NUVASIVE INC
Form DEF 14A
March 27, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

**NuVasive, Inc.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
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1) Title of each class of securities to which transaction applies:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To Be Held May 14, 2014

This year s Annual Meeting of Stockholders of NuVasive, Inc. (the ***Company*** or ***NuVasive***) will be held on May 14, 2014, at 8:00 AM local time at the Westin Times Square Ambassador III Conference Room (2nd Floor), 270 W 43rd Street, New York, NY 10036, for the following purposes, as more fully described in the accompanying Proxy Statement:

1. To elect two (2) Class I Directors to hold office until the 2017 Annual Meeting of Stockholders and until their successors are elected and qualified.

2. To approve a non-binding advisory resolution regarding the compensation of the Company s named executive officers for the fiscal year ended December 31, 2013.

3. To approve the adoption of the NuVasive, Inc. 2014 Equity Incentive Plan.

4. To approve the adoption of the NuVasive, Inc. 2014 Executive Incentive Compensation Plan.

5. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014.

6. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on March 18, 2014 will be entitled to notice of, and to vote at, such meeting or any adjournments or postponements thereof. Such stockholders are cordially invited to attend our Annual Meeting.

Whether or not you plan to attend the meeting and regardless of the number of shares you own, your careful consideration of, and vote on, the matters before our stockholders is important and we encourage you to vote promptly. After reading the Proxy Statement, please make sure to vote your shares by promptly voting electronically or telephonically as described in the enclosed Proxy Statement, or, if you received a paper copy of the proxy card, by completing, dating, signing and returning your proxy card, or attending our Annual Meeting of Stockholders in person. Instructions regarding all three methods of voting are provided on the proxy card. If you hold shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares. **Your vote is very important to us**. **I urge you to vote FOR the Board of Director s two (2) Director nominees and FOR all proposals**.

I look forward to seeing you at the Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS
Alexis V. Lukianov
Chairman of the Board and Chief Executive Officer

San Diego, California

March 27, 2014

**YOUR VOTE IS IMPORTANT!**

**ALL STOCKHOLDERS ARE INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS POSSIBLE. FOR SPECIFIC INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, PLEASE REFER TO THE INSTRUCTIONS ON THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS (THE *NOTICE* ) YOU RECEIVED IN THE MAIL, THE QUESTION HOW DO I VOTE? , OR, IF YOU REQUESTED PRINTED PROXY MATERIALS, YOUR ENCLOSED PROXY CARD. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SUBMITTED YOUR PROXY OR VOTING INSTRUCTIONS.**

**NuVasive, Inc**.

**7475 Lusk Boulevard**

**San Diego, CA 92121**

**(858) 909-1800**

## PROXY STATEMENT

## ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 14, 2014

The accompanying proxy is being solicited by the Board of Directors (the ***Board of Directors*** , or, sometimes, the ***Board*** ) of NuVasive, Inc. (the ***Company*** or ***NuVasive*** ) and contains information related to the Company s Annu Meeting of Stockholders (the ***Annual Meeting*** ). The Annual Meeting will be held at 8:00 AM local time at the Westin Times Square Ambassador III Conference Room ($2^{nd}$ Floor), 270 W $43^{rd}$ Street, New York, NY 10036, or any adjournment or postponement thereof, for the purposes described in the accompanying Notice of Annual Meeting. The Board of Directors made these materials available to you on the internet, or, upon your request, has delivered printed proxy materials to you, in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting. This Proxy Statement was filed with the Securities and Exchange Commission (the ***SEC*** ) on March 27, 2014, which is also the approximate date on which the Proxy Statement and the accompanying proxy were first sent or made available to stockholders.

## PROXY STATEMENT SUMMARY

*This summary highlights information contained elsewhere in this Proxy Statement. This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully before voting.*

**Annual Meeting of Stockholders**

| | |
|---|---|
| **Time & Date** | 8:00 a.m. (local time), May 14, 2014 |
| **Place** | Westin Times Square, Ambassador III Conference Room (2nd Floor), 270 W 43rd Street, New York, NY 10036 |
| **Record Date** | March 18, 2014 |
| **Voting** | Stockholders as of the Record Date are entitled to vote. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on. |
| **Admission** | You will need government-issued identification showing your name and photograph (i.e., a driver s license or passport), and, if an institutional investor, professional evidence showing your representative capacity for such entity, in each case to be verified against our stockholder list as of the Record Date. In addition, if your shares are held in the name of a bank, broker or other financial institution, you will need a valid proxy from such entity or a recent brokerage statement or letter from such entity reflecting your stock ownership as of the Record Date. |

| | Voting Matters | Board Vote Recommendation | Location of Voting Recommendation |
|---|---|---|---|
| 1 | Election of two (2) Board of Director nominees for election as Class I Directors | FOR EACH DIRECTOR NOMINEE | Pages 8 - 9 |
| 2 | Approval of a non-binding advisory resolution regarding the compensation of the Company s named executive officers for the fiscal year ended December 31, 2013. | FOR | Page 41 |
| 3 | Approval of the Company s 2014 Equity Incentive Plan | FOR | Pages 50 - 64 |
| 4 | Approval of the Company s 2014 Executive Incentive Compensation Plan | FOR | Pages 65 - 68 |
| 5 | Ratification of Ernst & Young as our independent registered public accounting firm for 2014 | FOR | Page 71 |

**LIMITED PROXY OVERVIEW**

## QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

**1. What is the purpose of the Annual Meeting?**

You will be voting on each of the following items of business: (i) the election of two (2) Class I Directors for terms expiring in 2017; (ii) the approval of the adoption of the NuVasive, Inc. 2014 Equity Incentive Plan (the ***2014 EIP*** ); (ii) the approval of the adoption of the NuVasive, Inc. 2014 Executive Incentive Compensation Plan (the ***ICP*** ); (iv) advisory approval of the compensation of the Company s named executive officers (the ***Named Executive Officers*** ) for the fiscal year ended December 31, 2013; (v) the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2014; and (vi) any other business that may properly come before the Annual Meeting.

**2. Who is soliciting the proxies?**

The proxies for the Annual Meeting are being solicited by the Board of Directors.

**3. Why did I receive a notice in the mail regarding the internet availability of proxy materials instead of a full set of proxy materials?**

In accordance with rules adopted by the Securities and Exchange Commission (the ***SEC*** ), we may furnish proxy materials, including this Proxy Statement and our Annual Report for fiscal year 2013, to our stockholders by providing access to such documents on the internet instead of mailing printed copies. Our Annual Report for fiscal year 2013 is not incorporated into this Proxy Statement and shall not be considered a part of this Proxy Statement or soliciting materials. Most stockholders will not receive printed copies of the proxy materials unless they request them. Instead, the Notice (which was mailed to most of our stockholders) will instruct you as to how you may access and review all of the proxy materials on the internet as well as how you may submit your proxy on the internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.

**4. How do I get electronic access to the proxy materials?**

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the Annual Meeting on the internet; and
- Instruct us to send our future proxy materials to you electronically by e-mail.

Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you and will reduce the impact of printing and mailing these materials on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

**5**. **Who is entitled to vote?**

Only holders of record of outstanding shares of the Company s common stock at the close of business on March 18, 2014, are entitled to notice of and to vote at the Annual Meeting. At the close of business on March 18, 2014, there were 46,525,344 outstanding shares of our common stock. Each share of common stock is entitled to one (1) vote.

In accordance with Delaware law, a list of stockholders entitled to vote at the Annual Meeting will be available both (i) at the Annual Meeting and - for ten (10) days prior to the Annual Meeting, Monday through Friday between the hours of 9 a.m. and 4 p.m. Pacific time - at our headquarters located at 7475 Lusk Boulevard, San Diego, CA 92121. If, on March 18, 2014, your shares were registered directly in your name with the Company s transfer agent, Computershare Trust Company N.A., then you are a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting (subject to the satisfying the admission criteria) or vote by proxy for the matters before our stockholders as described in the Proxy Statement. Whether or not you plan to attend the Annual Meeting, we urge you to vote by internet or telephone or, if you received a proxy card by mail, to promptly fill out and return the proxy card to ensure your vote is counted.

**6. What does it mean to beneficially own shares in street name ?**

If, on March 18, 2014, your shares were held in an account at a broker, bank, trust, or other agent (we will refer to those organizations collectively as broker ), then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that broker. The broker holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As the beneficial owner, you have the right to direct your broker on how to vote the shares in your account and you are invited to attend the Annual Meeting; however, since you are not a stockholder of record, you may not vote your shares in person at the Annual Meeting for the matters before our stockholders as described in the Proxy Statement unless you request and obtain a valid proxy from your broker giving you the right to vote the shares at the meeting.

If you hold your shares in street name and do not provide voting instructions to your broker, your shares will not be voted on any proposals on which your broker does not have discretionary authority to vote (a broker non-vote ). Under the rules that govern brokers, brokers have the discretion to vote on routine matters, but not on non-routine matters. The ratification of the appointment of the Company s independent registered public accounting firm is a matter considered routine under applicable rules. Non-routine matters include the election of directors, the advisory vote on the compensation of our Named Executive Officers, the approval of our proposed 2014 EIP, and the approval of our ICP.

