INTERNATIONAL SHIPPING ENTERPRISES, INC.
Form S-4/A
July 15, 2005
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 15, 2005

REGISTRATION NO. 333-124170

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 3

TO

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

INTERNATIONAL SHIPPING ENTERPRISES, INC. **NAVIOS MARITIME HOLDINGS INC.**
(Exact name of registrant and co-registrant as specified in their charters)

DELAWARE	57-1212493	REPUBLIC OF MARSHALL ISLANDS	98-0384348
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6770
(Primary Standard Industrial Classification Code Number)

1225 FRANKLIN AVENUE, SUITE 325, GARDEN CITY, NEW YORK 11530 (516) 240-8025

(Address, including zip code, and telephone number, including area code of registrant s and co-registrant s principal executive offices)

Angeliki Frangou

Chief Executive Officer

c/o International Shipping Enterprises, Inc.

1225 Franklin Avenue, Suite 325 Garden City, New York 11530

(516) 240-8025

(Name, address, including zip code, and telephone number,

including area code of agent for service)

WITH COPIES TO:

Kenneth R. Koch, Esq.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

666 Third Avenue

New York, New York 10017

(212) 935-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective and upon consummation of the transactions described in the enclosed prospectus.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	MAXIMUM AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, par value $0.0001 per share	39,900,000 shares	$ 5.83	$ 232,617,000	$ 27,380(3)

(1) This Registration Statement covers the maximum number of shares of common stock, par value $0.0001, that will be issued by Navios Maritime Holdings Inc., the company that will be International Shipping s wholly-owned subsidiary immediately after the acquisition of Navios Maritime Holdings Inc., which will then be a wholly-owned subsidiary, and immediately prior to the reincorporation, all as described herein. At the time of the reincorporation, these shares will be issued by Navios Maritime Holdings Inc. in connection with the merger of International Shipping into its then wholly-owned subsidiary, the co-registrant, in order to effectuate the reincorporation of International Shipping.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f)(1) and (3) and Rule 457(c) of the Securities Act, based on the market value of the registrant s common stock to be issued in the reincorporation merger, as established by the average of the high and low sale prices of the registrant s common stock on April 15, 2005 on the Over-the-Counter Bulletin Board, which was $5.83, and the maximum number of shares of common stock of what will be the registrant s wholly-owned subsidiary to be issued.

(3) Previously paid.

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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INTERNATIONAL SHIPPING ENTERPRISES, INC. **NAVIOS MARITIME HOLDINGS INC.**

1225 Franklin Avenue

Suite 325

Garden City, New York 11530

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS OF

INTERNATIONAL SHIPPING ENTERPRISES, INC.

PROSPECTUS FOR UP TO 39,900,000 COMMON SHARES

OF NAVIOS MARITIME HOLDINGS INC., AS SUCCESSOR BY MERGER TO

INTERNATIONAL SHIPPING ENTERPRISES, INC.

To the Stockholders of International Shipping Enterprises, Inc. (ISE):

You are cordially invited to attend a special meeting of the stockholders of International Shipping Enterprises, Inc., or ISE, relating to the proposed acquisition of Navios Maritime Holdings Inc. by ISE and the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands, which will be held at 10:00 a.m., eastern time, on [ ], 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017.

At this important meeting, you will be asked to consider and vote upon the following proposals:

- to approve the acquisition of Navios Maritime Holdings Inc., or Navios, a Marshall Islands corporation, pursuant to the Stock Purchase Agreement, dated as of February 28, 2005, by and among ISE, Navios, the shareholders agent and the shareholders of Navios, and the transactions contemplated by the stock purchase agreement, whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios;

- to approve the reincorporation of ISE pursuant to which ISE will change its domicile from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios immediately following the acquisition; and

- to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The affirmative vote of a majority of the shares of ISE s common stock issued in ISE s initial public offering that are present in person or by proxy and entitled to vote at the meeting is required to approve the acquisition proposal. The affirmative vote of a majority of the outstanding shares of ISE s common stock is required to approve the reincorporation proposal. In addition, each ISE stockholder that holds shares of common stock issued in ISE s initial public offering or purchased following such offering in the open market has the right to vote against the acquisition

proposal and, at the same time, demand that ISE convert such stockholder s shares into cash equal to a pro rata portion, or $5.51 per share plus interest, of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering is deposited. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected. However, if the holders of 6,555,000 or more shares of common stock issued in ISE s initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then ISE will not be able to consummate the acquisition. ISE s initial stockholders, including all of its directors and officers and their affiliates, who purchased shares of common stock prior to ISE s initial public offering and presently own an aggregate of approximately 30% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal. The initial stockholders of ISE, including all of its directors and officers and their affiliates, are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 12% of the outstanding common stock, in favor of both the acquisition and reincorporation proposals. This percentage could increase to approximately 16% in the event Ms. Frangou were to purchase up to $20 million of shares of common stock in the open market, as she has previously indicated her intent to do so, assuming a current market price of $5.90.

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ISE may consummate the acquisition proposal if the reincorporation proposal is not approved. However, the reincorporation proposal will not be implemented if the acquisition proposal is not approved.

ISE s shares of common stock, warrants and units are listed on the Over-the-Counter Bulletin Board under the symbols ISHP, ISHPW and ISHPU, respectively. The securities of Navios are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. If the acquisition and reincorporation proposals are approved, the operations and assets of Navios will become those of ISE and ISE s name will be changed to Navios Maritime Holdings Inc. upon consummation of the acquisition and reincorporation.

After careful consideration of the terms and conditions of the proposed acquisition of Navios and the reincorporation of ISE, the board of directors of ISE has determined that such acquisition and reincorporation and the transactions contemplated thereby are fair to and in the best interests of ISE and its stockholders. The board of directors of ISE unanimously recommends that you vote or give instruction to vote FOR the proposal to acquire Navios pursuant to the stock purchase agreement by and among ISE, Navios, the shareholders agent and the shareholders of Navios, and FOR the adoption of the proposal to reincorporate ISE from the State of Delaware to the Republic of the Marshall Islands.

Enclosed is a notice of special meeting and proxy statement/prospectus containing detailed information concerning the reincorporation and the acquisition. Whether or not you plan to attend the special meeting, we urge you to read this material carefully. I look forward to seeing you at the meeting.

Sincerely,

Angeliki Frangou

Chairman of the Board,

President and Chief Executive Officer

YOUR VOTE IS IMPORTANT. WHETHER YOU PLAN TO ATTEND THE SPECIAL MEETING OR NOT, PLEASE SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SEE THE SECTION TITLED RISK FACTORS BEGINNING ON PAGE 10 FOR A DISCUSSION OF VARIOUS FACTORS THAT YOU SHOULD CONSIDER IN CONNECTION WITH THE ACQUISITION OF NAVIOS SINCE, UPON THE ACQUISITION OF NAVIOS AND SUBSEQUENT REINCORPORATION OF ISE, THE OPERATIONS AND ASSETS OF ISE WILL BE THOSE OF NAVIOS.

This proxy statement/prospectus incorporates important business and financial information about International Shipping Enterprises, Inc. and Navios Maritime Holdings Inc. that is not included in or delivered with the document. This information is available without charge to security holders upon written or oral request. The request should be sent to:

Avisheh Avini

c/o International Shipping Enterprises, Inc.

1225 Franklin Ave., Suite 325

Garden City, New York 11530

(516) 240-8025

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To obtain timely delivery of requested materials, security holders must request the information no later than five days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is , 2005.

We are soliciting the enclosed proxy card on behalf of the board of directors, and we will pay all costs of preparing, assembling and mailing the proxy materials. In addition to mailing out proxy materials, our officers may solicit proxies by telephone or fax, without receiving any additional compensation for their services. We have requested brokers, banks and other fiduciaries to forward proxy materials to the beneficial owners of our stock. We have engaged Georgeson Shareholder Communications, Inc. to solicit proxies for this special meeting. We are paying Georgeson $7,500 at the start of the solicitation and we may pay additional fees after the solicitation depending on the services we use, plus certain of Georgeson s out-of-pocket expenses.

This proxy statement/prospectus is dated [ ], 2005 and is first being mailed to ISE stockholders on or about [ ], 2005.

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International Shipping Enterprises, Inc.

1225 Franklin Avenue

Suite 325

Garden City, New York 11530

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [ ], 2005

TO THE STOCKHOLDERS OF INTERNATIONAL SHIPPING ENTERPRISES, INC.:

NOTICE IS HEREBY GIVEN that, a special meeting of stockholders, including any adjournments or postponements thereof, of International Shipping Enterprises, Inc., a Delaware corporation, will be held at 10:00 a.m. eastern time, on [ ], 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017, for the following purposes:

- to consider and vote upon a proposal to acquire Navios Maritime Holdings Inc., or Navios, pursuant to the Stock Purchase Agreement, dated as of February 28, 2005, by and among ISE, Navios, the shareholders agent and the shareholders of Navios;

- to consider and vote upon a proposal to reincorporate International Shipping Enterprises, Inc., or ISE, from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios immediately following the acquisition; and

- to consider and vote upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

The board of directors has fixed the close of business on [ ], 2005 as the date for which ISE stockholders are entitled to receive notice of, and to vote at, the ISE special meeting and any adjournments or postponements thereof. Only the holders of record of ISE common stock on that date are entitled to have their votes counted at the ISE special meeting and any adjournments or postponements thereof.

