

MoSys, Inc.
Form 10-K/A
April 30, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the Fiscal Year December 31, 2009 or

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

Commission file number: 000-32929

MOSYS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0291941
(IRS Employer
Identification Number)

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755 N. Mathilda Avenue, Suite 100

Sunnyvale, California 94085

(Address of principal executive offices)

(408) 731-1800

(Registrant's telephone number, including area code)

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

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

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

Title of each class	Name of each exchange on which registered
Series AA Preferred Stock, par value \$0.01 per share	None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, as of June 30, 2009 was \$48,966,700 based upon the last sale price reported for such date on the Global Market of the NASDAQ Stock Market. For purposes of this disclosure, shares of common stock held by persons who beneficially own more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination is not necessarily conclusive.

As of April 14, 2010, 31,287,317 shares of the registrant's common stock, \$0.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

Table of Contents

TABLE OF CONTENTS

<u>Explanatory note</u>		3
	<u>Part III</u>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	4
<u>Item 11.</u>	<u>Executive Compensation</u>	9
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	17
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	19
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	19
	<u>Part IV</u>	
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	20
	<u>Signature</u>	21

Table of Contents

Explanatory Note:

This Amendment No. 1 on Form 10-K/A (the Amendment) amends and supplements the Annual Report on Form 10-K of MoSys, Inc. (MoSys, the Company, we or us) for the year ended December 31, 2009, originally filed with the Securities and Exchange Commission on March 26, 2010. We are filing this Amendment to provide the information required by Items 10, 11, 12, 13 and 14 rather than incorporating such information by reference to our proxy statement for our 2010 annual stockholders meeting. This Amendment does not otherwise modify or update disclosures in the original filing, or change our previously reported financial statements and other financial disclosures.

Table of Contents**Part III****Item 10. Directors, Executive Officers and Corporate Governance**

The names of our board of directors and certain information about them are set forth below:

Name	Age	Position(s) with the Company
Leonard Perham	66	Chief Executive Officer, President and Director
Carl E. Berg(1)(2)	72	Director
Tommy Eng(1)(3)	52	Director
Chi-Ping Hsu(2)(3)	55	Director
James D. Kupec(1)(2)(3)	55	Director
Chenming Hu	62	Director

-
- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Technology Strategy Committee

The principal occupations and positions for at least the past five years of our directors and director nominees are described below. There are no family relationships among any of our directors or executive officers.

Len Perham. Mr. Perham was appointed to be our chief executive officer and president and a member of our board of directors in November 2007. Mr. Perham was one of the original investors in MoSys and initially served on our board of directors from 1991 to 1997. Since retiring from Integrated Device Technology, Inc. in 2000, where he served as chief executive officer from 1991 to 2000 and as President and a board member from 1986, Mr. Perham has served as chairman of the board of directors of NetLogic Microsystems, Inc., a fabless semiconductor company, and has been a private investor holding officer and director positions with various private companies. Mr. Perham holds a B.S. in electrical engineering from Northeastern University.

Carl E. Berg. Mr. Berg has served as a member of our board of directors since September 1992. Since 1997, Mr. Berg has been the chairman of the board and chief executive officer of Mission West Properties, Inc., a real estate investment trust. Mr. Berg has been actively engaged in the ownership, development and management of industrial real estate and in venture capital investment for over 30 years. He currently serves as a member of the boards of directors of Mission West Properties, Inc., Hancock Fabrics, Inc. and Valence Technology, Inc. Mr. Berg served on the board of directors of Focus Enhancements, Inc., a developer of video scan conversion products, from January 2004 until September 2008.

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Mr. Berg holds a B.A. in business from the University of New Mexico.