**7. How do I vote?**

If you are a stockholder with shares registered in your name, you may vote for the matters before our stockholders as described in the Proxy Statement by one of the following three methods:

- *Vote via the Internet*. Go to the web address www.proxyvote.com and follow the instructions for internet voting shown on the proxy card mailed to you. If you vote via the internet, you should be aware that there may be incidental costs associated with electronic access, such as your usage charges from your internet access providers and telephone companies, for which you will be responsible.

- *Vote by Telephone*. Dial 1-800-690-6903 and follow the instructions for telephone voting shown on the proxy card mailed to you.

- *Vote by Proxy Card mailed to you*. If you do not wish to vote by the internet or by telephone, please complete, sign, date and mail the Proxy Card in the envelope provided. If you vote via the internet or by telephone, please do not mail your Proxy Card.

The internet and telephone voting procedures are designed to authenticate your identity and to allow you to vote your shares for the matters before our stockholders as described in the Proxy Statement and confirm that your voting instructions have been properly recorded.

If your shares are held by a broker, bank or other stockholder of record, in nominee name or otherwise, exercising fiduciary powers (typically referred to as being held in street name ), you will receive a separate voting instruction form with this Proxy Statement, or you may need to contact your broker, bank or other stockholder of record to determine whether you will be able to vote electronically via the internet or by telephone. Your broker may vote your shares on the proposal to ratify our independent auditors, but will not be permitted to vote your shares with respect to the other proposals before our stockholders as described in the Proxy Statement unless you provide instructions to your broker as to how to vote your shares for such other proposals.

Once you have given your proxy vote for the matters before our stockholders as described in the Proxy Statement, you may revoke it at any time prior to the time it is voted, by delivering to the Secretary of the Company at the Company s principal offices either a written document revoking the proxy or a duly executed proxy with a later date, or by attending the Annual Meeting and voting in person. Merely attending the Annual Meeting will not, by itself, revoke a proxy. Please note, however, that your shares are held of record by a broker,

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bank or other nominee, and, if you wish to vote at the Annual Meeting, you must obtain and bring to the Annual Meeting a proxy card issued in your name from the broker, bank or other nominee. Otherwise, you will not be permitted to vote at the Annual Meeting.

Votes submitted by telephone or via the internet for the matters before our stockholders as described in the Proxy Statement must be received by 5:00 p.m., Eastern time, on May 13, 2014.

**8. Can I change my vote after I submit my proxy?**

Yes. If you are a stockholder of record, you may revoke a proxy at any time before it is voted at the Annual Meeting by (a) delivering a proxy revocation or another duly executed proxy bearing a later date to the Secretary of the Company at 7475 Lusk Boulevard, San Diego, CA 92121, or (b) attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not revoke a proxy unless you actually vote in person at the meeting. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker or other nominee following the instructions they provided, or, if you have obtained a legal proxy from your broker or other nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

**9. How are the votes counted?**

The Company s Restated Bylaws (the ***Bylaws*** ) provide that a majority of all the outstanding shares of stock entitled to vote - whether present in person or represented by proxy - constitutes a quorum for the transaction of business at the Annual Meeting. Votes for and against, abstentions, and broker non-votes will be counted for purposes of determining the presence or absence of a quorum.

A broker non-vote occurs when your broker submits a proxy card for your shares of Common Stock held in street name, but does not vote on a particular proposal because the broker has not received voting instructions from you and does not have the authority to vote on that matter without instructions.

In the election of directors and for each other item, you may vote FOR , AGAINST , or ABSTAIN . A vote o ABSTAIN with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If no instructions are indicated, the shares will be voted as recommended by the Board of Directors (i.e., FOR the Board s two (2) nominees to the Board of Directors; FOR the approval of the adoption of the 2014 EIP; FOR the approval of the adoption of the ICP; FOR the approval on an advisory basis of the 2013 compensation of the Company s Named Executive Officers; and FOR the ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2014), unless you submit your proxy card through a broker and your broker does not indicate a vote on a particular matter because your broker has not received voting instructions from you (See Question 6 above). If the Company receives a proxy card with a broker non-vote, your proxy will be voted FOR the ratification of the appointment of Ernst & Young LLP and it will not be included as a vote with respect to the election of directors, the approval of the adoption of the 2014 EIP, the approval of the adoption of the ICP, and the approval - on an advisory basis - of the Company s executive compensation.

**10. What vote is needed to approve each of the proposals?**

Under the Bylaws, at any meeting of stockholders for the election of directors at which a quorum is present, each director shall be elected by the vote of a majority of the votes cast with respect to the director; provided that, in the event of a contested election, directors shall be elected by a plurality of votes cast by the stockholders entitled to vote at election. All other matters shall be determined by a majority of the votes cast, unless otherwise required by applicable law, rule or regulation or the Company s charter documents. The specific vote required for the election of directors and for the approval of each of the other proposals is set forth under each proposal.

**11. Is cumulative voting permitted for the election of directors?**

No. You may not cumulate your votes for the election of directors.

**12. How do I attend the Annual Meeting?**

Admission to the Annual Meeting is limited to NuVasive stockholders and a member of their immediate family or their named representatives. For stockholders of record, upon your arrival at the meeting location, you will need to present identification to be admitted to the meeting. If you are a stockholder who is an individual, you will need to present government-issued identification showing your name and photograph (i.e., a driver s license or passport), or, if you are representing an institutional investor, you will need to present government-issued photo identification and professional evidence showing your representative capacity for such entity. In each case, we will verify such documentation with our Record Date stockholder list. We reserve the right to limit the number of immediate family members or representatives who may attend the meeting. For stockholders holding shares in street name, in addition to providing identification as outlined for record holders above, you will need a valid proxy from your broker or a recent brokerage statement or letter from your broker reflecting your stock ownership as of the Record Date. Cameras and electronic recording devices are not permitted at the Annual Meeting.

**13. How does the Board of Directors recommend that I vote?**

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE BOARD s TWO (2) PROPOSED NOMINEES NAMED HEREIN FOR ELECTION TO THE BOARD OF DIRECTORS, FOR THE APPROVAL OF THE COMPANY S 2014 EQUITY INCENTIVE PLAN, FOR THE APPROVAL OF THE COMPANY S 2014 EXECUTIVE INCENTIVE COMPENSATION PLAN, FOR THE APPROVAL ON AN ADVISORY BASIS OF THE 2013 COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS, AND FOR THE RATIFICATION OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF ERNST & YOUNG LLP.

**14. Who pays the costs of the proxy solicitation?**

The Company will pay all of the costs of soliciting proxies. In addition to solicitation by mail, officers, directors and shareowners of the Company may solicit proxies personally, or by telephone, without receiving additional compensation. The Company, if requested, will also pay brokers and other fiduciaries that hold shares of common stock for beneficial owners for their reasonable out-of-pocket expenses of forwarding these materials to stockholders. The Company may retain a firm to assist in the solicitation of proxies in connection with the Annual Meeting. The Company would pay such firm, if any, customary fees, expected to be no more than $20,000, plus expenses.

**15. Could other matters be decided in the Annual Meeting?**

The Company is not aware, as of the date hereof, of any matters to be voted upon at the Annual Meeting other than those stated in this Proxy Statement. If any other matters are properly brought before the Annual Meeting, the persons named by the Board of Directors as proxy holders (Quentin Blackford (Executive Vice President, Finance & Investor Relations), Michael J. Lambert (Executive Vice President and Chief Financial Officer), and Jason M. Hannon (Executive Vice President and General Counsel)) will have the discretionary authority to vote the shares represented by the proxy card on those matters. If, for any reason, any of the nominees are not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

**16. Is it possible that the meeting be postponed?**

The meeting may be adjourned or postponed, if needed, as provided by the Company s Restated Bylaws and pursuant to Delaware law. Unless a new record date is fixed, your proxy will still be valid and may be voted at any adjourned or postponed meeting. You will still be able to change or revoke your proxy until it is voted at the reconvened or rescheduled meeting.

**17. Where can I find the voting results of the Annual Meeting?**

We intend to announce the final voting results at the Annual Meeting and publish the final results in our Current Report on Form 8-K within four business days of the Annual Meeting, unless final results are unavailable in which case we will publish the preliminary results in such Current Report on Form 8-K. If final results are not filed with our Current Report on Form 8-K to be filed within four business days of the Annual Meeting, the final results will be published in an amendment to our Current Report on Form 8-K within four (4) business days after the final voting results are known.

**18. How do I make a stockholder proposal or nominate an individual to serve as a director for the fiscal year 2014 annual meeting of stockholders occurring in 2015?**

The Company s Bylaws state the procedures for a stockholder to bring a stockholder proposal or nominate an individual to serve as a Director of the Board. The Company s Bylaws provide that advance notice of a stockholder s proposal or nomination of an individual to serve as a director must be delivered to the Secretary of the Company at the Company s principal executive offices not earlier than the one hundred twentieth (120th) day prior to the anniversary of the previous year s annual meeting of stockholders (i.e., January 14, 2015), nor later than the close of business on the ninetieth (90th) day prior to the anniversary of the previous year s annual meeting of stockholders (i.e., February 13, 2015). However, the Bylaws also provide that, in the event that no annual meeting was held in the previous year or the date of the annual meeting is changed by more than thirty (30) days from the previous year s annual meeting as specified in the Company s notice of meeting, this advance notice must be given not earlier than the one hundred twentieth (120th) day, nor later than the close of business on the later of the ninetieth (90th) day, prior to the date of such annual meeting, or, if the first public announcement of the date of such annual meeting is less than one hundred (100) days prior to the date of such annual meeting, the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made by the Company.