ISE will not transact any other business at the special meeting, except for business properly brought before the special meeting or any adjournment or postponement by ISE s board of directors.

Your vote is important. Please sign, date and return your proxy card as soon as possible to make sure that your shares are represented at the special meeting. If you are a stockholder of record of ISE common stock, you may also cast your vote in person at the special meeting. If your shares are held in an account at a brokerage firm or bank, you must instruct your broker or bank on how to vote your shares.

ISE may consummate the acquisition proposal if the reincorporation proposal is not approved, but then ISE, as Navios, will not be able to continue enjoying the various regulatory, financial and tax benefits that would otherwise be available to ISE as a Marshall Islands corporation. However, the reincorporation proposal will not be implemented if the acquisition proposal is not approved. The board of directors of ISE unanimously recommends that you vote FOR the acquisition proposal and FOR the adoption of the reincorporation proposal.

By Order of the Board of Directors,

Angeliki Frangou

Chairman of the Board,

President and Chief Executive Officer

[ ], 2005

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International Shipping Enterprises, Inc. Navios Maritime Holdings Inc.

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS OF

INTERNATIONAL SHIPPING ENTERPRISES, INC.

PROSPECTUS FOR UP TO 39,900,000 COMMON SHARES

OF NAVIOS MARITIME HOLDINGS INC., AS SUCCESSOR BY MERGER TO

INTERNATIONAL SHIPPING ENTERPRISES, INC.

The board of directors of International Shipping Enterprises, Inc. (ISE) has unanimously approved the acquisition of Navios Maritime Holdings Inc. (Navios) pursuant to a stock purchase agreement whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios. Furthermore, it has unanimously approved the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands, through a merger with Navios such that the merged corporation will be incorporated under, and subject to, the laws of the Republic of the Marshall Islands.

If the acquisition is completed, you will continue to hold the ISE securities that you currently own, and will not receive any of the cash paid in connection with the acquisition. ISE is simply acquiring all of the outstanding securities of Navios. The shareholders of Navios will receive all of the cash being paid by ISE in the acquisition. However, in connection with the reincorporation, you will receive an equal number of shares of common stock of Navios Maritime Holdings Inc., which will be the name of ISE following the acquisition and reincorporation, in exchange for your ISE common stock. Navios Maritime Holdings Inc. will also assume the outstanding ISE warrants, the terms and conditions of which will not change, except that, upon exercise, warrant holders will receive shares of common stock of Navios Maritime Holdings Inc., the newly acquired and reincorporated company.

ISE was organized to serve as a vehicle for the acquisition of one or more vessels or of an operating business in the dry bulk sector of the shipping industry. Navios is an integrated international dry bulk shipping owner and operator specializing in the worldwide carriage, trading, storing and other related logistics of international dry bulk cargo transportation. Navios also owns the largest bulk transfer and storage facility in Uruguay. We believe that Navios occupies a unique competitive position in the international dry bulk shipping industry and provides a solid platform for ISE s plans for expansion and consolidation within this industry. As a result, we believe that the acquisition of Navios will provide you with an opportunity to acquire, and participate in, a company with significant growth potential. We also believe that, for a variety of regulatory, financial and tax reasons, the Marshall Islands is an attractive country of incorporation for international shipping companies. As a Marshall Islands corporation, Navios has had the benefit of these advantages, and we believe the reincorporation will permit us to take advantage of such benefits.

ISE s common stock, warrants and units are currently listed on the Over-the-Counter Bulletin Board under the symbols ISHP, ISHPW and ISHPU, respectively. The securities of Navios are not listed or quoted on any national securities exchange, the Nasdaq Stock Market, or the Over-the-Counter Bulletin Board. Upon consummation of the acquisition and reincorporation, the operations and assets of Navios will become those of ISE and ISE s name will be changed to Navios Maritime Holdings Inc. Our common stock will continue to be traded on the Over-the-Counter Bulletin Board.

We believe that generally, for U.S. federal income tax purposes, the purchase of the shares of the stock of Navios by ISE, followed by the merger of ISE into Navios, should be treated as the direct purchase of the Navios shares by the shareholders of ISE, and that the separate existence of Navios should be ignored for federal income tax purposes. Accordingly, we do not believe that the merger of ISE into Navios will result in the recognition of gain or loss to ISE or its shareholders. WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS REGARDING YOUR PARTICULAR TAX CONSEQUENCES.

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This proxy statement/prospectus provides you with detailed information about the acquisition and reincorporation and the special meeting of shareholders. We encourage you to carefully read this entire document and the documents incorporated by reference. **YOU SHOULD ALSO CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 10**.

The acquisition of Navios cannot be completed unless at least a majority of the shares of ISE s common stock issued in ISE s initial public offering, present in person or by proxy and entitled to vote at the special meeting as of [ ], 2005, approve the acquisition. The reorganization cannot be completed unless at least a majority of outstanding shares of ISE s common stock, present in person or by proxy and entitled to vote at the special meeting as of [ ], 2005, approve the reorganization.

Your board of directors unanimously approved and declared advisable the acquisition and the reincorporation and unanimously recommends that you vote or instruct your vote to be cast FOR the approval of the acquisition proposal and FOR the approval of the reincorporation proposal.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This proxy statement/prospectus incorporates important business and financial information about International Shipping Enterprises, Inc. and Navios Maritime Holdings Inc. that is not included in or delivered with the document. This information is available without charge to security holders upon written or oral request. The request should be sent to:

Avisheh Avini

c/o International Shipping Enterprises, Inc.

1225 Franklin Ave., Suite 325

Garden City, New York 11530

(516) 240-8025

To obtain timely delivery of requested materials, security holders must request the information no later than five days before the date they submit their proxies or attend the special meeting. The latest date to request the information to be received timely is , 2005.

We are soliciting the enclosed proxy card on behalf of the board of directors, and we will pay all costs of preparing, assembling and mailing the proxy materials. In addition to mailing out proxy materials, our officers may solicit proxies by telephone or fax, without receiving any additional compensation for their services. We have requested brokers, banks and other fiduciaries to forward proxy materials to the beneficial owners of our stock. We have engaged Georgeson Shareholder Communications, Inc. to solicit proxies for this special meeting. We are paying Georgeson $7,500 at the start of the solicitation and we may pay additional fees after the solicitation depending on the services we use, plus certain of

Georgeson s out-of-pocket expenses.

THIS PROXY STATEMENT/PROSPECTUS IS DATED [ ], 2005, AND IS FIRST BEING MAILED TO ISE SHAREHOLDERS ON OR ABOUT [ ], 2005.

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QUESTIONS AND ANSWERS ABOUT THE PROPOSALS

What is being voted on?

There are two proposals on which you are being asked to vote. The first proposal is to approve the acquisition of Navios pursuant to a stock purchase agreement whereby ISE will purchase all of the outstanding securities held by the shareholders of Navios. We refer to this proposal as the acquisition proposal. The second proposal, assuming that the acquisition proposal is approved, is to approve the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands through a merger with Navios such that the merged corporation will be incorporated under, and subject to the laws of the Republic of the Marshall Islands. We refer to this proposal as the reincorporation proposal.

Why is ISE proposing the acquisition?

ISE was organized to serve as a vehicle for the acquisition of one or more vessels or an operating business in the dry bulk sector of the shipping industry. Navios is an integrated international dry bulk shipping owner and operator specializing in the worldwide carriage, trading, storing and other related logistics of international dry bulk cargo transportation. Navios also owns the largest bulk transfer and storage facility in Uruguay. ISE believes that Navios occupies a unique competitive position in the international dry bulk shipping industry and provides a solid platform for ISE s plans for expansion and consolidation within this industry. As a result, ISE believes that the acquisition of Navios will provide ISE stockholders with an opportunity to acquire, and participate in, a company with significant growth potential. See page 30.

Why is ISE proposing the reincorporation?

For a variety of regulatory, financial and tax reasons, the Marshall Islands is an attractive country of incorporation for international shipping companies. As a Marshall Islands corporation, Navios has had the benefit of these advantages, and the reincorporation will permit ISE to take advantage of such benefits.

What vote is required in order to approve the acquisition proposal?

The approval of the acquisition of Navios will require the affirmative vote of a majority of the shares of ISE s common stock issued in ISE s initial public offering that are present in person or by proxy and entitled to vote at the meeting. In addition, each ISE stockholder who holds shares of common stock issued in ISE s initial public offering or purchased following such offering in the open market has the right to vote against the acquisition proposal and, at the same time, demand that ISE convert such stockholder s shares into cash equal to a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering is deposited. These shares will be converted into cash only if the acquisition is completed. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately $5.51, or $0.49 less than the per-unit offering price of $6.00 for which you purchased units in the initial public offering. However, if the holders of 6,555,000 or more shares of common stock issued in ISE s initial public offering, an amount equal to 20% or more of the total number of shares issued in the initial public offering, vote against the acquisition and demand conversion of their shares into a pro rata portion of the trust account, then ISE will not be able to consummate the acquisition. In addition, ISE s initial stockholders, including all of its directors and officers, who purchased shares of common stock prior to ISE s initial public offering and presently, together with their affiliates, own an aggregate of approximately 30% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the

outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal. The initial stockholders of ISE, including all of its directors and officers and their affiliates, are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing

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approximately 12% of the outstanding common stock as of July 13, 2005, in favor of the acquisition proposal. On May 27, 2005, Angeliki Frangou filed a Schedule 13D indicating that she intended, subject to market conditions, to purchase up to an additional $20 million of common stock. Since May 27, 2005 and as of July 13, 2005, she had acquired approximately $10.0 million of common stock representing 1,773,500 shares of common stock which are reflected in the 30% and 12% figures referred to above. If Ms. Frangou spends the balance of the $20 million, and assuming the market price of the common stock remains at $5.90 per share, Ms. Frangou would acquire approximately an additional 1.7 million shares of common stock and the 30% and 12% would be 34% and 16%, respectively. No vote of the warrant holders is necessary to adopt the acquisition proposal, and ISE is not asking the warrant holders to vote on the acquisition proposal. The acquisition proposal may take place if the reincorporation proposal is not approved, but then ISE, as Navios, will not be able to continue enjoying the various regulatory financial and tax benefits that would otherwise be available to ISE as a Marshall Islands corporation.