Tommy Eng. Mr. Eng was appointed to our board of directors in August 2004. Mr. Eng is a partner of EXA Ventures, a venture capital investment firm specializing in IT, semiconductor, communication, multimedia technology/services/content, software, and the incubation of early stage technology companies. Mr. Eng has been an investor holding officer and director positions with various private companies. Prior to founding EXA Ventures, Mr. Eng was an entrepreneur and executive in the semiconductor industry. Mr. Eng held various executive and engineering positions at Tera Systems from 1996 to 2004, Mentor Graphics, Silicon Compiler Systems, and Bell Labs. Mr. Eng served on the board of directors of Focus Enhancements, Inc., a developer of video scan conversion products, from January 2004 until September 2008. Mr. Eng holds a B.S. in electrical engineering from Polytechnic University in New York and a M.S. in electrical engineering from the University of California at Berkeley.

Chi-Ping Hsu. Dr. Hsu was appointed to our board of directors in August 2004. Since April 2003, Dr. Hsu has held executive positions at Cadence Design Systems, an electronic design automation software and engineering services company, most recently as senior vice president of research and development for the Implementation Products Group. From November 2001 to April 2003, Dr. Hsu was president and chief operating officer of Get2Chip, a supplier of high-performance system-on-chip synthesis, which was acquired by Cadence. A graduate of the Taiwan National University with a B.S. in electrical engineering, Dr. Hsu also holds a Ph.D. in electrical engineering and computer science from the University of California at Berkeley.

Table of Contents

James D. Kupec. Mr. Kupec was appointed to our board of directors in August 2004. Mr. Kupec is currently senior vice president of worldwide sales and marketing at GLOBALFOUNDRIES, a semiconductor foundry. Previously, from September 2004 until March 2009, Mr. Kupec served as chief operating officer of eSilicon Corporation, a custom semiconductor chip supplier. From April 2003 to September 2004, Mr. Kupec was president of JDK Group, a semiconductor consultancy firm that he founded. Previously, Mr. Kupec served as a consultant to and chief executive officer of Ammocore, a privately-held electronic design automation company and president of UMC-USA, a semiconductor foundry. Mr. Kupec holds a B.S. in electrical engineering from the University of Illinois and a M.B.A. from Southern Methodist University.

Chenming Hu. Dr. Hu was appointed to our board of directors in January 2005. Dr. Hu is currently the TSMC Distinguished Chair Professor in Electrical Engineering and Computer Sciences at the University of California, Berkeley. From 2001 to 2004, Dr. Hu was the chief technology officer of Taiwan Semiconductor Manufacturing Co. Ltd., or TSMC, an integrated circuit manufacturing company. Dr. Hu received his B.S. degree in electrical engineering from National Taiwan University and M.S. and Ph.D. degrees in electrical engineering from the University of California at Berkeley.

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

Name	Age	Position(s) with the Company
Leonard Perham	66	President and Chief Executive Officer
James W. Sullivan	41	Vice President of Finance and Chief Financial Officer
Sundari Mitra	46	Executive Vice President of Engineering
David DeMaria	48	Vice President of Business Operations

Leonard Perham. Mr. Perham was appointed president and chief executive officer in November 2007. Mr. Perham is also a member of our board of directors and his background is discussed elsewhere within this Item 10.

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

Sundari Mitra. Ms. Mitra became our executive vice president of engineering in June 2009. Prior to joining the Company, Ms. Mitra founded and served as chief executive officer of Prism Circuits from its inception in February 2006 until our acquisition of Prism Circuits on June 5, 2009. Prior to joining Prism Circuits, Ms. Mitra served as a director of engineering at Sun Microsystems, Inc. from June 2002 to August 2004. Ms. Mitra holds a Masters of Science degree in Electrical Engineering from the University of Illinois and a Bachelor of Science degree in Electrical Engineering from Baroda University in India.

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David DeMaria. Mr. DeMaria became our vice president of business operations in August 2008. From November 2007 until August 2008, Mr. DeMaria served as senior vice president at Apache Design Solutions, an electronic design automation software company. From January 2006 until November 2007, Mr. DeMaria was chief executive officer of Optimal Corporation, an electronic design automation software company that he helped grow and ultimately merge with Apache Design Solutions. From October 1999 to March 2004, Mr. DeMaria served in various positions, including executive vice president of the systems business unit and senior vice president of worldwide marketing and strategy, at Cadence Design Systems. Mr. DeMaria attended Boston University for a Bachelor of Science degree in Computer Engineering.