In addition to meeting the advance notice provisions mentioned above, the stockholder in its notice must provide the information required by our Bylaws to bring a stockholder proposal or nominate an individual to serve as a Director of the Board.

A copy of the full text of the provisions of the Company s Bylaws dealing with stockholder nominations and proposals is available to stockholders from the Secretary of the Company upon written request.

Under the rules of the SEC, stockholders who wish to submit proposals for inclusion in the Proxy Statement of the Board of Directors for the annual meeting of stockholders to be held in 2015 must submit such proposals so as to be received by the Company at 7475 Lusk Boulevard, San Diego, CA 92121, on or before November 27, 2014; provided, however, that, in the event that the Company holds the annual meeting of stockholders to be held in 2015 more than thirty (30) days before or after the one (1)-year anniversary date of the Annual Meeting, the Company will disclose the new deadline by which stockholders proposals must be received under Item 5 of our earliest possible quarterly report on Form 10-Q, or, if impracticable, by any means reasonably calculated to inform stockholders. In addition, stockholder proposals must otherwise comply with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended. Such proposals also must comply with SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials.

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**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE**

**STOCKHOLDER MEETING TO BE HELD ON MAY 14, 2014**

**This Proxy Statement and the Company s 2013 Annual Report on Form 10-K are both available at <u>www.proxyvote.com</u>.**

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## PROPOSAL 1 ELECTION OF DIRECTORS

At this 2014 Annual Meeting, three (3) Class I Directors (Robert J. Hunt, Gregory T. Lucier and Richard W. Treharne, Ph.D.) are at the end of their previously-approved terms. Each of Messrs. Hunt and Treharne will not be standing for re-election and is retiring as a Director immediately following the Annual Meeting (in no way due to any disagreement with the Company or constituting a removal for cause ). From the time of the Annual Meeting and with such retirements and term completions, we will have two (2) Class I Director seats open (in accordance with our Bylaws, the size of our Board of Directors has previously been set at eight (8) immediately following the Annual Meeting). The Board has unanimously nominated each of Gregory T. Lucier and Leslie V. Norwalk for election to the Board of Directors as Class I Directors to fill such seats.

Each of Ms. Norwalk and Mr. Lucier has indicated that they are willing and able to serve as a Director. If any of the Board s nominees declines to serve or becomes unavailable for any reason, or, if a vacancy occurs before the election (although we know of no reason to anticipate that this will occur), your proxy may be voted for such substitute nominee as the Company s designated proxy holders may designate.

The two (2) Board nominees for election as a Class I Directors receiving the most FOR votes from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors will be elected. However, if the number of votes FOR any of the two (2) nominees does not exceed 50% of the total number of votes cast with respect to such nominee s election (from the holders of votes of shares either present in person or represented by proxy and entitled to vote), such nominee will promptly tender his or her resignation as a director and the Nominating and Corporate Governance Committee of the Board will make a recommendation to the Board as to whether it is appropriate to accept such Director s resignation. Stockholders do not have cumulative voting rights in the election of Directors.

## NOMINEES

Pursuant to duly authorized action under our Restated Bylaws, the authorized number of members of the Board has been set as follows: until the Annual Meeting, at nine (9); immediately following the Annual Meeting (until otherwise set per action pursuant to our Restated Bylaws, if any), at eight (8). The following individuals have been nominated for election to the Board or will continue to serve on the Board after the Annual Meeting (as respectively noted):

**Gregory T. Lucier**

Gregory T. Lucier, has served as a member of our Board since December 2013. Mr. Lucier has over 20 years of executive management experience and served as Chairman of the Board and Chief Executive Officer of Life Technologies Corporation, a global biotechnology company, until their acquisition by Thermo Fisher Scientific Inc. in February 2014. Previously, he served as Chief Executive Officer of Invitrogen Corporation from May 2003 until Invitrogen Corporation and Applied Biosystems merged to form Life Technologies in November 2008. Prior to joining Invitrogen Corporation, Mr. Lucier served as Chief Executive Officer and President at GE Medical Systems Information Technologies, Vice President for Global Services at GE Medical Systems and President of GE-Harris Railway Electronics. He currently serves on the board of RainTree Oncology Services, CareFusion, Synthetic Genomics, Rady Children s Hospital and is board chairman for Sanford-Burnham Medical Research Institute. Mr. Lucier received a Bachelor of Science Degree with high distinction in Industrial Engineering from Pennsylvania State University and a Master of Business Administration degree from Harvard Graduate School of Business Administration. Mr. Lucier s executive experience in the biotechnology industry provides strategic and practical knowledge to our Board related to regulatory, clinical research and other operational areas in our industry.

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**Leslie V. Norwalk**

Leslie Norwalk is Strategic Counsel to Epstein Becker & Green, P.C., EBG Advisors and National Health Advisors. She serves as an advisor to three private equity firms: Warburg Pincus, Ferrer Freeman & Company, and Enhanced Equity Fund, and sits on the boards of directors of Sound Physicians, Guardian Healthcare Group, Volcano Corporation, Sante Pediatric Rehabilitation, IkaSystems, MTS Medication Technologies, InHealth, Press Ganey, and the International Advisory Board of APCO Worldwide.

Ms. Norwalk served the Bush Administration as the Acting Administrator for the Centers for Medicare & Medicaid Services (CMS). She managed the day-to-day operations of Medicare, Medicaid, State Child Health Insurance Programs, Survey and Certification of health care facilities and other federal health care initiatives. For four years prior to that, she was the agency s Deputy Administrator, responsible for the implementation of the hundreds of changes made under the Medicare Modernization Act, including the Medicare Prescription Drug Benefit. CMS has the second-largest budget outlay of the Federal Government, directly responsible for $1 out of every $3 spent on healthcare in the United States. The organization insures nearly a third of the population of the United States (more than 95 million beneficiaries) including the elderly, disabled, and some of the lowest income individuals in the country. CMS processes over one billion claims each year and contracts with approximately one million providers.

Prior to serving the Bush Administration, she practiced law in the Washington, D.C. office of Epstein Becker & Green, P.C. where she advised clients on a variety of health policy matters. She also served in the first Bush administration in the White House Office of Presidential Personnel, and the Office of the U.S. Trade Representative.

Ms. Norwalk, a native of Dayton, OH, earned a juris doctor degree from the George Mason University School of Law, where she was a Dean s Scholar and an editor of the George Mason Law Review. She earned a bachelor s degree, cum laude, in economics and international relations from Wellesley College.

The Class I Directors will be elected by a plurality of the votes cast in person or by proxy at the Annual Meeting assuming a quorum is present, which means that the two (2) Board of Director-nominated nominees receiving the highest number of FOR votes will be elected. However, if the number of votes FOR any of the nominees does not exceed 50% of the total number of votes cast with respect to such nominee s election (from the holders of votes of shares either present in person or represented by proxy and entitled to vote), such nominee will promptly tender his resignation as a director, and the Nominating and Corporate Governance Committee of the Board will make a recommendation to the Board as to whether it is appropriate to accept such Director s resignation. Abstentions and broker non-votes will not be counted as votes cast and, therefore, will have no effect on the election of Directors. Stockholders do not have cumulative voting rights in the election of Directors.

**THEREFORE, THE BOARD RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF**

**GREGORY T. LUCIER AND LESLIE V. NORWALK AS A CLASS I DIRECTOR.**

## GOVERNANCE

## BOARD OF DIRECTORS

The name, age and certain other information of each member of the Board, as of March 18, 2014 (the Record Date for our Annual Meeting), is set forth below.

| | | Committee Memberships | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Age** | **Audit** | **Compensation** | **Nominating & Corporate Governance** | **Term Expires on Annual Meeting held in the Year** | **Director Class** |
| Alexis V. Lukianov | 58 | | | | 2016 | III |
| Jack R. Blair | 71 | | C | | 2016 | III |
| Peter C. Farrell, Ph.D., AM | 71 | | | C | 2015 | II |
| Lesley H. Howe | 69 | C | X | | 2015 | II |
| Robert J. Hunt* | 64 | X | | X | 2014 | I |
| Peter M. Leddy, Ph.D. | 50 | | X | | 2016 | III |
| Gregory T. Lucier | 49 | X | | X | 2014 | I |
| Eileen M. More, CFA | 67 | X | | X | 2015 | II |
| Richard W. Treharne, Ph.D.* | 63 | | X | X | 2014 | I |

