MoSys, Inc.
Form 10-Q
November 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission file number 000-32929

MOSYS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	**77-0291941** (I.R.S. Employer Identification Number)

3301 Olcott Street

Santa Clara, California, 95054

(Address of principal executive office and zip code)

(408) 418-7500

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o

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

Large accelerated filer o	Accelerated filer x
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 Exchange Act). Yes o No x

As of Ocober 30, 2015, 65,495,715 shares of the Registrant s common stock, $0.01 par value, were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MOSYS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,585	$ 3,110
Short-term investments	21,597	20,439
Accounts receivable, net	426	177
Inventories, net	1,264	881
Prepaid expenses and other	1,369	887
Total current assets	26,241	25,494
Long-term investments	2,269	2,245
Property and equipment, net	860	854
Goodwill	23,134	23,134
Other assets	756	899
Total assets	$ 53,260	$ 52,626
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 378	$ 495
Accrued expenses and other	2,057	2,350
Total current liabilities	2,435	2,845
Long-term liabilities	249	241
Commitments and contingencies (Note 4)		
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; 65,496 shares and 49,793 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	655	498
Additional paid-in capital	225,389	199,541
Accumulated other comprehensive loss	(3)	(10)
Accumulated deficit	(175,465)	(150,489)
Total stockholders equity	50,576	49,540
Total liabilities and stockholders equity	$ 53,260	$ 52,626

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

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MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net revenue				
Product	$ 565	$ 437	$ 1,288	$ 1,993
Royalty and other	457	716	1,504	2,241
Total net revenue	1,022	1,153	2,792	4,234
Cost of net revenue	793	447	1,593	2,046
Gross profit	229	706	1,199	2,188
Operating expenses				
Research and development	8,793	7,507	21,475	20,993
Selling, general and administrative	1,547	1,689	4,711	4,976
Total operating expenses	10,340	9,196	26,186	25,969
Loss from operations	(10,111)	(8,490)	(24,987)	(23,781)
Other income, net	19	30	71	115
Loss before income taxes	(10,092)	(8,460)	(24,916)	(23,666)
Income tax provision	13	23	60	65
Net loss	$ (10,105)	$ (8,483)	$ (24,976)	$ (23,731)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on available-for-sale securities	6	(17)	7	(20)
Comprehensive loss	$ (10,099)	$ (8,500)	$ (24,969)	$ (23,751)
Net loss per share				
Basic and diluted	$ (0.15)	$ (0.17)	$ (0.41)	$ (0.48)
Shares used in computing net loss per share				
Basic and diluted	65,317	49,634	61,486	49,441

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

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MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities:		
Net loss	$ (24,976)	$ (23,731)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	466	313
Stock-based compensation	2,864	3,596
Amortization of intangible assets	293	750
Changes in assets and liabilities:		
Accounts receivable	(249)	(27)
Inventories	(383)	(190)
Prepaid expenses and other assets	(624)	357
Accounts payable	(238)	(118)
Accrued expenses and other liabilities	(275)	339
Net cash used in operating activities	(23,122)	(18,711)
Cash flows from investing activities:		
Purchases of property and equipment	(369)	(289)
Proceeds from sales and maturities of marketable securities	34,172	32,985
Purchases of marketable securities	(35,347)	(15,859)
Net cash (used in) provided by investing activities	(1,544)	16,837
Cash flows from financing activities:		
Proceeds from the sale of common stock, net of issuance costs	21,368	
Proceeds from issuance of common stock	1,773	2,195
Net cash provided by financing activities	23,141	2,195
Net increase (decrease) in cash and cash equivalents	(1,525)	321
Cash and cash equivalents at beginning of period	3,110	4,364
Cash and cash equivalents at end of period	$ 1,585	$ 4,685

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

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MOSYS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. The Company and Summary of Significant Accounting Policies

The Company

MoSys, Inc. (the Company) was incorporated in California in September 1991, and reincorporated in September 2000 in Delaware. The Company s strategy and primary business objective is to be an IP-rich fabless semiconductor company focused on the development and sale of integrated circuit (IC) products. Prior to 2011, the Company s primary business activities were designing, developing, marketing and licensing high-performance semiconductor memory and high-speed parallel and serial interface, or SerDes, intellectual property (IP) used by the semiconductor industry and communications, networking and storage equipment manufacturers. Since 2011, the Company has developed two IC product lines under the Bandwidth Engine and LineSpeed product names. Bandwidth Engine ICs combine the Company s proprietary high-density embedded memory with its high-speed 10 gigabits per second and higher interface technology. The LineSpeed IC product line is comprised of non-memory based, high-speed SerDes devices with gearbox or retimer functionality that convert lanes of data received on line cards or by optical modules into different configurations and/or ensure signal integrity. Both product lines are being marketed to networking and communications systems companies. The Company s future success and ability to achieve and maintain profitability depends on its success in developing a market for its ICs.