What vote is required in order to approve the reincorporation proposal?

The approval of the reincorporation from the State of Delaware to the Republic of the Marshall Islands will require the affirmative vote of a majority of the outstanding shares of ISE s common stock. An ISE stockholder who votes in favor of the reincorporation proposal is also voting to approve a plan and agreement of merger between ISE and what will then be, assuming approval of the acquisition, a wholly-owned Marshall Islands subsidiary, or Navios, pursuant to which ISE will file the plan and agreement of merger and articles of merger with the Republic of the Marshall Islands and a certificate of merger with the Secretary of State of the State of Delaware to effectuate the reincorporation. Upon consummation of such transactions, the operations and assets of Navios will become those of ISE, ISE will be a Marshall Islands corporation and ISE s name will then be Navios Maritime Holdings Inc. No vote of the warrant holders is necessary to adopt the reincorporation proposal, and ISE is not asking the warrant holders to vote on the reincorporation proposal. The reincorporation proposal will not be implemented if the acquisition proposal is not approved.

When do you expect the reincorporation to be completed?

It is currently anticipated that the reincorporation will be completed immediately following the acquisition of Navios.

What will the name of the company be after the acquisition and reincorporation?

Following the completion of the acquisition and reincorporation, the merged company s name will be Navios Maritime Holdings Inc.

What will I receive in the acquisition or in the reincorporation?

Holders of ISE securities will continue to hold the ISE securities they currently own, and will not receive any of the cash paid in connection with the acquisition. ISE is simply acquiring all of the outstanding securities of Navios. The shareholders of Navios will receive all of the cash being paid by ISE in the acquisition. However, in connection with the reincorporation, ISE stockholders will receive an equal number of shares of common stock of Navios Maritime Holdings, Inc. which will be the name of ISE following the acquisition and reincorporation, in exchange for their ISE common stock. Navios Maritime Holdings Inc. will also assume the outstanding ISE warrants, the terms and conditions of which will not change, except that, upon exercise, warrantholders will receive shares of common stock of Navios Maritime Holdings Inc., the newly acquired and reincorporated company.

How is ISE paying for the acquisition?

ISE will use the proceeds from its recently completed initial public offering, as well as funds that will be available to ISE pursuant to a new senior secured credit facility with the institutional lender, HSH Nordbank AG, in order to finance the acquisition of Navios. In addition, Angeliki Frangou, ISE s Chairman, President and Chief

Executive Officer, has agreed to loan ISE the funds necessary to cover, until the closing, its transaction expenses in excess of the funds held outside the trust, which loans shall be repaid, without interest, at the closing of the acquisition with the funds made available to ISE or upon demand thereafter.

Do I have conversion rights in connection with the acquisition?

If you hold shares of common stock issued in ISE s initial public offering, then you have the right to vote against the acquisition proposal and demand that ISE convert your shares of common stock into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering are held. These rights to vote against the acquisition and demand conversion of the shares into a pro rata portion of the trust account, are sometimes referred to herein as conversion rights.

If I have conversion rights, how do I exercise them?

If you wish to exercise your conversion rights, you must vote against the acquisition and, at the same time, demand that ISE convert your shares into cash. If, notwithstanding your vote, the acquisition is completed, then you will be entitled to receive a pro rata share of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering are held, including any interest earned thereon through the date of the special meeting. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately $5.51, or $0.49 less than the per-unit offering price of $6.00 for which you purchased units in the initial public offering. If you exercise your conversion rights, then you will be exchanging your shares of ISE common stock for cash and will no longer own these shares of common stock. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to ISE. If you convert your shares of common stock, you will still have the right to exercise the warrants received as part of the units. If the acquisition is not completed, then your shares will not be converted to cash at this time, even if you so elected. See page 25.

Do I have dissenter or appraisal rights in connection with the reincorporation?

The ISE stockholders have appraisal rights under Delaware corporate law only in connection with the reincorporation proposal.

What happens to the funds deposited in the trust account after completion of the acquisition?

Upon completion of the acquisition, any funds remaining in the trust fund after payment of amounts, if any, to stockholders requesting and exercising their conversion rights and amounts, will be used to fund the acquisition.

Who will manage ISE upon completion of the acquisition of Navios and subsequent reincorporation?

Upon completion of the acquisition and reincorporation, ISE will be managed by the following persons: Angeliki Frangou will be Chairman of the Board and Chief Executive Officer; Robert G. Shaw will be President; and Bruce C. Hoag will be Chief Financial Officer. The current board of directors of ISE will continue as the board of directors after the acquisition and reincorporation. The board of directors will consist of Angeliki Frangou (Chairman), Vasiliki Papaefthymiou, Spyridon Magoulas, Julian David Brynteson and John Stratakis.

What happens if the acquisition is not consummated?

If the acquisition is not consummated, ISE will continue to search for either a fleet of dry bulk carriers or another operating company to acquire in the dry bulk sector of the shipping industry. However, ISE will be liquidated if it does not consummate a business combination by December 16, 2005 or, if a letter of intent,

agreement in principle or definitive agreement is executed, but not consummated, by December 16, 2005, then by June 16, 2006. In any liquidation, the net proceeds of ISE s initial public offering held in the trust account, plus any interest earned thereon, will be distributed pro rata to the holders of ISE s common stock. In addition, if ISE does not acquire Navios pursuant to the terms of the stock purchase agreement, the right to acquire Navios may be assigned to an affiliate, which could include Angeliki Frangou and members of her family.

When do you expect the acquisition to be completed?

It is currently anticipated that the acquisition will be completed promptly following the ISE special meeting of stockholders on [ ], 2005 and immediately prior to the reincorporation of ISE.

If I am not going to attend the ISE special meeting of stockholders in person, should I return my proxy card instead?

Yes. After carefully reading and considering the information contained in this proxy statement/prospectus, please complete and sign your proxy card. Then return the enclosed proxy card in the return envelope provided herewith as soon as possible, so that your shares may be represented at the ISE special meeting.

What will happen if I abstain from voting or fail to vote?

An abstention or failure to vote (i) (a) will have no effect on the acquisition proposal and (b) will not have the effect of converting your shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering are held, unless an affirmative election to convert such shares of common stock is made on the proxy card, and (ii) will have the same effect as a vote against the reincorporation proposal.

What do I do if I want to change my vote?

If you wish to change your vote, please send a later-dated, signed proxy card to Avisheh Avini at ISE prior to the date of the special meeting or attend the special meeting and vote in person. You also may revoke your proxy by sending a notice of revocation to Avisheh Avini at the address of ISE s corporate headquarters.

If my shares are held in street name by my broker, will my broker vote my shares for me?

No. Your broker can vote your shares only if you provide instructions on how to vote. You should instruct your broker to vote your shares in accordance with directions provided by your broker.

Do I need to turn in my old certificates?

No. If you hold your securities in ISE in certificate form, as opposed to holding them through your broker, you do not need to exchange them for certificates issued by Navios Maritime Holdings Inc., the company that will be existing after the acquisition and reincorporation. Your current certificates will represent your rights in Navios Maritime Holdings Inc., the newly acquired and reincorporated company. You may exchange them by contacting the transfer agent, Continental Stock Transfer & Trust Company, Reorganization Department, and following their requirements for reissuance. If you elect conversion or appraisal, you will need to deliver your old certificates to ISE.

Who can help answer my questions?

If you have questions about the acquisition or reincorporation, you may write or call International Shipping Enterprises, Inc., 1225 Franklin Ave., Suite 325, Garden City, New York 11530, (516) 240-8025, Attention: Avisheh Avini.

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SUMMARY

This summary discusses the material items of the acquisition proposal and the reincorporation proposal, which are described in greater detail elsewhere in this proxy statement/prospectus. You should carefully read this entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers you. See Where You Can Find More Information.

Acquisition of Navios

Navios Maritime Holdings Inc.

Navios is one of the leaders in seaborne shipping, specializing in the worldwide carriage, trading, storing, and other related logistics of international dry bulk cargo transportation. For over 50 years, Navios has worked with raw materials producers, agricultural traders and exporters, industrial end-users, shipowners, and charterers and, more recently, acquired an in-house technical ship management expertise. Navios s core fleet, the average age of which is approximately 3.5 years, consists of a total of 28 vessels, aggregating approximately 1.8 million deadweight tons or dwt. Navios owns six modern Ultra-Handymax (50,000-55,000 dwt) vessels and operates 22 Panamax (70,000-83,000 dwt) and Ultra-Handymax vessels under long-term time charters, 15 of which are currently in operation, with the remaining seven scheduled for delivery at various times over the next two years. Navios has options, many of which are in the money, to acquire 13 of the 22 time chartered vessels. The owned vessels have a substantial net asset value, and the vessels controlled under the in-charters are at rates well below the current market. Operationally, Navios has, at various times over the last two years, deployed over 50 vessels at any one time, including its core fleet.