C = Chair X = Member * = retiring immediately following our Annual Meeting

## CONTINUING DIRECTORS

**Alexis V. Lukianov**

Alexis V. Lukianov has served as our Chief Executive Officer and a director since July 1999 and as Chairman of our Board of Directors since February 2004. He also served as our President from July 1999 until December 2004. Committed to the company s ultimate goal of improving the lives of patients from all walks of life, Mr. Lukianov founded the NuVasive Spine Foundation (NSF), a not-for-profit organization committed to changing lives by bringing world-class surgeons and innovative spine surgery to disadvantaged communities across the globe. He also currently serves as the NSF Chairman. With more than 30 years of experience in the orthopaedic industry and nearly 25 years in senior management, Mr. Lukianov is widely recognized as an industry leader who is actively engaged in the national dialogue on healthcare reform, meeting regularly with state and federal policymakers to discuss patient advocacy and other industry related topics. Prior to joining NuVasive, he was a founder, and served as Chairman and Chief Executive Officer, of BackCare Group, Inc. Mr. Lukianov also held executive positions with Medtronic Sofamor Danek, including President of U.S. Additionally, he directed a business unit at Smith & Nephew Orthopaedics and managed an orthopaedic joint venture between Stryker Corporation and Meadox Medical. Among several of his board of director positions, Mr. Lukianov currently serves on the executive committee and board of Volcano Corporation. He also serves as the Chairman and founder of the Patriarch Tikhon Russian-American Music Institute (PaTRAM), and on the board of trustees of St. Katherine College. Prior to 2013, he served on the boards and the executive committees of BIOCOM including Chairman, Medical Device Manufacturers Association (MDMA), and the California Health Care Institute (CHI), as well as other medical device company boards. Mr. Lukianov attended Rutgers University and served in the U.S. Navy.

**Jack R. Blair**

Jack R. Blair has served as a member of our Board since August 2001. During his 18-year career with Smith & Nephew plc ending in 1998, Mr. Blair served in various capacities with Smith & Nephew plc and Richards Medical Company, which was acquired by Smith & Nephew in 1986, most recently as group president of its North and South America and Japan operations. He held the position of President of Richards Medical Company. Until November 2007, when the company was sold, Mr. Blair served as chairman of the board of directors of DJO, Inc., an orthopaedic medical device company. Mr. Blair holds a B.A. in Government from Miami University and an M.B.A. from the University of California, Los Angeles. Mr. Blair s service with prior companies has provided him with valuable international and operational experience, and together with his extensive knowledge of the medical device industry, he brings extensive management and board of director experience to our Board.

**Peter M. Leddy, Ph.D.**

Peter M. Leddy, Ph.D., has served as a member of our Board since July 2011. Dr. Leddy has extensive knowledge and experience in human resources management with over 15 years in senior management positions. From July 2005 to February 2014, Dr. Leddy served as Chief Human Resources Officer at Life Technologies Corporation, a global life sciences company with over $4 billion in revenue and over 10,000 employees that was acquired by Thermo Fisher Scientific. From 2000 to 2005, Dr. Leddy held several senior management positions with Dell Incorporated, where he was responsible for leading global talent and human resources in the Americas, overseeing 7,500 employees. From 1999 to 2000, Dr. Leddy served as the Executive Vice President for Human Resources at Promus Hotel Corporation, and from 1989 to 1999, he held a variety of executive and human resource positions at PepsiCo, Inc. Dr. Leddy received his B.A. in Psychology from Creighton University and his M.S. and Ph.D. degrees in industrial/organizational psychology from the Illinois Institute of Technology. Dr. Leddy s extensive knowledge in evolving human resource practices and executive compensation provides valuable insight and guidance to our Board.

**Peter C. Farrell, Ph.D., AM**

Peter C. Farrell, Ph.D., AM, has served as a member of our Board since January 2005. Dr. Farrell is founding Chairman of ResMed, Inc. a leading developer and manufacturer of medical equipment for the diagnosis and treatment of sleep-disordered breathing, and has been a director and chairman of the board since its inception in June 1989. He served as Chief Executive Officer of ResMed from 1990 to 2007 and again from February 2011 until March 2013. From March 2013 through December 2013, Dr. Farrell served as executive chairman of ResMed, and, in January 2014, he became non-executive chairman. Dr. Farrell serves as a director of California Healthcare Institute. Dr. Farrell holds bachelor and masters degrees in chemical engineering from the University of Sydney and the Massachusetts Institute of Technology, a Ph.D. in bioengineering from the University of Washington, Seattle and a Doctor of Science from the University of New South Wales for research related to dialysis and renal medicine. Dr. Farrell s broad management experience and responsibilities, through his experience as a founding executive of ResMed, Inc., provide relevant experience to our Board in a number of strategic and operational areas.

**Lesley H. Howe**

Lesley H. Howe has served as a member of our Board since February 2004. Mr. Howe has over 40 years of experience in accounting, finance and business management within a variety of industries. From December 2001 to May 2007, he served as Chief Executive Officer of Consumer Networks LLC, a San Diego-based Internet marketing and promotions company. Mr. Howe had a 30-year career with KPMG Peat Marwick LLP, an international accounting and auditing firm, in which he was an audit partner for 23 years and an area managing partner/managing partner of the Los Angeles office of KPMG for three years. Mr. Howe currently serves on the board of directors of Jamba, Inc., the leading retailer of quality blended fruit beverages; and Volcano Corporation, a developer of products that aid in the diagnosis and treatment of vascular and structural heart disease. He previously served on the board and was chair of the Audit Committee of DJ Orthopedics Inc. from 2002 through 2008. Mr. Howe received a B.S. in business administration from the University of Arkansas. Mr. Howe s extensive public accounting, financial and executive management background provide valuable financial and accounting experience and expertise to our Board.

**Eileen M. More, CFA**

Eileen M. More, CFA, has served as a member of our Board since June 2007. Ms. More was a General Partner at Oak Investments, one of the largest venture capital funds in the United States, for over 20 years. Ms. More founded Oak Partner s healthcare investment practice, and was also an active investor in information technology, with early stage investments in dozens of successful healthcare and technology companies. Her investments include leadership roles with Genzyme Corporation, Alexion Pharmaceuticals, OraPharma, Inc., Osteotech, Inc. and Compaq Computer. Ms. More retired from Oak in 2002. She currently serves on the board of directors of Optherion, Inc., a privately held company, and formerly served on the board of directors of KBL Healthcare Acquisition Corp. III, a public corporation. Ms. More was formerly the Chairman Emeritus of the Connecticut Venture Group and a board member of the University of Connecticut Research and Development Corporation. Ms. More attended the University of Bridgeport and has been awarded a Chartered Financial Analyst (CFA) charter. Ms. More s investment and leadership experience in the healthcare industry provides relevant experience in strategic areas, as well as in-depth knowledge of the healthcare industry, providing valuable insight and guidance to our Board for matters such as, among others, corporate strategy and risk management.

There are no family relationships among any of the Company s Directors or executive officers.

## INFORMATION REGARDING THE BOARD OF DIRECTORS, NOMINATIONS AND CORPORATE GOVERNANCE

*Criteria for Board Membership.* In selecting candidates for appointment or re-election to the Board, the Nominating and Corporate Governance Committee (the ***Nominating Committee*** ) considers the appropriate balance of experience, skills and characteristics required of the Board, seeks to ensure that at least a majority of the directors are independent under the rules of the NASDAQ Stock Market ( ***NASDAQ*** ), and that members of the Company s Audit Committee meet the financial literacy and sophistication requirements under NASDAQ rules (including that at least one of them qualifies as an audit committee financial expert under the rules of the SEC). Nominees for Director are selected on the basis of their depth and breadth of experience, integrity, ability to make independent analytical inquiries, understanding of the Company s business environment, and willingness to devote adequate time to Board duties. Additionally, the Nominating Committee will consider diversity in personal and professional backgrounds and seeks diverse individuals, such as women and individuals from minority groups, to include in the pool of candidates for Board nomination; however, there is no formal policy with respect to diversity considerations in identifying Director nominees.

*Stockholder Nominees.* The Nominating Committee will consider written proposals from stockholders for nominees for director. Any such nominations should be submitted to the Nominating Committee, care of the Secretary of the Company and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person s written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected), and (b) all information required by the Company s Bylaws (including the names and addresses of the stockholders making the nomination and the appropriate biographical information and a statement as to the qualification of the nominee), and should be submitted in the time frame described in the Bylaws of the Company and under the question, How do I make a stockholder proposal or nominate an individual to serve as a director for the fiscal year 2014 annual meeting of stockholders occurring in 2015? above.

*Process for Identifying and Evaluating Nominees.* The Nominating Committee believes the Company is well served by its current directors. In the ordinary course, absent special circumstances or a material change in the criteria for Board membership, the Nominating Committee will re-nominate incumbent directors who continue to be qualified for Board service and are willing to continue as directors. If an incumbent director is not standing for re-election, or if a vacancy on the Board occurs between annual stockholder meetings, the Nominating Committee will seek out potential candidates for Board appointment who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. Director candidates will be selected based on input from members of the Board, senior management of the Company and, if the Nominating Committee deems appropriate, a third-party search firm. The Nominating Committee will evaluate each candidate s qualifications and check relevant references; in addition, such candidates will be interviewed by at least one member of the Nominating Committee. Candidates meriting serious consideration will meet with all members of the Board. Based on this input, the Nominating Committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the Nominating Committee should recommend to the Board that this candidate be appointed to fill a current vacancy on the Board, or presented for approval of the stockholders, as appropriate.

