.25.3(11)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 28, 2007
10.26(10)*	Employment offer letter agreement between the Registrant and James W. Sullivan dated January 18, 2008
10.27(10)*	Change-in-control Agreement between Registrant and James W. Sullivan dated January 18, 2008
10.28(10)*	Employment offer letter agreement between Registrant and Didier Lacroix dated as of February 21, 2008
10.29(10)*	Change-in-control Agreement between Registrant and Didier Lacroix dated as of February 21, 2008
10.30(12)*	Employment offer letter agreement between Registrant and David DeMaria dated as of July 31, 2008
10.31(12)*	Change-in-control Agreement between Registrant and David DeMaria dated as of August 18, 2008
21.1	List of subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm Burr, Pilger & Mayer LLP
23.2	Consent of Independent Registered Public Accounting Firm BDO Seidman, LLP
24.1	Power of Attorney (see signature page)
31.1	Rule 13a-14 certification
31.2	Rule 13a-14 certification
32	Section 1350 certification

(1) 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).

(2) Incorporated by reference to the same-numbered exhibit to the Company's report on Form 8-K/A filed on November 13, 2002.

(3) Incorporated by reference to the same-numbered exhibit to Form 8-K filed by the Company on October 29, 2008 (Commission File No. 000-32929).

(4) Incorporated by reference to Exhibit 9(e)(4) to Schedule 14D-9 filed by the Company on March 22, 2004 (Commission File No. 005-78033).

(5) Incorporated by reference to Exhibit 4.01 to Form 8-K filed by the Company on December 20, 2004 (Commission File No. 000-32929).

(6) 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).

(7)

Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on August 9, 2005 (Commission File No. 000-32929).

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(8) Incorporated by reference to the same-numbered exhibit to Form 10-K filed by the Company on March 16, 2006 (Commission File No. 000-32929).

(9) Incorporated by reference to Exhibit 10.25 to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).

(10) Incorporated by reference to the same-numbered exhibit to Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).

(11) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on May 9, 2008 (Commission File No. 000-32929).

(12) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on November 7, 2008 (Commission File No. 000-32929).

* Management contract, compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the 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 13th day of March 2009.

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 attorney-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
/s/ LEONARD PERHAM Leonard Perham	President, Chief Executive Officer, and Director	March 13, 2009
/s/ JAMES W. SULLIVAN James W. Sullivan	Vice President of Finance and Chief Financial Officer	March 13, 2009
/s/ CARL E. BERG Carl E. Berg	Director	March 13, 2009
/s/ TOMMY ENG Tommy Eng	Director	March 13, 2009
/s/ CHI-PING HSU Chi-Ping Hsu	Director	March 13, 2009
/s/ JAMES D. KUPEC James D. Kupec	Director	March 13, 2009
/s/ CHENMING HU	Director	March 13, 2009

Chenming Hu

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MOSYS, INC.

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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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2008. 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), as of and for the years ended December 31, 2008 and 2007. 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 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, 2008 and 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, as of and for the years ended December 31, 2008 and 2007, 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 effectiveness of the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2009 expressed an unqualified opinion on the effective operation of the Company's internal control over financial reporting.

/s/ Burr, Pilger & Mayer LLP

San Jose, California
March 13, 2009

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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, 2008, based on criteria established in *Internal Control Integrated 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 effectiveness of 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, 2008, based on the COSO criteria.

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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2008, and the related financial statement schedule as of and for the years ended December 31, 2008 and 2007, and our report dated March 13, 2009 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ Burr, Pilger & Mayer LLP

San Jose, California
March 13, 2009

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
MoSys, Inc.
Sunnyvale, California

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of MoSys, Inc. for the year ended December 31, 2006. In connection with our audit of the financial statements, we have also audited Schedule II Valuation and Qualifying Accounts for the year ended December 31, 2006. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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 the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of MoSys, Inc.'s operations and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, Schedule II Valuation and Qualifying Accounts, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein for the year ended December 31, 2006.

/s/ BDO Seidman, LLP

San Francisco, California
March 12, 2007

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MOSYS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31,	
	2008	**2007**
ASSETS		
Current assets		
Cash and cash equivalents	$17,515	$37,673
Short-term investments	26,560	27,288
Accounts receivable, net	688	895
Unbilled contract receivables	428	518
Prepaid expenses and other assets	2,158	2,393
Total current assets	47,349	68,767
Long-term investments	23,395	13,693
Property and equipment, net	958	1,396
Goodwill	12,326	12,326
Intangible assets, net		2,166
Other assets	1,905	449
Total assets	$85,933	$98,797
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 167	$ 146
Accrued expenses and other liabilities	2,235	2,158
Accrued restructuring liabilities	1,004	
Deferred revenue	639	201
Total current liabilities	4,045	2,505
Commitments and contingencies (Note 10)		
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; 31,630 shares and 31,889 shares issued and outstanding at December 31, 2008 and 2007, respectively		