CORPORATE GOVERNANCE

Director Independence

Our board of directors has determined that Carl E. Berg, Tommy Eng, Chi-Ping Hsu, James D. Kupec and Chenming Hu are independent, as defined by the listing rules of the NASDAQ Stock Market, or NASDAQ, and Securities and Exchange Commission, or SEC, rules and regulations. Our board of directors has standing Audit and Compensation Committees, each of which is comprised solely of independent directors in accordance with the NASDAQ listing rules. No

Table of Contents

director qualifies as independent unless the board of directors determines that the director has no direct or indirect material relationship with us. We independently review the relationship of the Company to any entity employing a director or on whose board of directors he is serving currently. The board of directors also has considered share ownership of the directors or their family members and determined in the case of Mr. Berg that his ownership of approximately 5% of our outstanding stock and the ownership of approximately 7% of our outstanding stock by his daughter's trust do not interfere with his exercise of independent judgment in carrying out the responsibilities of a director.

Audit Committee

Our board of directors established the Audit Committee for the purpose of overseeing the accounting and financial reporting processes and audits of our financial statements. The Audit Committee also is charged with reviewing reports regarding violations of our Code of Ethics and complaints with respect thereto, and internal control violations under our whistleblower policy are directed to the Chairman of the Audit Committee. The responsibilities of our Audit Committee are described in the Audit Committee Charter adopted by our board of directors, a current copy of which can be found on the investors section of our website, www.mosys.com.

Messrs. Berg, Eng and Kupec are the current members of the Audit Committee. All are independent, as defined by Rule 5605(a)(2) of the NASDAQ listing rules. Mr. Berg serves as chairman and has been designated by the board of directors as the audit committee financial expert, as defined by Item 407(d)(5)(i) of Regulation S-K under the Securities Act of 1933 and the Securities Exchange Act of 1934. That status does not impose on him duties, liabilities or obligations that are greater than the duties, liabilities or obligations otherwise imposed on him as a member of the Audit Committee and the board of directors, however. The Audit Committee has delegated authority to Mr. Berg for review and approval of non-audit services proposed to be provided by our independent auditors.

Compensation Committee

Messrs. Berg, Hsu and Kupec are the current members of the Compensation Committee, with Mr. Kupec serving as the chairman.

Our Compensation Committee does not have a charter; rather, its duties and obligations have been specified by the board of directors. The Compensation Committee is responsible for reviewing, recommending and approving our compensation policies and benefits, including the compensation of all of our executive officers and directors. Our Compensation Committee also has the principal responsibility for the administration of our stock option and stock purchase plans.

Technology Strategy Committee

Our board of directors established the Technology Strategy Committee in August 2004 to oversee the development, planning and implementation of our long-term intellectual property strategy. Messrs. Eng, Hsu and Kupec are the current members of the Technology Strategy Committee. Mr. Eng is chairman of this committee. This committee does not meet regularly but confers with management informally from time to time.

Nominations Process

We do not have a nominating committee. Instead of having such a committee, our board of directors has appointed Messrs. Berg, Eng, Hsu, Hu and Kupec, who constitute all of the independent directors on our board, to search for and evaluate qualified individuals to become nominees for director and board committee members. The independent directors recommend candidates for nomination for election or reelection for each annual meeting of stockholders and, as necessary, to fill vacancies and newly created directorships, and evaluate candidates for appointment to and removal from committees. The independent directors operate in this capacity under authority granted by resolution of the board of directors, rather than by charter.

When new candidates for our board of directors are sought, the independent directors evaluate each candidate for nomination as director within the context of the needs and the composition of the board as a whole. The independent directors conduct any appropriate and necessary inquiries into the backgrounds and qualifications of candidates. When evaluating director nominees, our board of directors generally seeks to identify individuals with diverse, yet complementary backgrounds. Although we have no formal policy regarding diversity, our directors consider both the personal characteristics and experience of director nominees, including each nominee's independence, diversity, age, skills, expertise, time

Table of Contents

availability and industry background in the context of the needs of the board of directors and the Company. The board of directors believes that director nominees should exhibit proven leadership capabilities and experience at a high level of responsibility within their chosen fields, and have the experience and ability to analyze complex business issues facing MoSys, specifically, those issues that are inherent in the semiconductor industry. In addition to business expertise, the board of directors requires that director nominees have the highest personal and professional ethics, integrity and values and, above all, are committed to representing the long-term interests of our stockholders and other stakeholders. To date, all new candidates have been identified by members of our board of directors, and we have not paid any fee to a third party to assist in the process of identifying or evaluating director candidates.