The Company has never received a proposal from a stockholder to nominate a director. Although the Nominating Committee has not adopted a formal policy with respect to stockholder nominees, the Nominating Committee expects that the evaluation process for a stockholder nominee would be similar to the process outlined above.

*Board Nominees for the 2014 Annual Meeting.* Gregory T. Lucier was elected to the Board to fill a newly created vacancy upon the recommendation of the Nominating Committee in December 2013 and has not been previously elected by our stockholders. Leslie V. Norwalk was identified and recommended for election by our Nominating Committee, which is comprised of non-employee directors, and has been unanimously nominated by our Board to serve as a Director.

## CORPORATE GOVERNANCE

The Board met four (4) times during fiscal 2013 and action was taken via unanimous written consent once. The Audit Committee met seven (7) times. The Compensation Committee of the Board of Directors (the ***Compensation Committee*** ) met nine (9) times and frequently met in executive session and action was taken via unanimous written consent four (4) times. The Nominating Committee met four (4) times and took action by unanimous written consent once. Each member of the Board attended 75% or more of the Board meetings during fiscal 2013 that were held during the period for which he or she was a Director (if any). Each member of the Board who served on the Audit, Compensation or Nominating Committees attended at least 75% of the respective committee meetings during fiscal 2013 that were held during the period for which they he or she was a committee members.

### Board Independence

The Board has determined that the following directors are independent under current NASDAQ listing standards:

| | | |
|---|---|---|
| Jack R. Blair | Peter C. Farrell, Ph.D., AM | Lesley H. Howe |
| Robert J. Hunt* | Peter M. Leddy, Ph.D. | Gregory T. Lucier |
| Eileen M. More, CFA | Richard W. Treharne, Ph.D.* | |

* = retiring following our Annual Meeting

Under applicable SEC and NASDAQ rules, the existence of certain related party transactions between a director and the Company with dollar amounts above certain thresholds are required to be disclosed and preclude a finding by the Board that the director is independent. In addition to transactions required to be disclosed under SEC and NASDAQ rules, the Board considered certain other relationships in making its independence determinations, and determined, in each case, that such other relationships did not impair the director s ability to exercise independent judgment on behalf of the Company.

**Board Leadership Structure**

The position of Chairman of the Board and CEO of the Company has been combined and, in 2012, the Company appointed a lead independent director. The Board believes that Mr. Lukianov s service as both

Chairman and CEO, is in the best interest of the Company and its stockholders. Mr. Lukianov possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company and its businesses and is thus best positioned to develop agendas that ensure that the Board s time and attention are focused on the most critical matters. Although the Company believes that the combination of the Chairman and CEO roles is appropriate at this time based upon the current circumstances, the Company s Corporate Governance Guidelines does not establish this approach as a policy.

His combined role enables decisive leadership, ensures clear accountability, and enhances the Company s ability to communicate its message and strategy clearly and consistently to the Company s shareowners, investors, customers and suppliers, particularly during times of turbulent economic and industry conditions. This has been beneficial in driving a unified approach to core operating processes across a global organization that has experienced significant growth from year-to-year.

In 2012, the Board selected one independent director to serve a two (2)-year term as the Lead Independent Director for all meetings of the non-management directors held in executive session in order to further balance the power amongst the Board. The Lead Independent Director is also responsible for presiding at all meetings of the Board in the absence of or at the request of the Chairman; serving as liaison between the Chairman and the other independent directors, and calling meetings of the independent directors as needed or appropriate. The Lead Independent Director also has other authority and responsibilities that are described in the charter of the Lead Independent Director. Peter C. Farrell, Ph.D., AM currently serves as the Lead Independent Director.

Each of the directors other than Mr. Lukianov is independent and the Board believes that the independent directors provide effective oversight of management. Moreover, in addition to feedback provided during the course oyle="padding:0in 0in 0in 0in;width:1.0%;">

)

Income tax provision

21

20

**Net loss**

(8,087
)
(4,997
)

Other comprehensive income (loss), net of tax:

Net unrealized gains (losses) on available-for-sale securities

(9
)
4

**Comprehensive loss**

$
(8,096
)

$

(4,993

)

Net loss per share

Basic and diluted

$

(0.16

)

$

(0.12

)

Shares used in computing net loss per share

| | | |
|---|---|---|
| Basic and diluted | 49,174 | 40,264 |

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)**

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (8,087) | $ (4,997) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 108 | 211 |
| Stock-based compensation | 1,491 | 888 |
| Amortization of intangible assets | 250 | 250 |
| Gain on sale of assets | | (630) |
| Other non-cash items | | 5 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (205) | 219 |
| Prepaid expenses and other assets | 158 | (88) |
| Inventory | (80) | (10) |
| Deferred revenue | (15) | (145) |
| Accounts payable | 99 | 1,202 |
| Accrued expenses and other liabilities | (56) | (1,892) |
| Net cash used in operating activities | (6,337) | (4,987) |
| | | |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (84) | (57) |
| Net proceeds from sale of assets | | 630 |
| Proceeds from sales and maturities of marketable securities | 13,531 | 15,589 |
| Purchases of marketable securities | (10,985) | (9,433) |
| Net cash provided by investing activities | 2,462 | 6,729 |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock | 1,624 | 1,008 |
| Net cash provided by financing activities | 1,624 | 1,008 |
| | | |
| Net (decrease) increase in cash and cash equivalents | (2,251) | 2,750 |
| | | |
| Cash and cash equivalents at beginning of period | 4,364 | 2,529 |
| Cash and cash equivalents at end of period | $ 2,113 | $ 5,279 |

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. In March 2013, the Company announced the LineSpeed IC product line, which is comprised of non-memory based, high-speed SerDes devices with gearbox or retimer functionality that convert lanes of data received on line cards into different configurations and/or ensure signal integrity. Both product lines are initially being marketed to networking and telecommunications systems companies. The Company s 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, 2013 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 months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014 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.

***Reclassification***

Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassification includes reclassifying inventory as a separate line item, which was previously included in the prepaid expenses and other current assets line item of the condensed consolidated balance sheets. Revenue line items have been reclassified to create a separate line item for product revenue and to include licensing revenue in the royalty and other line item. 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.

***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.

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***Cash Equivalents and Investments***

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

***Fair Value Measurements***

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

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

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

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

***Allowance for Doubtful Accounts***

The Company establishes an allowance for doubtful accounts to ensure that its trade receivables balances are not overstated due to uncollectibility. The Company performs ongoing customer credit evaluations within the context of the industry in which it operates and generally does not require collateral from its customers. A specific allowance of up to 100% of the invoice value is provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is remote. The Company grants credit only to customers deemed creditworthy in the judgment of management. There was no allowance for doubtful accounts receivable at March 31, 2014 and December 31, 2013.

***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 collectibility is reasonably assured. Evidence of an arrangement generally consists of signed agreements or customer purchase orders.

*Royalty*

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

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*IC products*

The Company sells products both directly to customers, as well as through distributors. Revenue from sales directly to customers is generally recognized at the time of shipment. The Company records an estimated allowance, at the time of shipment, for future returns and other charges against revenue consistent with the terms of sale. IC product revenue and costs relating to sales made through distributors with rights of return or stock rotation are deferred until the distributors sell the product to end customers due to the Company s inability to estimate future returns and credits to be issued. Distributors are generally able to return up to 10% of their purchases for slow, non-moving or obsolete inventory for credit every six months. At the time of shipment to distributors, an accounts receivable for the selling price is recorded, as there is a legally enforceable right to receive payment, and inventory is relieved, as legal title to the inventory is transferred upon shipment. Revenues are recognized upon receiving notification from the distributors that products have been sold to end customers. Distributors provide information regarding products and quantity, end customer shipments and remaining inventory on hand. The associated deferred margin is included in the deferred revenues line item in the condensed consolidated balance sheets. The Company recorded initial IC product revenue in 2012, and a reserve for returns has been recorded due to the product s early stage deployment in customer systems.

*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. Licensing revenue was $41,000 and $188,000 for the three months ended March 31, 2014 and 2013, respectively.

***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 2013, and concluded no factors indicated impairment of goodwill. As of March 31, 2014, 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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***Intangible Assets***

Intangible assets acquired in business combinations, referred to as purchased intangible assets, are accounted for based on the fair value of assets purchased and are amortized over the period in which economic benefit is estimated to be received. Identifiable intangible assets relating to business combinations and the patent license were as follows (dollar amounts in thousands):

| | March 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Life (years) | | Gross Carrying Amount | | Accumulated Amortization | | Net Carrying Value |
| Developed technology | 3-5 | $ | 9,240 | $ | 8,364 | $ | 876 |
| Patent license | 7 | | 780 | | 251 | | 529 |
| Total | | $ | 10,020 | $ | 8,615 | $ | 1,405 |

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

Amortization expense has been included in research and development expense in the condensed consolidated statements of operations and comprehensive loss.  The estimated aggregate amortization expense to be recognized in future years is approximately $0.8 million for the remainder of 2014, $0.3 million for 2015 and $0.1 million annually for 2016, 2017 and 2018.