Navios also owns and operates the largest bulk transfer and storage facility in Uruguay. While a relatively small portion of Navios s overall enterprise, ISE believes that this terminal is a stable business with strong growth and integration prospects.

As used above and throughout this proxy statement/prospectus, Navios s core fleet means: (1) the six ultra-handymax vessels that Navios owns, and (2) the panamax and ultra handymax vessels that Navios, as a charterer, employs commercially under long-term charters, which are charters of more than 12 months in duration. Navios also time charters vessels. Time chartered vessels are vessels that are placed at the charterer s disposal for a set period of time during which the charterer uses the vessels in return for the payment of a daily specified hire. Under time charters, operating costs such as crew, maintenance and insurance are typically paid by the owner of the vessel and fuel and port costs are paid by the time charterer. Navios has options to purchase some of the chartered vessels and the option is referred to as in the money, when the price to exercise an option and purchase a vessel is below the current market values for the vessel.

The principal executive office of Navios Maritime Holdings Inc. is located at 20 Marshall St., South Norwalk, Connecticut 06854, (203) 345-1300. The principal executive office of International Shipping Enterprises, Inc. is located at 1225 Franklin Ave., Suite 325, Garden City, New York 11530, (516) 240-8025.

The Acquisition

The stock purchase agreement provides for the acquisition by ISE of all of the outstanding shares of capital stock of Navios. The stock purchase agreement was executed on February 28, 2005. Following completion of the acquisition (and prior to the reincorporation), Navios will be our wholly-owned subsidiary and the business and assets of Navios will be our only operations. In the acquisition, all of the outstanding securities of Navios will be purchased by ISE for a cash payment of $607.5 million, subject to adjustments provided for in the stock purchase agreement. The acquisition will be financed through a combination of the approximately $180.0 million raised in ISE s initial public offering and currently held in the trust fund, with the balance to be funded by the new $520.0 million secured credit facility that will be made available to ISE by HSH Nordbank AG.

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ISE, Navios, the shareholders agent and the shareholders of Navios plan to complete the acquisition promptly after the ISE special meeting, provided that:

- ISE s stockholders have approved the stock purchase agreement;
- holders of less than 20% of the shares of common stock issued in ISE s initial public offering vote against the acquisition proposal and demand conversion of their shares into cash; and
- the other conditions specified in the stock purchase agreement have been satisfied or waived.

If ISE stockholder approval has not been obtained at that time or any other conditions have not been satisfied or waived, the acquisition will be completed promptly after the stockholder approval is obtained or the remaining conditions are satisfied or waived. If for whatever reason ISE does not acquire Navios, pursuant to the stock purchase agreement, the right to acquire Navios may be assigned to an affiliate, which could include Angeliki Frangou and members of her family.

The stock purchase agreement is included as Annex A to this proxy statement/prospectus. We encourage you to read the stock purchase agreement in its entirety. See Stock Purchase Agreement.

Reincorporation to the Republic of the Marshall Islands

Effective as of April 8, 2005, the board of directors approved the reincorporation of ISE from the State of Delaware to the Republic of the Marshall Islands by means of a merger with Navios which, upon completion of the acquisition of Navios, will be a Marshall Islands wholly-owned subsidiary of ISE. Many of Navios s competitors are, and Navios itself is, incorporated in the Marshall Islands. Accordingly, Navios and others operating in the industry with whom Navios competes or deals have developed a level of comfort in dealing with Marshall Islands corporations. In addition, given the international nature of Navios s business, it makes sense from an international regulatory and an international tax planning basis to continue to be incorporated in the jurisdiction in which all of Navios s regulatory and tax planning have been historically based.

Navios s amended and restated articles of incorporation and bylaws that will be filed by ISE with the Republic of the Marshall Islands in connection with the reincorporation of ISE in to the Marshall Islands will be in substantially the form attached hereto as Annex B to this proxy statement/prospectus. The amended and restated articles of incorporation and bylaws that will be filed will be the governing corporate documents of the merged company of which you will be a stockholder. In addition, the plan and agreement of merger pursuant to which ISE will change its domicile and reincorporate from the State of Delaware to the Republic of the Marshall Islands will be in substantially the form attached hereto as Annex C to this proxy statement/prospectus. We encourage you to read the amended and restated articles of incorporation, bylaws and the plan and agreement of merger in their entirety. See Reincorporation to the Republic of the Marshall Islands.

Special Meeting of ISE s Stockholders

Date, time and place. The special meeting of the stockholders of ISE will be held at 10:00 a.m., eastern time, on [ ] 2005, at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 666 Third Avenue, New York, New York 10017 to vote on the proposal to approve the acquisition and reincorporation proposals.

Approval of Navios s Stockholders

All of the shareholders of Navios have approved the acquisition by virtue of their execution of the stock purchase agreement. No further approval of Navios s shareholders is required.

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Voting Power; Record Date

You will be entitled to vote or direct votes to be cast at the special meeting if you owned shares of ISE common stock as of the close of business on [ ], 2005, which is the record date for the special meeting. You will have one vote for each share of ISE common stock you owned at the close of business on the record date. ISE warrants do not have voting rights.

Vote Required to Approve the Acquisition Proposal

The approval of the acquisition of Navios pursuant to the stock purchase agreement will require the affirmative vote of a majority of the shares of ISE s common stock issued in its initial public offering that are present in person or by proxy and entitled to vote at the meeting. However, ISE will not be able to complete the acquisition if the holders of 6,555,000 or more shares of common stock issued in ISE s initial public offering, an amount equal to 20% or more of such shares, vote against the acquisition and demand that ISE convert their shares into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering are held.

At the close of business on July 13, 2005, there were 39,900,000 shares of ISE common stock outstanding, of which 32,775,000 were issued in ISE s initial public offering.

Vote Required to Approve the Reincorporation Proposal

The approval of the reincorporation proposal will require the affirmative vote of a majority of the outstanding shares of ISE s common stock.

Conversion Rights

Pursuant to ISE s amended and restated certificate of incorporation, a holder of shares of ISE s common stock issued in the initial public offering may, if the stockholder votes against the acquisition, demand that ISE convert such shares into cash. This demand must be made on the proxy card at the same time that the stockholder votes against the acquisition proposal. If properly demanded, ISE will convert each share of common stock as to which such demand has been made into a pro rata portion of the trust account in which a substantial portion of the net proceeds of ISE s initial public offering are held, plus all interest earned thereon. If you exercise your conversion rights, then you will be exchanging your shares of ISE common stock for cash and will no longer own these shares. Based on the amount of cash held in the trust account as of March 31, 2005, without taking into account any interest accrued, you will be entitled to convert each share of common stock that you hold into approximately $5.51, or $0.49 less than the per-unit offering price of $6.00 for which you purchased units in the initial public offering. You will only be entitled to receive cash for these shares if you continue to hold these shares through the closing date of the acquisition and then tender your stock certificate to ISE. If the acquisition is not completed, then these shares will not be converted into cash.

The acquisition will not be completed if the holders of 6,555,000 or more shares of common stock issued in ISE s initial public offering, an amount equal to 20% or more of such shares, exercise their conversion rights.

Appraisal or Dissenters Rights

No appraisal rights are available under the Delaware General Corporation Law for the stockholders of ISE in connection with the acquisition proposal. Appraisal rights are available under the Delaware General Corporation Law for the stockholders of ISE in connection with the reincorporation proposal. The procedure to exercise appraisal rights is described in detail elsewhere in this proxy statement/prospectus. In addition, because the shareholders of Navios have unanimously approved the acquisition through their execution of the stock purchase agreement, they are not entitled to any dissenters rights, if any, under the laws of the Marshall Islands.

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Tax Consequences

The material US federal income tax consequences of the acquisition of Navios are discussed in conjunction with the tax consequences associated with the reincorporation. Please see the section entitled United States Federal Income Tax Considerations of the Acquisition and Reincorporation starting on page 53.

Proxies

Proxies may be solicited by mail, telephone or in person.

If you grant a proxy, you may still vote your shares in person if you revoke your proxy before the special meeting.

Stock Ownership

Of the 39,900,000 outstanding shares of ISE common stock, ISE s initial stockholders, including all its officers and directors and their affiliates, who purchased shares of common stock prior to ISE s initial public offering and who own an aggregate of approximately 30% of the outstanding shares of ISE common stock, have agreed to vote such shares acquired prior to the public offering (approximately 18% of the outstanding common stock) in accordance with the vote of the majority in interest of all other ISE stockholders on the acquisition proposal and as they see fit on the reincorporation proposal. They are entitled to vote the shares acquired by them in or subsequent to the initial public offering as they see fit and have indicated that they will vote the shares acquired by them in or subsequent to the initial public offering, representing approximately 12% of the outstanding common stock, in favor of each of the acquisition and reincorporation proposals. On May 27, 2005, Angeliki Frangou filed a Schedule 13D indicating that she intended, subject to market conditions, to purchase up to an additional $20 million of common stock. Since May 27, 2005 and as of July 13, 2005, she had acquired approximately $10.0 million of common stock representing 1,773,500 shares of common stock which are reflected in the 30% and 12% figures referred to above. If Ms. Frangou spends the balance of the $20 million, and assuming the market price of the common stock remains at $5.70 per share, Ms. Frangou would acquire approximately an additional 1.7 million shares of common stock and the 30% and 12% would be 34% and 16%, respectively. None of the directors, officers or affiliates of Navios own any of ISE s securities.