The accompanying condensed consolidated financial statements of the Company have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The condensed consolidated balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company s consolidated financial statements and notes thereto included in its most recent annual report on Form 10-K filed with the SEC.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company s financial position, results of operations and cash flows for the interim periods presented. The operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or for any other future period.

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company s fiscal year is the calendar year.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses recognized during the reported period. Actual results could differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. Previously reported intangible asset amounts have been included in the other assets line item of the condensed consolidated balance sheets. The amounts for the prior periods have been reclassified to be consistent with the current year presentation and have no impact on previously reported total assets, total stockholders equity or net loss.

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Cash Equivalents and Investments

The Company has invested its excess cash in money market accounts, certificates of deposit, commercial paper, corporate debt, government-sponsored enterprise bonds and municipal bonds and considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments. Investments with remaining maturities greater than one year are classified as long-term investments. Management generally determines the appropriate classification of securities at the time of purchase. All securities are classified as available-for-sale. The Company s available-for-sale short-term and long-term investments are carried at fair value, with the unrealized holding gains and losses reported in accumulated other comprehensive loss. Realized gains and losses and declines in the value judged to be other than temporary are included in the other income, net line item in the condensed consolidated statements of operations and comprehensive loss. The cost of securities sold is based on the specific identification method.

Fair Value Measurements

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

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

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

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

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts to ensure that its trade receivables balances are not overstated due to uncollectability. The Company performs ongoing customer credit evaluations within the context of the industry in which it operates and generally does not require collateral from its customers. A specific allowance of up to 100% of the invoice value is provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is remote. The Company grants credit only to customers deemed creditworthy in the judgment of management. There was no allowance for doubtful accounts receivable at either September 30, 2015 or December 31, 2014.

Inventory

Inventories are valued at the lower of cost or market. Charges for obsolete and slow moving inventories are recorded based upon an analysis of specific identification of obsolete inventory items and quantification of slow moving inventory items. For slow moving inventory, this analysis compares the quantity of inventory on hand to the projected sales of such inventory items. As a result of this analysis, we record an estimated charge for slow moving inventory in the form of an inventory reserve that increases cost of goods sold and decreases gross profit. When the obsolete or slow moving inventory subsequently experiences increased sales and inventory that was previously impaired is sold, cost of goods sold is decreased and gross profit is increased. Charges for the three and nine months ended September 30, 2015 were $0.2 million.

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Revenue Recognition

General

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

IC products

The Company sells products both directly to customers, as well as through distributors. Revenue from sales directly to customers is generally recognized at the time of shipment. The Company may record an estimated allowance, at the time of shipment, for future returns and other charges against revenue consistent with the terms of sale. IC product revenue and costs relating to sales made through distributors with rights of return or stock rotation are generally deferred until the distributors sell the product to end customers due to the Company s inability to estimate future returns and credits to be issued. Distributors are generally able to return up to 10% of their purchases for slow, non-moving or obsolete inventory for credit every six months. At the time of shipment to distributors, an account receivable for the selling price is recorded, as there is a legally enforceable right to receive payment, and inventory is relieved, as legal title to the inventory is transferred upon shipment. Revenues are recognized upon receiving notification from the distributors that products have been sold to end customers. Distributors provide information regarding products and quantity, end customer shipments and remaining inventory on hand. The deferred margin recorded on sales to distributors where the product has not sold through to end customers is included in the accrued expenses and other line item in the condensed consolidated balance sheets.

Royalty

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

Licensing

Licensing revenue consists of fees earned from license agreements, development services and support and maintenance. For stand-alone license agreements or license deliverables in multi-deliverable arrangements that do not require significant development, modification or customization, revenues are recognized when all revenue recognition criteria have been met. Delivery of the licensed technology is typically the final revenue recognition criterion met, at which time revenue is recognized. If any of the criteria are not met, revenue recognition is deferred until such time as all criteria have been met. Support and maintenance revenue is recognized ratably over the period during which the obligation exists, typically 12 months. There was no licensing revenue for the three or nine months ended September 30, 2015. Licensing revenue was less than $0.1 million for each of the three and nine months ended September 30, 2014.