***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 March 31, 2014 and 2013, stock awards to purchase approximately 10,173,000 and 9,970,000 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 months ended March 31, 2014 and 2013 are not considered significant.

**Note 2: Fair Value of Financial Instruments**

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

| | March 31, 2014 | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Cash and cash equivalents | $ 2,113 | $ | $ | $ 2,113 |
| Short-term investments: | | | | |
| U.S. government debt securities | $ 15,943 | $ 7 | $ (1) | $ 15,949 |
| Corporate notes | 12,558 | 13 | | 12,571 |
| Certificates of deposit | 4,219 | 1 | (1) | 4,219 |
| Total short-term investments | $ 32,720 | $ 21 | $ (2) | $ 32,739 |
| Long-term investments: | | | | |
| U.S. government debt securities | $ 2,801 | $ | $ (6) | $ 2,795 |
| Corporate notes | 6,838 | 4 | (11) | 6,831 |
| Certificates of deposit | 1,200 | | (2) | 1,198 |
| Total long-term investments | $ 10,839 | $ 4 | $ (19) | $ 10,824 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Cash and cash equivalents | $ 4,364 | $ | $ | $ 4,364 |
| Short-term investments: | | | | |
| U.S. government debt securities | $ 19,944 | $ 11 | $ (1) | $ 19,954 |
| Corporate notes | 7,245 | 2 | (2) | 7,245 |
| Certificates of deposit | 4,994 | 1 | (2) | 4,993 |
| Total short-term investments | $ 32,183 | $ 14 | $ (5) | $ 32,192 |
| Long-term investments: | | | | |
| U.S. government debt securities | $ 3,016 | $ | $ | $ 3,016 |
| Corporate notes | 9,466 | 9 | (1) | 9,474 |
| Certificates of deposit | 1,440 | | (4) | 1,436 |
| Total long-term investments | $ 13,922 | $ 9 | $ (5) | $ 13,926 |

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

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

| | March 31, 2014 | | |
|---|---|---|---|
| | Cost | Unrealized Losses | Fair Value |
| Short-term investments: | | | |
| U.S. government debt securities | $ 2,012 | $ (1) | $ 2,011 |
| Certificates of deposit | 2,600 | (1) | 2,599 |
| Total short-term investments | $ 4,612 | $ (2) | $ 4,610 |
| Long-term investments: | | | |
| U.S. government debt securities | $ 2,801 | $ (6) | $ 2,795 |
| Corporate notes | 4,827 | (11) | 4,816 |
| Certificates of deposit | 1,200 | (2) | 1,198 |
| Total long-term investments | $ 8,828 | $ (19) | $ 8,809 |

| | December 31, 2013 | | |
|---|---|---|---|
| | Cost | Unrealized Losses | Fair Value |
| Short-term investments: | | | |
| U.S. government debt securities | $ 5,289 | $ (1) | $ 5,288 |
| Corporate notes | 3,844 | (2) | 3,842 |
| Certificates of deposit | 3,080 | (2) | 3,078 |
| Total short-term investments | $ 12,213 | $ (5) | $ 12,208 |
| Long-term investments: | | | |
| U.S. government debt securities | $ 1,253 | $ | $ 1,253 |
| Corporate notes | 1,001 | (1) | 1,000 |
| Certificates of deposit | 1,440 | (4) | 1,436 |
| Total long-term investments | $ 3,694 | $ (5) | $ 3,689 |

As of March 31, 2014 and December 31, 2013, all of the available-for-sale securities with unrealized losses were in a loss position for less than 12 months.

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

| | March 31, 2014 | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Due within 1 year | $ 32,720 | $ 21 | $ (2) | $ 32,739 |
| Due in 1-2 years | 10,839 | 4 | (19) | 10,824 |
| Total | $ 43,559 | $ 25 | $ (21) | $ 43,563 |

**December 31, 2013**

| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Due within 1 year | $ 32,183 | $ 14 | $ (5) | $ 32,192 |
| Due in 1-2 years | 13,922 | 9 | (5) | 13,926 |
| Total | $ 46,105 | $ 23 | $ (10) | $ 46,118 |

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The following table represents the Company s fair value hierarchy for its financial assets (cash equivalents and investments) as of March 31, 2014 and December 31, 2013 (in thousands):

| | March 31, 2014 | | | |
|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Money market funds | $ 1,167 | $ 1,167 | $ | $ |
| Certificates of deposit | 5,417 | | 5,417 | |
| Corporate notes | 19,902 | | 19,902 | |
| U.S. government debt securities | 18,744 | | 18,744 | |
| Total assets | $ 45,230 | $ 1,167 | $ 44,063 | $ |

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

There were no transfers in or out of Level 1 and Level 2 securities during the three months ended March 31, 2014 and 2013.

**Note 3. Commitments and Contingencies**

***Indemnification***

In the ordinary course of business, the Company enters into contractual arrangements under which it may agree to indemnify the counterparties from any losses incurred relating to breach of representations and warranties, failure to perform certain covenants, or claims and losses arising from certain events as outlined within the particular contract, which may include, for example, losses arising from litigation or claims relating to past performance. Such indemnification clauses may not be subject to maximum loss clauses. The Company has entered into indemnification agreements with its officers and directors. No material amounts were reflected in the Company s condensed consolidated financial statements for the three months ended March 31, 2014 or 2013 related to these indemnifications.

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

***Legal Matters***

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

**Note 4. Business Segments and Significant Customers**

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Japan | $ 623 | $ 534 |
| Taiwan | 337 | 448 |
| North America | 350 | 348 |
| Rest of Asia | 11 | 5 |
| Europe | 11 | |
| Total net revenue | $ 1,332 | $ 1,335 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| Customer A | 38% | * |
| Customer B | 24% | 33% |
| Customer C | 20% | 13% |
| Customer D | * | 14% |
| Customer E | * | 11% |

*Represents less than 10%

Two customers accounted for 93% of net accounts receivable at March 31, 2014. Two customers accounted for 96% of net accounts receivable at December 31, 2013.

**Note 5. Income Tax Provision**

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

The Company files U.S. federal and state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company is currently under tax examination in India. The 2003 through 2013 tax years generally remain subject to examination by federal, state and foreign tax authorities. As of March 31, 2014, the Company has not recorded any liability for unrecognized tax benefits related to uncertain tax positions.

**Note 6. Stock-Based Compensation**

The Company recorded approximately $1.5 million and $0.9 million of stock-based compensation expense for the three months ended March 31, 2014 and 2013, respectively. The expense relating to stock options is recognized on a straight-line basis over the requisite service period, usually the vesting period, based on the grant-date fair value. The unamortized compensation cost, net of expected forfeitures, as of March 31, 2014 was $5.1 million related to stock options and is expected to be recognized as expense over a weighted average period of approximately 2.38 years. The expense related to restricted stock units is recognized over a three-to-five year vesting period and is based on the fair value of the underlying stock on the dates of grant. The unamortized compensation cost, net of expected forfeitures, as of March 31, 2014 was $1.5 million related to restricted stock units and is expected to be recognized as expense over a weighted average period of approximately 2.95 years.

The Company presents the tax benefits resulting from tax deductions in excess of the compensation cost recognized from the exercise of stock options as financing cash flows in the condensed consolidated statements of cash flows. For the three months ended March 31, 2014 and 2013, there were no such tax benefits associated with the exercise of stock options due to the Company s loss position.

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***Common Stock Options and Restricted Stock***

A summary of the option activity under the Company s Amended and Restated 2000 Stock Option and Equity Incentive Plan (Amended 2000 Plan) and 2010 Equity Incentive Plan (2010 Plan), referred to collectively as the Plans, is presented below (in thousands, except exercise price):

| | | Options Outstanding | |
|---|---|---|---|
| | Available for Grant | Number of Shares | Weighted Average Exercise Prices |
| Balance at December 31, 2013 | 422 | 6,727 | $ 3.86 |
| Additional shares authorized under the 2010 Plan | 500 | | |
| Restricted stock units granted | (499) | | |
| Options granted | (49) | 49 | $ 4.69 |
| Options cancelled | 60 | (60) | 3.42 |
| Options exercised | | (300) | $ 3.58 |
| Options expired | (60) | | 3.42 |
| Balance at March 31, 2014 | 374 | 6,416 | $ 3.89 |

The Company also has awarded options to new employees outside of the Plans and may continue to do so, as material inducements to the acceptance of employment with the Company, as permitted under the Listing Rules of the Nasdaq Stock Market. These grants must be approved by the compensation committee of the board of directors, a majority of the independent directors or, below a specified share level, by an authorized executive officer.