Furthermore, based solely upon information contained in public filings, as of the record date, the following stockholders beneficially own greater than five percent of ISE s issued and outstanding common stock as such amounts and percentages are reflected in the public filing of such stockholder:

Angeliki Frangou, ISE s Chairman, President, and Chief Executive Officer, beneficially owns 11,812,522 shares of ISE common stock, representing approximately 29.6% of the ISE common stock outstanding on the record date;

North Sound Capital LLC beneficially owns 2,700,000 shares of ISE common stock, representing approximately 6.76% of the ISE common stock outstanding on the record date;

FMR Corp. beneficially owns 3,000,000 shares of ISE common stock, representing approximately 7.51% of the ISE common stock outstanding on the record date; and

DKR Partners LP beneficially owns 2,298,000 shares of ISE common stock, representing approximately 5.76% of the ISE common stock outstanding on the record date.

Angeliki Frangou has filed a Schedule 13D amendment indicating that she intends, subject to market conditions, to purchase up to $20 million of common stock and as of July 13, 2005, she had purchased approximately $10.0 million shares of common stock. Any such purchases would change the percentage owned by the initial stockholders and Ms. Frangou referred to above.

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ISE s Board of Directors Recommendation

After careful consideration, ISE s board of directors has determined unanimously that the acquisition proposal and the reincorporation proposal are fair to, and in the best interests of, ISE and its stockholders. In reaching its decision with respect to the acquisition, the board considered the opinion of Capitalink, L.C., that, as of the date of its opinion, and based on conditions that existed as of that date, upon and subject to the considerations described in its opinion and based upon such other matters as Capitalink, L.C. considered relevant, the consideration to be provided by ISE in connection with the Navios acquisition is fair to ISE s current stockholders from a financial point of view. See Fairness Opinion. Accordingly, ISE s board has unanimously approved and declared advisable the acquisition and the reincorporation and unanimously recommends that you vote or instruct your vote to be cast FOR the approval of the acquisition proposal and FOR the approval of the reincorporation proposal.

Interests of ISE Directors and Officers in the Acquisition

When you consider the recommendation of ISE s board of directors that you vote in favor of adoption of the acquisition proposal, you should keep in mind that certain of ISE s directors and officers have interests in the acquisition that are different from, or in addition to, your interest as a stockholder. These interests include, among other things, that if the acquisition is not approved and ISE fails to consummate an alternative transaction within the time allotted pursuant to its certificate of incorporation, requiring ISE to liquidate, the shares of common stock held by ISE s executives and directors may be worthless because ISE s executives and directors are not entitled to receive any of the net proceeds of ISE s initial public offering that may be distributed upon liquidation of ISE. In addition, it is anticipated that the current board of directors of ISE will remain on the board thereafter and that Angeliki Frangou will remain the CEO and Chairman of the board following the acquisition. Also, Ms. Frangou has agreed to loan ISE funds, without interest, to cover its transaction expenses, including bank commitment fees and deposits, in connection with the acquisition of Navios in excess of the funds held outside the trust, which loans, if the acquisition is not completed, may not be repaid.

Interests of Directors and Officers of Navios in the Acquisition

You should understand that some of the current directors and officers of Navios have interests in the acquisition that are different from, or in addition to, your interest as a stockholder. In particular, Robert G. Shaw, Navios s Executive Vice President and General Counsel, is expected to become ISE s President, and Bruce C. Hoag, Navios s current Chief Financial Officer, is expected become ISE s Chief Financial Officer. Further, each of Ted C. Petrone, Michael E. McClure, Shunji Sasada, Pablo Soler and Gabriel Soler who are referred to below as employees, are expected to enter into employment agreements with ISE in connection with the acquisition. A summary of the employment agreements can be found under Employment Agreements on page 45. In addition, as Messrs. Shaw and Hoag are also shareholders of Navios, as well as shareholders agents on behalf of the Navios shareholders, it is possible that potential conflicts of interest may arise with respect to their obligations as shareholders agent and their interests as shareholders of Navios.

Conditions to the Completion of the Acquisition

The obligations of ISE and the shareholders of Navios to complete the acquisition are subject to the satisfaction or waiver of specified conditions before completion of the acquisition, including the following:

Conditions to ISE s and Navios s obligations:

receipt of ISE stockholder approval;

the absence of any order or injunction preventing consummation of the acquisition; and

the absence of any suit or proceeding by any governmental entity or any other person challenging the acquisition.

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Conditions to ISE s obligations:

The obligation of ISE to complete the acquisition is further subject to the following conditions:

the representations and warranties made by the shareholders of Navios that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and ISE must have received a certificate from Navios s shareholders to that effect;

Navios must have performed in all material respects all obligations required to be performed by it under the terms of the stock purchase agreement; and

there must not have occurred since the date of the stock purchase agreement any material adverse effect on Navios.

Conditions to the obligations of the shareholders of Navios:

The obligations of the shareholders of Navios to effect the acquisition are further subject to the following conditions:

ISE s representations and warranties that are qualified as to materiality must be true and correct, and those not qualified as to materiality must be true and correct in all material respects, as of the closing date of the acquisition, except representations and warranties that address matters as of another date, which must be true and correct as of such other date, and Navios must have received an officer s certificate from ISE to that effect; and

ISE must have performed in all material respects all obligations required to be performed by them under the stock purchase agreement.

Termination, Amendment and Waiver

The stock purchase agreement may be terminated at any time prior to the completion of the acquisition, whether before or after receipt of the ISE stockholder approval, by mutual written consent of ISE and the shareholders of Navios.

In addition, either ISE or the shareholders of Navios may terminate the stock purchase agreement if:

the acquisition is not consummated on or before May 20, 2005, which date was subsequently extended, pursuant to an amendment to the stock purchase agreement, to July 15, 2005 and then further extended pursuant to the second amendment to the stock purchase agreement to up to August 31, 2005; or

by either party if the other party has breached any of its covenants or representations and warranties in any material respect.

If permitted under applicable law, either ISE or the shareholders of Navios may waive conditions for their own respective benefit and consummate the acquisition even though one or more of these conditions have not been met. We cannot assure you that all of the conditions will be satisfied or waived or that the acquisition will occur.

Regulatory Matters

The acquisition and the transactions contemplated by the stock purchase agreement are not subject to any federal or state regulatory requirement or approval, including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or HSR Act, except for filings necessary to effectuate the transactions contemplated by the reincorporation proposal with the Registrar of the Republic of the Marshall Islands and the Secretary of State of the State of Delaware.

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SELECTED HISTORICAL FINANCIAL INFORMATION

ISE is providing the following financial information to assist you in your analysis of the financial aspects of the acquisition. The Navios historical information is derived from the unaudited consolidated financial statements of Navios as of and for each of the periods ended March 31, 2005 and 2004 and the audited consolidated financial statements of Navios as of December 31, 2004 and 2003 and for each of the years ended December 31, 2004 included elsewhere in this proxy statement/prospectus. Navios historical information as of December 31, 2002, and as of and for the years ended December 31, 2000 and 2001 are derived from the unaudited financial statements which are not included in this proxy statement/prospectus. Navios was formed on November 19, 2002 and did not have operations prior to December 11, 2002. On December 11, 2002, Navios Company completed a business combination with Anemos Maritime Holdings Inc. (Anemos) and Anemos was considered the accounting acquirer in the business combination. The financial statements for the three year period January 1, 2000 to December 31, 2002 include the accounts of Anemos and its wholly-owned subsidiaries for the full year, and Navios Company for December 11, 2002 through December 31, 2002. The ISE historical information is derived from the unaudited financial statements of ISE as of March 31, 2005 and the audited financial statements of ISE as of December 31, 2004, and for the period from September 17, 2004 (inception) to December 31, 2004. The information is only a summary and should be read in conjunction with each company s historical consolidated financial statements and related notes, to the extent contained elsewhere herein. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of either Navios or ISE.

The unaudited pro forma condensed balance sheet at March 31, 2005 and the statement of operations for the periods ended March 31, 2005 and December 31, 2004 have been prepared using two different levels of approval of the Transaction by the ISE stockholders, as follows:

Assuming Maximum Approval: This presentation assumes that 100% of ISE stockholders approve the Transaction; and

Assuming Minimum Approval: This presentation assumes that only 80.1% of ISE stockholders approve the Transaction.