Our independent directors will consider candidates for nomination as director who are recommended by a stockholder and will not evaluate any candidate for nomination for director differently because the candidate was recommended by a stockholder. To date, we have not received or rejected any suggestions for a director candidate recommended by any stockholder or group of stockholders owning more than 5% of our common stock. When submitting candidates for nomination to be elected at our annual meeting of stockholders, stockholders must also follow the notice procedures and provide the information required by our bylaws. To consider a candidate recommended by a stockholder for nomination at the 2011 Annual Meeting of Stockholders, the recommendation must be delivered or mailed to and received by our Secretary within the time periods discussed in our proxy statement under the heading Stockholder Proposals for 2011 Annual Meeting. The recommendation must include the information specified in our bylaws for stockholder nominees to be considered at an annual meeting, including the following:

- The stockholder's name and address and the beneficial owner, if any, on whose behalf the nomination is proposed;
- The stockholder's reason for making the nomination at the annual meeting, and the signed consent of the nominee to serve if elected;
- The number of shares owned by, and any material interest of, the record owner and the beneficial owner, if any, on whose behalf the record owner is proposing the nominee;
- A description of any arrangements or understandings between the stockholder, the nominee and any other person regarding the nomination; and
- Information regarding the nominee that would be required to be included in our proxy statement by the rules of the Securities and Exchange Commission, including the nominee's age, business experience for the past five years and any other directorships held by the nominee.

The information listed above is not a complete list of the information required by the bylaws. The secretary will forward any timely recommendations containing the required information to our independent directors for consideration.

Board Leadership Structure

Our Amended and Restated Bylaws provide the board of directors with flexibility to combine or separate the positions of chairman of the board of directors and chief executive officer in accordance with its determination that utilizing one or the other structure is in the best interests of our company. Currently, the board of directors has not appointed a chairman or lead independent director. From time to time, each of the independent directors works with Mr. Perham to perform a variety of functions related to our corporate governance, including coordinating board activities, setting relevant items on the agenda (in consultation with Mr. Perham, as necessary or appropriate) and ensuring adequate communication between the board of directors and management. In addition, our board of directors has determined that maintaining the independence of a majority of our directors helps maintain its independent oversight of management. Our Audit Committee, which oversees critical matters such as our compliance with accounting principles, financial reporting practices and system of disclosure controls and internal controls over financial reporting, and our Compensation Committee, which oversees our executive compensation program, each consists entirely of independent directors.

Table of Contents

Risk Oversight

The board of directors is actively involved in the oversight of risks, including strategic, credit, liquidity, operational and other risks, which could affect our business. The board of directors does not have a standing risk management committee, but administers this oversight function directly through the board of directors as a whole and through its committees, which oversee risks relevant to their respective functions. For example, the Audit Committee assists the board of directors in its risk oversight function by reviewing and discussing with management our compliance with accounting principles, financial reporting practices, system of disclosure controls and internal controls over financial reporting and the treasury function, including management of our cash and investments. The Compensation Committee assists the board of directors in its risk oversight function by considering risks relating to the design of our executive compensation programs and arrangements and employee benefit plans. The Technology Strategy Committee monitors and evaluates risks associated with the development, planning and implementation of our long-term intellectual property strategy. The full board of directors considers strategic risks and opportunities and receives reports from the committees regarding risk oversight in their areas of responsibility as necessary. The board of directors and each committee administers its respective risk oversight function by evaluating management's monitoring, assessment and management of risks, including steps taken to limit our exposure to known risks, through regular interaction with our senior management and in board and committee deliberations that are closed to members of management. The interaction with management occurs not only at formal board and committee meetings but also through periodic and other written and oral communications.