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

| | Options Outstanding | |
|---|---|---|
| | Number of Shares | Weighted Average Exercise Prices |
| Balance at December 31, 2013 | 3,178 | $ 4.42 |
| Granted | 118 | $ 5.22 |
| Cancelled | (40) | $ 4.47 |
| Exercised | (32) | $ 3.88 |
| Balance at March 31, 2014 | 3,224 | $ 4.46 |

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

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|

| | | | |
|---|---|---|---|
| Non-vested shares at December 31, 2013 | 27 | $ | 4.46 |
| Granted | 499 | $ | 4.62 |
| Vested | (122) | $ | 4.62 |
| Non-vested shares at March 31, 2014 | 404 | $ | 4.61 |

The following table summarizes significant ranges of outstanding and exercisable options as of March 31, 2014 (in thousands, except contractual life and exercise price):

| | Options Outstanding | | | | Options Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| **Range of Exercise Price** | **Number Outstanding** | **Weighted Average Remaining Contractual Life (in Years)** | **Weighted Average Exercise Price** | **Aggregate Intrinsic Value** | **Number Exercisable** | **Weighted Average Remaining Contractual Life (in Years)** | **Weighted Average Exercise Price** | **Aggregate Intrinsic Value** |
| \$1.50 - \$3.23 | 2,735 | 3.04 | \$ 2.60 | \$ 5,313 | 1,789 | 2.45 | \$ 2.33 | \$ 3,948 |
| \$3.24 - \$4.25 | 2,565 | 4.13 | \$ 3.81 | 1,866 | 1,508 | 4.00 | \$ 3.83 | 1,074 |
| \$4.26 - \$5.61 | 3,400 | 4.24 | \$ 4.94 | 150 | 2,269 | 2.00 | \$ 5.15 | 72 |
| \$5.62 - \$6.50 | 940 | 2.87 | \$ 5.98 | | 719 | 2.59 | \$ 5.98 | |
| | 9,640 | 3.74 | \$ 4.08 | \$ 7,329 | 6,285 | 2.68 | \$ 4.13 | \$ 5,094 |

As of March 31, 2014, the Company had 9.3 million shares subject to outstanding options fully vested and expected to vest, after estimated forfeitures, with a remaining contractual life of 3.62 years, weighted average exercise price of \$4.08 and aggregate intrinsic value of \$7.1 million.

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The total fair value of shares subject to outstanding options vested during the three months ended March 31, 2014 and 2013 calculated using the Black-Scholes valuation method was $0.8 million for each period. The total intrinsic value of employee stock options exercised during the three months ended March 31, 2014 and 2013 was $0.5 million and $0.4 million, respectively.

***Valuation Assumptions***

The fair value of the Company s share-based payment awards for the three months ended March 31, 2014 and 2013 was estimated on the grant dates using the Black-Scholes valuation option-pricing model with the following assumptions:

| | Three Months Ended March 31, | |
|---|---|---|
| **Employee stock options:** | **2014** | **2013** |
| Risk-free interest rate | 1.5% - 1.7% | 0.6% |
| Volatility | 56.9% - 57.5% | 58.5% - 59.1% |
| Expected life (years) | 4.0-5.0 | 4.0 |
| Dividend yield | 0% | 0% |

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

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

***Employee Stock Purchase Plan***

In June 2010, the Company s stockholders approved the 2010 Employee Stock Purchase Plan (ESPP). A total of 2,000,000 shares of common stock have been reserved for issuance under the ESPP. The ESPP, which is intended to qualify under Section 423 of the Internal Revenue Code, is administered by the board of directors or the compensation committee of the board of directors. The ESPP provides that eligible employees may purchase up to $25,000 worth of the Company s common stock annually over the course of two six-month offering periods. The purchase price to be paid by participants is 85% of the price per share of the Company s common stock either at the beginning or the end of each six-month offering period, whichever is less. On September 1, 2010, the Company commenced the first offering period under the ESPP. On February 28, 2014, approximately 140,000 shares of common stock were issued at an aggregate purchase price of $434,000 under the ESPP. As of March 31, 2014, there were approximately 920,000 shares authorized and unissued under the ESPP.

**Note 7. Related Party Transactions**

In February 2012, the Company entered into a strategic development and marketing agreement with Credo Semiconductor (Hong Kong) Ltd. (Credo), a privately- funded, fabless semiconductor company, to develop, market and sell integrated circuits. Two of the Company s executive officers between them loaned a total of $250,000 to Credo for a portion of the seed funding needed by Credo to commence its integrated circuit design efforts. These loans may be converted into minority equity interests in Credo. The agreement and its amendments calls for the Company to make payments to Credo upon Credo achieving certain development and verification milestones towards the development of IC products and provides the Company with exclusive sales and marketing rights for such IC products. To date, the Company has paid Credo $2.8 million for achievement of additional development milestones, as well as for mask costs and wafer purchases from third-party vendors. All amounts incurred have been recorded as research and development expenses. Under the agreement, the first $2.5 million of gross profits generated by the sale of these integrated circuits will be retained by the Company, and, thereafter, the gross profits will be shared equally by the Company and Credo. In the first half of 2013, the Company announced prototype samples of SerDes products developed pursuant to the strategic development and marketing agreement.

**Note 8. Inventory**

| | As of March 31, 2014 | As of December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Work-in-process | $ 845 | $ 542 |
| Finished goods | 79 | 25 |
| | $ 924 | $ 567 |

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**ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

*This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying condensed consolidated financial statements and notes included in this report. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which include, without limitation, statements about the market for our technology, our strategy, competition, expected financial performance, all information disclosed under Item 3 of this Part I, and other aspects of our business identified in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2014 and in other reports that we file from time to time with the Securities and Exchange Commission. Any statements about our business, financial results, financial condition and operations contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, expects, intends, plans, projects, or similar expressions are intended to identify forward-looking statements. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the risk factors described below in Risk Factors and elsewhere in this report and under Item 1A of our annual report on Form 10-K for the year ended December 31, 2013. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law, even as new information becomes available or events occur in the future.*

***Company Overview***

Our strategy and primary business objective is to be an IP-rich fabless semiconductor company focused on the development and sale of integrated circuits, or ICs, for the high-speed networking, communications, storage and computing markets. Prior to 2011, our primary business activities were designing, developing, marketing and licensing high-performance semiconductor memory and high-speed parallel and serial interface, or SerDes I/O, intellectual property (IP) used by semiconductor industry and communications, networking and storage equipment manufacturers. Since 2011, we have developed two IC product lines under the Bandwidth Engine® and LineSpeed product names. Bandwidth Engine ICs combine our proprietary 1T-SRAM® high-density embedded memory and high-speed serial interface with our intelligent access technology and a highly efficient interface protocol. In March 2013, we announced the LineSpeed IC product line, which is comprised of non-memory, high-speed SerDes I/O devices with gearbox and retimer functionality, which convert lanes of data received on line cards into different configurations and/or ensure signal integrity. Certain SerDes products have been developed under a strategic development and marketing agreement with Credo Semiconductor Ltd., or Credo. For those products developed by Credo, the first $2.5 million of gross profits generated by us from the sale of these products will be retained by us as reimbursement of the development costs. Thereafter, all gross profits from the sale of the Credo-developed products worldwide will be shared equally by Credo and us.

Revenue from sales of our IC products is increasing, as we continue to support existing design-win customers and actively pursue additional design wins for the use of our ICs in networking and communication equipment. We have established initial pricing of our IC products ordered to date, but longer-term volume prices will be subject to negotiations with our customers and may vary substantially from these initial prices. Our future success and ability to achieve and maintain profitability will be dependent on the manufacturing, marketing and sales of our IC products into networking, communications and other end- customer applications markets requiring high performance.

***Sources of Revenue***

*IC product.* IC product revenue is generally recognized at the time of shipment to our customers. An estimated allowance is recorded, 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 and stock rotation are deferred until the distributors sell the product to end customers due to our inability to estimate future returns and credits to be issued. At the time of shipment to distributors, an accounts receivable for the selling price is recorded, as there is a legally enforceable right to receive payment, inventory is relieved, as legal title to the inventory is transferred upon shipment, and the associated deferred margin is recorded as deferred revenues in the condensed consolidated balance sheets. Revenues are recognized upon receiving notification from the distributors that products have been sold to end customers.

*Royalty.* Royalty revenue represents amounts earned under provisions in our memory 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 memory IP. Our license agreements require the licensee to report the manufacture or sale of products that include our technology after the end of the quarter in which the sale or manufacture occurs, and we recognize royalties in the quarter in which we receive the licensee s report.

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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.

*Licensing.* Licensing revenue, which is included in royalty and other revenue, consists of fees earned from license agreements, development services, prepaid pre-production royalties, and support and maintenance. 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. 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.

***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis we make these estimates based on our historical experience and on assumptions that we consider reasonable under the circumstances. Actual results may differ from these estimates, and reported results could differ under different assumptions or conditions. Our significant accounting policies and estimates are disclosed in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013. As of March 31, 2014, there have been no material changes to our significant accounting policies and estimates.

***Results of Operations***

*Net Revenue.*

| | Three Months Ended March 31, 2014 | | 2013 | | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|---|---|
| | (dollar amounts in thousands) | | | | | |
| Product | $ | 581 | $ | 61 | $ 520 | 852% |
| Percentage of total net revenue | | 44% | | 5% | | |

Product revenue increased due to increased volume of shipments as customers commence production.

[redacted]

| | | | | | | |
|---|---|---|---|---|---|---|
| Royalty and other | $ | 751 | $ | 1,274 | $ (523) | (41)% |

[redacted]

Royalty and other revenue include revenues generated from licensing agreements. Royalty and other revenue decreased primarily due to a decrease in shipment volumes by licensees whose products incorporate our licensed IP.