NAVIOS HISTORICAL FINANCIAL INFORMATION

(In thousands, except per share)

	Three months ended March 31,		Year ended December 31,				
	2005	**2004**	**2004**	**2003**	**2002**	**2001**	**2000**
	(unaudited)	**(unaudited)**				**(unaudited)**	**(unaudited)**
Statement of Operations Data							
Revenue	$ 61,365	$ 66,162	$ 279,184	$ 179,734	$ 26,759	$ 21,454	$ 9,271
Gains and losses from forward freight agreements	(4,567)	33,583	57,746	51,115	494		
Time charter voyage and port terminal expense	(37,469)	(49,322)	(180,026)	(136,551)	(6,139)	(1,774)	(1,101)
Direct vessel expense	(2,110)	(2,171)	(8,224)	(10,447)	(8,192)	(7,439)	(4,263)
General and administrative expense	(3,644)	(3,141)	(12,722)	(11,628)	(2,263)	(1,234)	(733)
Depreciation and amortization expense	(1,489)	(1,459)	(5,925)	(8,857)	(6,003)	(5,274)	(1,797)
Gain (loss) on sale of assets			61	(2,367)	(127)	(430)	(1,153)
Interest income	302	73	789	134	41	195	107
Interest expense	(475)	(814)	(3,450)	(5,278)	(3,950)	(6,104)	(2,191)
Other income	971	17	374	1,102	72	248	137
Other expense	(222)	(1,333)	(1,438)	(553)	(6,070)	(2,770)	

Income (loss) before minority interest	12,662	41,595	126,369	56,404	(5,378)	(3,128)	(1,723)
Minority interest				(1,306)	(324)		
Equity in net earnings of affiliate companies	302	181	763	403	68	96	128
Net income (loss)	$ 12,964	$ 41,776	$ 127,132	$ 55,501	$ (5,634)	(3,032)	(1,595)
Balance Sheet Data (at period end)							
Current assets, including cash	$ 192,563		$ 187,944	$ 179,403	$ 31,020	$ 4,721	$ 7,544
Total assets	337,270		333,292	361,533	215,800	161,610	97,206
Current liabilities, including current portion of long-term debt	95,627		103,527	136,902	38,460	12,204	8,875
Total long-term debt, including current portion	50,256		50,506	98,188	129,615	115,972	63,453
Mandatorily redeemable preferred stock, including current portion				15,189	9,435		
Shareholders equity	187,755		174,791	96,292	41,641	38,272	29,720

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	Three months ended March 31,		Year ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
	(unaudited)	(unaudited)	(In thousands, except per share)			(unaudited)	(unaudited)
Other Financial Data							
Net cash provided by operating activities	$ 18,177	$ 22,800	$ 137,218	$ 21,452	$ 2,219		

Research and Development.

	Year ended December 31,			Year-Over-Year Change			
	2007	2006	2005	2006 to 2007		2005 to 2006	
	(dollar amounts in thousands)						
Research and development	$ 11,988	$ 8,156	$ 5,839	$ 3,832	47%	$ 2,317	40%
Percentage of total revenues	84%	55%	48%				

Our research and development expenses include development and design of variations of the 1T-SRAM technologies for use in different manufacturing processes used by licensees, development of our 1T-FLASH technology solution and costs related to our newly acquired analog/mixed-signal design technology, including the subsidiaries in China and Romania, and amortization of acquired intangible assets. We expense research and development costs as they are incurred.

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The $3.8 million increase in 2007 was primarily due to a substantial increase in newly hired personnel attributable to the Atmel and LDIC asset acquisitions in the third quarter of 2007 which added approximately one hundred employees. The increase included $0.5 million for contractually obligated bonuses and tape-out charges for our high definition DVD mixed-signal IP on a test integrated circuit, $0.4 million of amortization of purchased intangible assets from these acquisitions, and an increase of $0.2 million in stock-based compensation expense. In addition, we expanded our engineering team working on our non-volatile 1T-FLASH memory technology and 1T-SRAM display driver applications. Research and development expenses included stock-based compensation expense of $1.2 million. We will increase our development efforts in 2008 to enable the commercial launch of our new IP technologies, and we expect total research and development expense to increase significantly in 2008 as compared to 2007, but to decrease slightly as a percentage of revenues.

The increase in research and development expenses for 2006 from 2005 was primarily attributable to a lower allocation of expenses to cost of licensing revenue in 2006 because of the high margin contracts, which requires less customization and engineering efforts. Research and development expenses also increased as a result of the stock-based compensation expense of $1.0 million under SFAS 123(R).

Selling, General and Administrative.

	Year ended December 31,			Year-Over-Year Change			
	2007	2006	2005	2006 to 2007		2005 to 2006	
	(dollar amounts in thousands)						
Selling, general and administrative	$ 11,659	$ 11,370	$ 9,922	$ 289	3%	$ 1,448	15%
Percentage of total revenues	81%	76%	81%				

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

The increase for 2007 from 2006 resulted primarily from a $0.2 million increase in bad debt expense attributable to one customer, a $0.6 million increase in stock-based compensation expense, $0.3 million increase in legal fees related to employment matters, $0.4 million increase in salary and related costs, $0.2 million increase in marketing promotional activities and $0.2 million of separation costs related to the departures of two executives. These increases were offset by a $1.6 million decrease in litigation expenses.

The increase in selling, general and administrative expenses for 2006 from 2005 was mainly due to stock-based compensation expense of $1.5 million under SFAS 123(R). Expenses related to the UniRAM litigation in 2006 totaled approximately $1.7 million, compared to $1.6 million in 2005. Expenses related to testing and assessment of effectiveness of our internal control over financial reporting required by Section 404 of Sarbanes-Oxley Act were approximately $411,000 in 2006.

Stock-Based Compensation.

As a result of the adoption of SFAS 123(R) effective January 1, 2006, $3.8 million and $2.7 million were recognized as stock-based compensation expense during the years ended December 31, 2007 and 2006, respectively. Expense is recognized on a straight-line basis over the requisite service period. The total compensation cost of options granted, but not yet vested, as of December 31, 2007 was $10.6 million, which is expected to be recognized as expense over a weighted average period of approximately 2.55 years.

During the year ended December 31, 2005, we recorded stock-based compensation expense of $36,000, which was attributable to the issuance of options to purchase our stock to newly appointed members of our board of directors that had an exercise price less than the fair market value of our stock on the date of the option grant, which was permitted under our option plan.

Prior to the adoption of SFAS 123(R), we amortized deferred compensation expense using the graded vesting method over the vesting period of each respective option, generally four years. The accelerated amortization resulted in expensing approximately 52% of the total award in the first year, 27% in the second year, 15% in the third year and 6% in the fourth year.

Acquired In-Process Research and Development.

	Year ended December 31,			Year-Over-Year Change			
	2007	**2006**	**2005**	**2006 to 2007**		**2005 to 2006**	
	(dollar amounts in thousands)						
In-process research and development	$ 966	$	$	$ 966	100%	$	
Percentage of total revenues	7%						

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

Litigation Settlement.

	Year ended December 31,			Year-Over-Year Change			
	2007	**2006**	**2005**	**2006 to 2007**		**2005 to 2006**	
	(dollar amounts in thousands)						
Litigation settlement	$	$ 2,400	$	$ (2,400)	(100)%	$ 2,400	100%
Percentage of total revenues		16%					

In March 2004, UniRAM Technology, Inc. (UniRAM) filed a complaint against us in the United States District Court for the Northern District of California, alleging trade secret misappropriation and patent infringement. In October 2006, we entered into a settlement agreement with UniRAM under which we and UniRAM agreed to dismiss all outstanding claims and counterclaims with prejudice, and we paid UniRAM $2.4 million and received a complete release of all claims as well as a future fully paid license for ourselves and all of our licensees with respect to UniRAM's relevant intellectual property.

Interest, Other Income and Expenses.

	Year ended December 31,			Year-Over-Year Change			
	2007	2006	2005	2006 to 2007		2005 to 2006	
	(dollar amounts in thousands)						
Interest, other income and expenses	$ 4,520	$ 3,286	$ 2,591	$ 1,234	38%	$ 695	27%
Percentage of total revenues	32%	22%	21%				

The increase in interest, other income and expenses for 2007 was primarily due to a $0.7 million increase in interest income due to higher interest rates earned on our investments and a $0.5 million decrease in other expenses due to a non-recurring charge recorded in 2006 related to Japan withholding taxes paid by Japanese licensees on our behalf.

The increase in interest, other income and expenses for 2006 from 2005 was primarily due to higher interest rates but offset by a charge of $0.5 million recorded in 2006 related to Japan withholding taxes paid by Japanese licensees on our behalf. We do not expect any additional withholding tax reimbursement in the future as the U.S. Japan income tax treaty that took effect July 1, 2004 generally eliminated withholding taxes on royalties.

Provision for Income Taxes.

	Year ended December 31,			Year-Over-Year Change			
	2007	2006	2005	2006 to 2007		2005 to 2006	
	(dollar amounts in thousands)						
Income tax benefit (provision)	$ (25)	$ (109)	$ 11	$ 84	(77)%	$ (120)	1,091%
Percentage of total revenues	(0)%	(1)%	0%				

Our income tax provisions for 2007 and 2006 were primarily attributable to foreign jurisdictions.

As of December 31, 2007, we had net operating loss carryforwards of approximately $14.7 million for federal income tax purposes, approximately $16.2 million for state income tax purposes and Canadian loss and research and development pool carryforwards of approximately $14.8 million that are available to reduce future income tax liabilities to the extent permitted under federal, Canadian and applicable state income tax laws. These net operating loss carryforwards expire over our tax periods from 2008 to 2027. In 2008, we anticipate that our effective income tax rate will continue to be less than the federal statutory tax rate.

As of December 31, 2007 and 2006, we had gross deferred tax assets of approximately $17.4 million and $13.8 million, respectively. Because of uncertainties regarding the realization of deferred tax assets, we had a full valuation allowance of $17.4 million as of December 31, 2007 and $12.5 million as of December 31, 2006.

Liquidity and Capital Resources

As of December 31, 2007, we had cash and cash equivalents of $37.7 million, short-term investments of $27.3 million and long-term investments of $13.7 million, resulting in a combined balance of $78.7 million. As of December 31, 2006, we had cash and cash equivalents of $11.1 million, short-term investments of $70.7 million and long-term investments of $2.5 million, resulting in a combined balance of $84.3 million. Our primary capital requirements are to fund working capital needs.