Stockholder Communications with the Board

Stockholders who desire to communicate with the board, or a specific director, may do so by sending the communication addressed to either the board of directors or any director, c/o MoSys, Inc., 755 N. Mathilda Avenue, Sunnyvale, California 94085. These communications will be delivered to the board, or any individual director, as specified.

Annual Meeting Attendance

We have a policy of encouraging each director to attend the Annual Meeting, but attendance is not required. Mr. Perham, our president and chief executive officer, attended the 2009 Annual Meeting of Stockholders.

Meetings of the Board and Committees

During 2009, there were six meetings of the board of directors, four meetings of the Audit Committee and three meetings of the Compensation Committee. Other than Mr. Kupec, each current director attended at least 75% of the total number of meetings of the board held in 2009 and the meetings of each committee on which he served. Mr. Kupec attended approximately 65% of the meetings of the board of directors and the committees upon which he served during 2009. The board of directors and the Compensation Committee also acted at times by unanimous written consent, as authorized by our bylaws and the Delaware General Corporation Law.

Compensation Committee Interlocks and Insider Participation

During 2009, none of our executive officers served as a member of the board of directors or compensation committee of any entity that had one or more of its executive officers serving as a member of our board of directors or Compensation Committee. Messrs. Berg, Hsu and Kupec, the Compensation Committee members, were not officers or employees of ours during 2009 or at any other time.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of ours. Directors, executive officers and greater than 10% holders are required by SEC regulation to furnish us with copies of all Section 16(a) reports they file. Based solely on our review of Forms 3 and 4 received during 2009 and Forms 5 (or and any written representations to us by such persons) received with respect to fiscal year 2009, we believe that all directors, executive officers and 10% stockholders complied with all applicable Section 16(a) filing requirements during 2009, except that Mr. Berg, a director, failed to timely file a Form 4 to report the option grant he received in July 2009.

Code of Ethics

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

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

Table of Contents

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee of the board of directors has responsibility for establishing, implementing and monitoring adherence to our compensation philosophy. The board of directors has delegated to the Compensation Committee the responsibility for determining our compensation policies and procedures for senior management, including the named executive officers, periodically reviewing these policies and procedures, and making recommendations concerning executive compensation to be considered by the full board of directors, when such approval is required under any of our plans or policies or by applicable laws. The Compensation Committee also has the principal responsibility for the administration of our stock plans, including the approval of stock option grants to the named executive officers.

The compensation received by our named executive officers in fiscal year 2009 is set forth in the Summary Compensation Table, below. As a result of our acquisition of Prism Circuits, Inc. in June 2009, Sundari Mitra, formerly the founder and chief executive officer of Prism Circuits, Inc., became our executive vice president of engineering. For 2009, the named executive officers included Mr. Perham, Mr. Sullivan, Mr. DeMaria and Ms. Mitra. All of our named executive officers for 2009 are still executive officers.

Compensation Philosophy

In general, our executive compensation policies are designed to recruit, retain and motivate qualified executives by providing them with a competitive total compensation package based in large part on the executive's contribution to our financial and operational success, the executive's personal performance and increases in stockholder value as measured by the price of our common stock. We believe that the total compensation paid to our executives should be fair, reasonable and competitive.

We seek to have a balanced approach to executive compensation with each primary element of compensation (base salary, variable compensation and equity incentives) designed to play a specific role. Overall, we design our compensation programs to allow for the recruitment, retention and motivation of the key executives and high-level talent required in order for us to:

- supply high-value and high-quality intellectual property content solutions to our customer base;
- achieve or exceed our annual financial plan and be profitable;

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- make continuous progression towards achieving our long-term strategic objectives to be a high-growth company with growing profitability; and
- increase our share price to provide greater value to our stockholders.