Cost of Net Revenue

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

Goodwill

The Company reviews goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company first assesses qualitative factors to determine whether it is more-likely-than-not that the fair value of the reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If the qualitative assessment warrants further analysis, the Company compares the fair value of the reporting unit to its carrying value. The fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds the carrying value of net assets of the reporting unit, goodwill is not impaired, and the Company is not required to perform further testing. If the carrying value of the reporting unit s goodwill exceeds its implied fair value, then the Company must record an impairment charge equal to the difference. The Company has determined that it has a single reporting unit for purposes of performing its goodwill impairment test. As the Company uses the market approach to assess impairment in the second step of the analysis, the price of its common stock is an important component of the fair value calculation. If the Company s stock price continues to experience significant price and volume fluctuations, this will impact the fair value of the reporting unit, which can lead to potential impairment in future periods. The Company performed step one of the annual impairment test in September 2015, and concluded no factors indicated impairment of goodwill. As of September 30, 2015, the Company had not identified any factors to indicate there was an impairment of its goodwill and determined that no additional impairment analysis was required.

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Per Share Amounts

Basic net loss per share is computed by dividing net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share gives effect to all potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of incremental shares of common stock issuable upon the exercise of stock options, vesting of stock awards and purchases under the employee stock purchase plan. As of September 30, 2015 and 2014, stock awards to purchase approximately 9,322,000 and 10,190,000 shares, respectively, were excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive.

Comprehensive Loss

Comprehensive loss includes unrealized gains and losses on available-for-sale securities. Realized gains and losses on available-for-sale securities are reclassified from accumulated other comprehensive loss and included in other income, net in the condensed consolidated statements of operations and comprehensive loss. All amounts recorded in the three and nine months ended September 30, 2015 and 2014 were not considered significant.

Note 2: Fair Value of Financial Instruments

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

	September 30, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 1,585	$	$	$ 1,585
Short-term investments:				
U.S. government-sponsored enterprise bonds	$ 8,439	$ 2	$ (1)	$ 8,440
Corporate notes	11,924		(3)	11,921
Municipal bonds	996			996
Certificates of deposit	240			240
Commercial paper				
Total short-term investments	$ 21,599	$ 2	$ (4)	$ 21,597
Long-term investments:				
Corporate notes	2,270		(1)	2,269
Total long-term investments	$ 2,270	$	$ (1)	$ 2,269

	December 31, 2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 3,110	$	$	$ 3,110
Short-term investments:				
U.S. government-sponsored enterprise bonds	$ 1,250	$	$	$ 1,250
Municipal bonds	841			841

Corporate notes		15,921		2		(6)		15,917
Certificates of deposit		2,430		1				2,431
Total short-term investments	$	20,442	$	3	$	(6)	$	20,439
Long-term investments:								
U.S. government-sponsored enterprise bonds	$	1,000	$		$	(2)	$	998
Corporate notes		1,252				(5)		1,247
Total long-term investments	$	2,252	$		$	(7)	$	2,245

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

		September 30, 2015				
		Cost		Unrealized Losses		Fair Value
Short-term investments:						
U.S. government-sponsored enterprise bonds	$	3,363	$	(1)	$	3,362
Corporate notes		7,461		(3)		7,458
Total short-term investments	$	10,824	$	(4)	$	10,820
Long-term investments:						
Corporate notes		2,270		(1)		2,269
Total long-term investments	$	2,270	$	(1)	$	2,269

		December 31, 2014				
		Cost		Unrealized Losses		Fair Value
Short-term investments:						
Corporate notes	$	13,006	$	(6)	$	13,000
Total short-term investments	$	13,006	$	(6)	$	13,000
Long-term investments:						
U.S. government-sponsored enterprise bonds	$	1,000	$	(2)	$	998
Corporate notes		1,252		(5)		1,247
Total long-term investments	$	2,252	$	(7)	$	2,245

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As of September 30, 2015 and December 31, 2014, all of the available-for-sale securities with unrealized losses had been in a loss position for less than 12 months.

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

	September 30, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within 1 year	$ 21,599	$ 2	$ (4)	$ 21,597
Due in 1-2 years	2,270		(1)	2,269
Total	$ 23,869	$ 2	$ (5)	$ 23,866

	December 31, 2014		
	Cost	Unrealized Gains	Unrealized Losses