As discussed in more detail under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," our short-term investments at December 31, 2007 included $11.6 million of adjustable rate securities that currently may be relatively illiquid. We believe we will be able to liquidate our

adjustable rate securities without significant loss, and we currently believe these securities are not

impaired, primarily due to government guarantees of the underlying securities. However, it could take until the final maturity of the underlying notes (up to 40 years) to realize our investments' recorded value. We currently have the ability and intent to hold our $9.2 million of adjustable rate securities held as of February 29, 2008, until market stability is restored with respect to these securities. We believe that, even allowing for the reclassification of these securities to long-term and the possible requirement to hold all such securities for an indefinite period of time, our remaining cash and cash equivalents and investments will be sufficient to meet our anticipated cash needs and to execute our current business plan.

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

Cash used in operating activities was $5.6 million for 2006 and primarily consisted of the net loss of $5.3 million, an increase in accounts receivable of $1.9 million, reduced deferred revenue of $0.7 million and decreased accrued expenses and other liabilities of $0.8 million, partially offset by the non-cash impacts of stock-based compensation expense of $2.7 million and depreciation and amortization of $0.5 million.

Net cash provided by investing activities was $29.8 million for 2007 and was primarily attributable to $32.3 million of net proceeds from sales and purchases of marketable securities, partially offset by $1.0 million of expenditures for property and equipment and $1.5 million for the purchase of intangible and other assets from Atmel and LDIC in the third quarter of 2007.

Net cash provided by investing activities was $3.7 million for 2006, from sales of marketable securities of $3.9 million, partially offset by $0.2 million of purchases of property and equipment.

Net cash used in financing activities for 2007 was $2.1 million and was primarily attributable to $5.0 million of cash expenditures during the third and fourth quarters of 2007 to repurchase approximately 883,000 shares of our own common stock under a plan authorized by our Board of Directors in August 2007, partially offset by proceeds of $2.9 million from stock option exercises.

Net cash provided by financing activities for 2006 was $3.8 million, which was attributable to proceeds received from the exercise of employee stock options.

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

- level and timing of licensing and royalty revenues;
- cost, timing and success of technology development efforts, including meeting customer design specifications;
- market acceptance of our existing and future technologies and products;
- competing technological and market developments;
- cost of maintaining and enforcing patent claims and intellectual property rights;

- variations in manufacturing yields, materials costs and other manufacturing risks;
- costs of acquiring other businesses and integrating the acquired operations; and
- profitability of our business.

We expect that our existing cash, cash equivalents, and investments along with our existing capital and cash generated from operations, if any, will be sufficient to meet our capital requirements for the

foreseeable future. We expect that a licensing business such as ours generally will require less cash to support operations.

However, we cannot be certain that we will not require additional financing at some point in time. Should our cash resources prove inadequate, we may need to raise additional funding through public or private financing. There can be no assurance that such additional funding will be available to us on favorable terms, if at all. The failure to raise capital when needed could have a material, adverse effect on our business and financial condition.

Disclosures about Contractual Obligations and Commercial Commitments

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

	Payment Due by Period			
	Total	**Less than 1 year**	**1-3 years**	**Over 4 years**
Operating Leases:				
Obligations	$ 1,542	$ 825	$ 717	$
Sublease Income	(35)	(35)		
Purchase Commitment	1,704	620	1,084	
	$ 3,211	$ 1,410	$ 1,801	$

The purchase commitment relates to a three-year license agreement for computer-aided design tools payable in installments through December 2010.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, or obligations that are reasonably likely to have a material current or future effect on our financial condition, results of operations, liquidity or capital resources.

Indemnifications

In the ordinary course of business, we enter into contractual arrangements under which we may agree to indemnify the counter-party from losses relating to a breach of representations and warranties, a failure to perform certain covenants, or claims and losses arising from certain external events as outlined within the particular contract, which may include, for example, losses arising from litigation or claims relating to past performance. Such indemnification clauses may not be subject to maximum loss clauses. We have also entered into indemnification agreements with our officers and directors. No amounts are reflected in our consolidated financial statements as of December 31, 2007 or 2006 related to these indemnifications.

Recent Accounting Pronouncements

See Note 1 of the Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

Our exposure to interest rate risk relates to our investment portfolio. Our investments are made in accordance with an investment policy approved by our board of directors. The primary objective of our

investment activities is to preserve capital while maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of securities, including U.S. government agencies, municipal notes, corporate notes and bonds, commercial paper and money market funds. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. We do not use interest rate swaps in our investment portfolio. We place our investments with high-credit quality issuers and, by policy, limit the amount of credit exposure with any one issuer or fund.

Our investment portfolio is classified as available-for-sale and is recorded at amortized cost. Securities with an original maturity of three months or less are considered 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. Auction rate debt securities are classified as short-term investments because they have fixed reset dates within one year designed to allow investors to exit these investments at par even though the underlying municipal note may have an original maturity as much as 40 years. All investments have a maturity of less than two years. No single security should exceed 5% of the portfolio at the time of purchase. We do not have any investments denominated in foreign country currencies, and therefore are not subject to foreign currency risk on such investments.

As of December 31, 2007, we held $11.6 million of municipal notes investments, classified as short-term investments, with an auction reset feature (adjustable rate securities) whose underlying assets were primarily in student loans and which had an AAA credit rating. During January 2008, we successfully liquidated $2.4 million of these adjustable rate securities and, as of February 29, 2008, we held $9.2 million of adjustable rate securities. Subsequently, auctions failed for all of these adjustable rate securities. An auction failure means that the parties wishing to sell their securities could not do so as a result of a lack of buying demand. As a result of auction failures, our ability to liquidate and fully recover the carrying value of our remaining adjustable rate securities in the near term may be limited or not exist. These developments may result in the classification of some or all of these securities as long-term investments in our consolidated financial statements for the first quarter of 2008. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge on these investments.

Foreign currency exchange rate risk

Currently, all of our international sales are denominated in U.S. dollars and, as a result, we have not experienced significant foreign exchange gains or losses to date. We do not currently enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. However, in the event our exposure to foreign currency risk increases, we may choose to hedge those exposures. For most currencies, we are a net payer of foreign currencies and, therefore, benefit from a stronger U.S. dollar and are adversely affected by a weaker U.S. dollar relative to those foreign currencies.

Item 8. Financial Statements and Supplementary Data

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

Quarterly Results of Operations

The following tables set forth unaudited results of operations data for each of the eight quarters in the two year period ended December 31, 2007. This unaudited information has been prepared on a basis consistent with our audited financial statements appearing elsewhere in this report and, in the opinion of our management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. The unaudited quarterly information should be read in conjunction with the financial statements and notes included elsewhere in this report.

	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sep. 30, 2006	Jun. 30, 2006	Mar. 31, 2006
	(In thousands, except per share data)							
	(Unaudited All periods)							
Net revenue:								
Licensing	$ 388	$ 1,548	$ 2,159	$ 1,158	$ 1,794	$ 3,333	$ 1,701	$ 2,268
Royalty	2,511	2,421	2,170	1,979	3,215	705	639	1,254
Total net revenue	2,899	3,969	4,329	3,137	5,009	4,038	2,340	3,522
Cost of net revenue:								
Licensing	825	670	678	564	592	172	381	353
Total cost of net revenue	825	670	678	564	592	172	381	353
Gross profit	2,074	3,299	3,651	2,573	4,417	3,866	1,959	3,169
Operating expenses:								
Research and development	4,371	3,438	2,101	2,078	2,057	2,018	2,129	1,952
Selling, general and administrative	3,309	2,945	2,825	2,580	2,585	3,350	2,806	2,629
In-process research and development		966						
Litigation settlement						2,400		
Total operating expenses	7,680	7,349	4,926	4,658	4,642	7,768	4,935	4,581
Operating loss	(5,606)	(4,050)	(1,275)	(2,085)	(225)	(3,902)	(2,976)	(1,412)
Interest, other income and expenses	1,015	1,209	1,232	1,064	865	1,043	926	452
Income (loss) before income taxes	(4,591)	(2,841)	(43)	(1,021)	640	(2,859)	(2,050)	(960)
Income tax benefit (provision)	8	18	(103)	52	(73)	(8)	(14)	(14)
Net income (loss)	$ (4,583)	$ (2,823)	$ (146)	$ (969)	$ 567	$ (2,867)	$ (2,064)	$ (974)
Net income (loss) per share:								
Basic	$ (0.14)	$ (0.09)	$ (0.00)	$ (0.03)	$ 0.02	$ (0.09)	$ (0.07)	$ (0.03)

	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sep. 30, 2006	Jun. 30, 2006	Mar. 31, 2006
Diluted	$ (0.14)	$ (0.09)	$ (0.00)	$ (0.03)	$ 0.02	$ (0.09)	$ (0.07)	$ (0.03)
Shares used in computing net income (loss) per share:								
Basic	32,117	32,274	31,945	31,689	31,492	31,386	31,293	31,022
Diluted	32,117	32,274	31,945	31,689	32,461	31,386	31,293	31,022

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

None.

Item 9A. Controls and Procedures

(a) Management's annual report on internal control over financial reporting

MoSys, Inc.'s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f)) under the Securities Exchange Act of 1934. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2007.