*Cost of Net Revenue and Gross Profit.*

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | | (dollar amounts in thousands) | | |
| Cost of net revenue | $ 577 | $ 19 | $ 558 | 2937% |
| Percentage of total net revenue | 43% | 1% | | |

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | | (dollar amounts in thousands) | | |
| Gross profit | $ 755 | $ 1,316 | $ (561) | (43)% |
| Percentage of total net revenue | 57% | 99% | | |

Cost of net revenue is primarily comprised of direct and indirect costs related to the sale of IC products.

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Cost of net revenue increased for the three months ended March 31, 2014, compared with the same period of 2013, primarily due to the increase in product material and testing costs related to IC shipments.

Gross profit decreased for the three months ended March 31, 2014, compared with the same period of 2013, primarily due to the decrease in our royalty revenue, which has no associated costs, coupled with the increase in IC shipments. Gross margin percentage decreased for the three months ended March 31, 2014, compared with the same period of 2013, primarily due to the shift in revenue mix from royalty revenue, which has no associated costs, to product revenue.

*Research and Development.*

| | Three Months Ended March 31, 2014 | 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | (dollar amounts in thousands) | | | |
| Research and development | $ 7,054 | $ 5,320 | $ 1,734 | 33% |
| Percentage of total net revenue | 530% | 399% | | |

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

The $1.7 million increase was primarily due to an increase in stock-based compensation charges, computer-aided design software tools, personnel-related expenses and development costs of our Bandwidth Engine and LineSpeed Gearbox IC products. R&D expense is expected to fluctuate in absolute dollars primarily due to timing of masks and test chip expenditures related to tape-outs of new IC products. Tape-outs of new products also drive higher computer-aided design and consulting costs.

Research and development expenses included stock-based compensation expense of $1.1 million and $0.6 million for the three months ended March 31, 2014 and 2013, respectively.

*Selling, General and Administrative.*

| | Three Months Ended March 31, 2014 | 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | (dollar amounts in thousands) | | | |
| Selling, general and administrative | $ 1,797 | $ 1,623 | $ 174 | 11% |
| Percentage of total net revenue | 135% | 122% | | |

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

The $0.2 million increase was primarily due to the increase in stock-based compensation charges.

Selling, general and administrative expenses included stock-based compensation expense of $0.4 million and $0.3 million for the three month periods ended March 31, 2014 and 2013.

*Other Income, net.*

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | (dollar amounts in thousands) | | | |
| Other income, net | $ 30 | $ 20 | $ 10 | 50% |
| Percentage of total net revenue | 2% | 1% | | |

Other income, net primarily consisted of interest income on our investments, partially offset by other non-operating items.

*Income Tax Provision.*

| | Three Months Ended March 31, 2014 | Three Months Ended March 31, 2013 | Year-Over-Year Change 2013 to 2014 | |
|---|---|---|---|---|
| | (dollar amounts in thousands) | | | |
| Income tax provision | $ 21 | $ 20 | $ 1 | 5% |
| Percentage of total net revenue | 2% | 1% | | |

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The provision for the three months ended March 31, 2014 and 2013 was primarily attributable to taxes on earnings of our foreign subsidiaries and branches. We believe that, based on the history of our operating losses and other factors, the weight of available evidence indicates that it is more likely than not that we will not be able to realize the benefit of our net operating losses, which are primarily generated in the United States. Accordingly, a full valuation reserve has been recorded against our net deferred tax assets.

***Liquidity and Capital Resources; Changes in Financial Condition***

*Cash Flows*

As of March 31, 2014, we had cash, cash equivalents and long and short-term investments of $45.7 million and had total working capital of $34.4 million. Our primary capital requirements are to fund working capital, including development of our IC products, and any acquisitions that we make that require cash consideration or expenditures.

Net cash used in operating activities was $6.3 million for the first three months of 2014, which primarily resulted from our net loss of $8.1 million and $0.1 million in the net reduction in assets and liabilities, partially offset by non-cash charges, including stock-based compensation expense of $1.5 million and depreciation and amortization expenses of $0.4 million. The changes in assets and liabilities primarily related to the timing of the collection of receivables from customers and payments to vendors.

Net cash used in operating activities was $5.0 million for the first three months of 2013, which primarily resulted from our net loss of $5.0 million, a gain on sale of assets of $0.6 million and $0.7 million in the net reduction in assets and liabilities, partially offset by non-cash charges, including stock-based compensation expense of $0.9 million and depreciation and amortization expenses of $0.5 million. The changes in assets and liabilities primarily related to the timing of the collection of receivables from customers and payments to vendors.

Net cash provided by investing activities was $2.5 million for the first three months of 2014, and included net amounts transferred to cash and cash equivalents from investments of $2.6 million, which did not impact our liquidity, partially offset by $0.1 million for purchases of fixed assets.

Net cash provided by investing activities was $6.7 million for the first three months of 2013, and included net amounts transferred to cash and cash equivalents from investments of $6.2 million that did not impact our liquidity and $0.6 million in proceeds from the sale of assets.

Our financing activities in the first three months of 2014 and 2013 primarily consisted of proceeds from the exercise of stock options and our employee stock purchase plan.

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

- level of revenue;
- cost, timing and success of technology development efforts;
- inventory levels, timing of product shipments and length of billing and collection cycles;
- fabrication costs, including mask costs of our ICs, currently under development;
- variations in manufacturing yields, materials costs and other manufacturing risks;
- costs of acquiring other businesses and integrating the acquired operations; and
- profitability of our business.

We expect our cash expenditures to continue to exceed receipts in 2014 as our revenues will not be sufficient to offset our operating expenses, which include significant research and development expenditures for the expansion and fabrication of our IC products. We believe our existing cash, cash equivalents and investments, along with our existing capital and cash generated from operations, if any, to be sufficient to meet our capital requirements for the foreseeable future. There can be no assurance that our capital is sufficient to fund operations until such time as we begin to achieve positive cash flows. Our previous shelf registration statement declared effective in November 2010 was fully utilized and expired in 2013. We expect to file a new shelf registration statement to enable us to raise additional capital in the future. However, there can be no assurance that such funding will be available to us on favorable terms, if at all. The failure to raise capital when needed could have a material adverse effect on our business and financial condition.

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***Contractual Obligations***

The impact that our contractual obligations as of March 31, 2014 are expected to have on our liquidity and cash flow in future periods is as follows (in thousands):

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating leases | $ 4,819 | $ 766 | $ 1,480 | $ 1,491 | $ 1,082 |
| Software licenses | 5,169 | 2,937 | 2,232 | | |
| Wafer purchase obligations | 874 | 874 | | | |
| | $ 10,862 | $ 4,577 | $ 3,712 | $ 1,491 | $ 1,082 |

As of March 31, 2014, our software licenses related to computer-aided design software.

**ITEM 3. Qualitative and Quantitative Disclosures about Market Risk**

Our investment portfolio consists of money market accounts, certificates of deposit, corporate debt, government agency and municipal debt securities. The portfolio dollar-weighted average maturity of these investments is within 12 months.  Our primary objective with this investment portfolio is to invest available cash while preserving principal and meeting liquidity needs.  No single security should exceed 5% of the portfolio or $2.0 million at the time of purchase. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities, which approximated $45.2 million as of March 31, 2014 and earned an average annual interest rate of approximately 0.3% during the first three months of 2014, are subject to interest rate and credit risks. We do not have any investments denominated in foreign currencies, and, therefore, are not subject to foreign currency risk on such investments.

**ITEM 4. Controls and Procedures**

*Disclosure Controls and Procedures.*  Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 March 31, 2014, our disclosure controls and procedures were effective.

*Changes in Internal Control over Financial Reporting.* During the first quarter of 2014, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The discussion of legal matters in Note 3 of the Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this report under the heading Legal Matters is incorporated by reference in response to this Part II, Item 1.

**ITEM 1A. Risk Factors**

We face many significant risks in our business, some of which are unknown to us and not presently foreseen. These risks could have a material adverse impact on our business, financial condition and results of operations in the future. We have disclosed a number of material risks under Item 1A of our annual report on Form 10-K for the year ended December 31, 2013, which we filed with the Securities and Exchange Commission on March 14, 2014.

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**ITEM 6. Exhibits**

(a) Exhibits

| | |
|---|---|
| 31.1 | Rule 13a-14 certification |
| 31.2 | Rule 13a-14 certification |
| 32.1 | Section 1350 certification |
| 101 | The following financial information from MoSys, Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2014, filed with the SEC on May 12, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended March 31, 2014 and 2013, (ii) the Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013, (iii) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013, and (iv) Notes to Condensed Consolidated Financial Statements. |

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**Signatures**

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

| | | |
|---|---|---|
| Dated: May 12, 2014 | | MOSYS, INC. |
| | By: | /s/ Leonard Perham<br>Leonard Perham<br>President and Chief Executive Officer |
| | By: | /s/ James W. Sullivan<br>James W. Sullivan<br>Vice President of Finance and Chief Financial Officer<br>(Principal Financial Officer) |

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**EXHIBIT INDEX**

| | |
|---|---|
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