Role of Executive Officers in Compensation Decisions

The chief executive officer (CEO) makes recommendations based on guidelines for equity and non-equity compensation for executives that have been approved by the Compensation Committee. The Compensation Committee reviews these guidelines annually. The CEO annually reviews the performance of our executives (other than himself) and presents his recommendations for proposed salary adjustments, bonus awards and option grants to the Compensation Committee once a year. In its discretion, the Compensation Committee may accept, modify or reject the CEO s recommendations. Only the Compensation Committee and the board of directors are authorized to approve the compensation for any named executive officer. Compensation of new executives is based on hiring negotiations between the individuals and our CEO and/or Compensation Committee.

Elements of Compensation

Consistent with our compensation philosophy and objectives, we offer executive compensation packages consisting of the following three components:

Table of Contents

- base salary;
- annual incentive compensation; and
- stock option grants.

In each fiscal year, the Compensation Committee determines the amount and relative weighting of each component for all executives, including the named executive officers.

Base Salary

Because our compensation philosophy stresses performance-based awards, base salary is intended to be a smaller portion of total executive compensation relative to long-term equity. Therefore, we target executive base salary at the median level of the compensation guidelines that have been approved by the Compensation Committee. In addition, the Compensation Committee takes into account the executive's scope of responsibility and significance to the execution of our long-term strategy, past accomplishments, experience and personal performance and compares each executive's base salary with those of the other members of senior management. The Committee may give different weighting to each of these factors for each executive, as it deems appropriate. The Committee did not retain a compensation consultant or determine a compensation peer group for 2009.

Annual Incentive Compensation

The Compensation Committee did not adopt an executive bonus plan for 2009 because the Compensation Committee believed that such a plan should be based on pre-tax profit. To date, the Compensation Committee has not adopted an executive bonus plan for 2010 for the same reason. As soon as we achieve profitability on a pre-tax basis, the Compensation Committee intends to implement a bonus plan for our executives. Mr. DeMaria's August 2008 employment offer letter provided for an incentive bonus of up to \$25,000 for fiscal year 2008 with such bonus to be determined based on the achievement of certain objectives mutually agreed upon between him and Mr. Perham. Based on the achievement of those objectives, Mr. DeMaria earned a bonus of \$20,000, which was paid February 2009. During 2009, Mr. DeMaria had responsibility for our sales efforts and was compensated for these efforts under a sales compensation plan. Under his 2009 sales compensation plan, we paid Mr. DeMaria \$9,826 in commissions during 2009 and \$27,181 in January 2010.

Stock Options

Although we do not have a mandated policy regarding the ownership of shares of common stock by officers and directors, we believe that granting stock options to executives and other key employees on an ongoing basis gives them a strong incentive to maximize stockholder value

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and aligns their interests with those of our other stockholders on a long-term basis. Our Amended 2000 Plan enables us to grant stock options, as well as other types of stock-based compensation, to our executive officers and other employees. Under authority delegated to it by the board of directors, the Compensation Committee reviews and approves all stock option grants to named executive officers under the Amended 2000 Plan. Typically, these options vest with respect to one-fourth of the total number of shares subject to the grant on the first anniversary of the grant date and with respect to 1/48th of the shares monthly thereafter. Our general policy is to grant the options with an exercise price equal to fair market value, which currently is the closing price of the common stock on the Nasdaq GM on the grant date.

We intend to grant equity awards to achieve retention and motivation:

- upon the hiring of key executives and other personnel;
- annually, when we review progress against corporate and personal goals; and
- when we believe that competitive forces or economic conditions threaten to cause our key executives to lose their motivation and/or where retention of these key executives is in jeopardy.

With the Compensation Committee's approval, we grant options to purchase shares of common stock when we initially hire executives and other employees, as a long-term performance incentive. The Compensation Committee has determined the size of the initial option grants to newly hired executives with reference to existing guidelines and hiring negotiations with the individual, in addition to other relevant information regarding the size and type of compensation package considered necessary to enable us to recruit, retain and motivate the executive. In June 2009, the Compensation Committee authorized the grant of an option to purchase 675,000 shares of common stock to Ms. Mitra when she became our executive vice president of engineering upon our acquisition of Prism Circuits, Inc. In November 2009, the Compensation