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

(b) Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, our management concluded that as of December 31, 2007, our disclosure controls and procedures were effective such that the information relating to us, including our consolidated subsidiaries, required to be disclosed in our reports filed with the Securities and Exchange Commission (SEC) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(c) Changes in internal control

There were no changes in our internal control over financial reporting during the fourth fiscal quarter of 2007 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our directors will be presented in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be held on or about June 3, 2008, which information is incorporated into this report by reference. However, certain information regarding current executive officers found under the heading "Executive Officers" in Item 1 of Part I hereof is also incorporated by reference in response to this Item 10.

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

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

Item 11. Executive Compensation

Information relating to executive compensation will be presented in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be held on or about June 3, 2008, which information is incorporated into this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to securities authorized for issuance under equity compensation plans will be presented in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be held on or about June 3, 2008, which information is incorporated into this report by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be held on or about June 3, 2008, which information is incorporated into this report by reference.

Item 14. Principal Accountant Fees and Services

Information required to be provided in response to this item will be presented in our definitive proxy statement for our 2008 Annual Meeting of Stockholders to be held on or about June 3, 2008, which information is incorporated into this report by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements and Reports of Independent Registered Public Accounting Firms, which are set forth in the index to Consolidated Financial Statements on pages 46 through 78 of this report.

Reports of Independent Registered Public Accounting Firm Burr, Pilger & Mayer LLP	47
Report of Independent Registered Public Accounting Firm BDO Seidman, LLP	49
Consolidated Balance Sheets	50
Consolidated Statements of Operations	51
Consolidated Statements of Stockholders' Equity	52
Consolidated Statements of Cash Flows	53
Notes to Consolidated Financial Statements	54

(2) Financial Statement Schedule Schedule II Valuation and Qualifying Accounts

(3) Exhibits

2.1(1)	Merger Agreement regarding the Registrant's reincorporation in Delaware
2.2(2)	Share Purchase Agreement for the shares of ATMOS Corporation
3.1	Not currently in use
3.2	Not currently in use
3.3(1)	Restated Certificate of Incorporation of the Registrant
3.3.1	Certificate of Amendment to Restated Certificate of Incorporation
3.4(1)	Bylaws of the Registrant
3.4.1(3)	Amendment to Bylaws effective December 20, 2007
4.1(1)	Specimen common stock certificate
4.2(1)	Not currently in use
4.3(1)	Rights Agreement
4.3.1(4)	First Amendment to Rights Agreement, dated as of February 23, 2004
4.3.2(5)	Second Amendment to Rights Agreement, dated as of December 14, 2004
10.1(1)	Form of Indemnity Agreement between the Registrant and each of its directors and executive officers
10.2(1)	Not currently in use
10.3(1)*	1996 Stock Plan and form of Option Agreement thereunder
10.4(1)*	Form of Restricted Stock Purchase Agreement
10.5(1)*	2000 Employee Stock Option Plan and form of Option Agreement thereunder
10.5.1(6)*	Amended and Restated 2000 Equity Incentive and Stock Option Plan
10.6(1)*	2000 Employee Stock Purchase Plan and form of Subscription Agreement thereunder

10.13*	Employment Agreement and Release between Registrant and Chester J. Silvestri dated November 8, 2007
10.14	Not currently in use
10.15(7)*	Form of Stock Option Agreement pursuant to Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.16(8)	Lease Agreement between Registrant and Sunnyvale Mathilda Investors, LLC dated as of May 6, 2005
10.17(8)*	Employment offer letter agreement between the Registrant and Dhaval Ajmera dated October 3, 2005

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

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(1) Incorporated by reference to the same-numbered exhibit to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 27, 2001 (Commission file No. 333-43122).

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

(3) Incorporated by reference to the same-numbered exhibit to Form 8-K filed by the Company on December 21, 2007 (Commission File No. 000-32929).

(4) Incorporated by reference to Exhibit 1 to Form 8-A/A filed by the Company on December 22, 2004 (Commission File No. 000-32929).

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

(6) Incorporated by reference to the Company's proxy statement on Schedule 14A filed by the Company on October 7, 2004 (Commission File No. 000-32929).

(7) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on August 9, 2005 (Commission File No. 000-32925).

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

(9) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on May 9, 2006 (Commission File No. 000-32929).

* Management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of March 2008.

MOSYS, INC.

By: /s/ LEONARD PERHAM

Leonard Perham
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Leonard Perham and James W. Sullivan as his true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ LEONARD PERHAM Leonard Perham	President, Chief Executive Officer, and Director	March 14, 2008
/s/ JAMES W. SULLIVAN James W. Sullivan	Vice President of Finance and Chief Financial Officer	March 14, 2008
/s/ CARL E. BERG Carl E. Berg	Director	March 14, 2008
/s/ TOMMY ENG Tommy Eng	Director	March 14, 2008
/s/ CHI-PING HSU Chi-Ping Hsu	Director	March 14, 2008
/s/ JAMES D. KUPEC James D. Kupec	Director	March 14, 2008

Signature	Title	Date
/s/ CHENMING HU Chenming Hu	Director	March 14, 2008

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MOSYS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of MoSys, Inc.

We have audited the accompanying consolidated balance sheet of MoSys, Inc. and its subsidiaries as of December 31, 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index to this Annual Report on Form 10-K at Part IV Item 15(a)(2), as of and for the year ended December 31, 2007. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MoSys, Inc. and its subsidiaries as of December 31, 2007 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, as of and for the year ended December 31, 2007, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2006 the Company changed its method of accounting for stock-based compensation as a result of adopting Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" applying the modified prospective method. As discussed in Note 1 to the consolidated financial statements, on January 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 14, 2008 expressed an unqualified opinion on the effective operation of the Company's internal control over financial reporting.

/s/ Burr, Pilger & Mayer LLP

San Jose, California
March 14, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
MoSys, Inc.

We have audited the internal control over financial reporting of MoSys, Inc. and its subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, MoSys, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of MoSys, Inc. and its subsidiaries as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended and the related financial statement schedule as of and for the year ended December 31, 2007, and our report dated March 14, 2008 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ Burr, Pilger & Mayer LLP

San Jose, California
March 14, 2008

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of MoSys, Inc. as of December 31, 2006 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2006. We have also audited Schedule II Valuation and Qualifying Accounts for the two years ended December 31, 2006. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MoSys at December 31, 2006, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Schedule II Valuation and Qualifying Accounts presents fairly, in all material respects, the information set forth therein for the two years ended December 31, 2006.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment", (SFAS 123(R)).

/s/ BDO Seidman, LLP

San Francisco, California
March 12, 2007

MOSYS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31,	
	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 37,673	$ 11,118
Short-term investments and auction rate securities	27,288	70,689
Accounts receivable, net	895	2,491
Unbilled contract receivables	518	360
Prepaid expenses and other assets	2,393	2,831
Total current assets	68,767	87,489
Long-term investments	13,693	2,492
Property and equipment, net	1,396	855
Goodwill	12,326	12,326
Intangible assets, net	2,166	
Other assets	449	598
Total assets	$ 98,797	$ 103,760
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 146	$ 307
Accrued expenses and other liabilities	2,158	1,865
Deferred revenue	201	619
Total current liabilities	2,505	2,791
Long-term portion of restructuring liability		54
Total liabilities	2,505	2,845
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, $0.01 par value; 20,000 shares authorized; none issued and outstanding at December 31, 2007 and 2006		
Common stock, $0.01 par value; 120,000 shares authorized; 31,889 shares and 31,638 shares issued and outstanding at December 31, 2007 and 2006	319	316
Additional paid-in capital	110,631	106,850
Accumulated other comprehensive income (loss)	35	(79)
Accumulated deficit	(14,693)	(6,172)
Total stockholders' equity	96,292	100,915
Total liabilities and stockholders' equity	$ 98,797	$ 103,760

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

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MOSYS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2007	**2006**	**2005**
Net revenue			
Licensing	$ 5,253	$ 9,096	$ 7,725
Royalty	9,081	5,813	4,547
Product			10
Total net revenue	14,334	14,909	12,282
Cost of net revenue			
Licensing	2,737	1,498	1,986
Total cost of net revenue	2,737	1,498	1,986
Gross profit	11,597	13,411	10,296
Operating expenses			
Research and development	11,988	8,156	5,839
Selling, general and administrative	11,659	11,370	9,922
In-process research and development	966		
Litigation settlement		2,400	
Restructuring expenses			119
Total operating expenses	24,613	21,926	15,880
Loss from operations	(13,016)	(8,515)	(5,584)
Interest, other income and expenses	4,520	3,286	2,591
Loss before income taxes	(8,496)	(5,229)	(2,993)
Income tax benefit (provision)	(25)	(109)	11
Net loss	$ (8,521)	$ (5,338)	$ (2,982)
Net loss per share			
Basic and diluted	$ (0.27)	$ (0.17)	$ (0.10)
Shares used in computing net loss per share			
Basic and diluted	31,994	31,298	30,534
Allocation of stock-based compensation to cost of net revenue and operating expenses included above:			
Cost of licensing revenue	$ 495	$ 225	$
Research and development	1,162	993	
Selling, general and administrative	2,109	1,528	36

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

MOSYS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Additional Paid-In Capital	Deferred Stock-based Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount					
Balance at December 31, 2004	30,296	$ 303	$ 98,278	$ (69)	$ (252)	$ 2,148	$ 100,408
Issuance of Common Stock upon exercise of options	406	4	1,205				1,209
Issuance of Common Stock for Employee Stock Purchase Plan	66	1	315				316
Stock-based compensation				36			36
Tax benefits associated with exercise of stock options			482				482
Other comprehensive income change in unrealized loss on available-for-sale investments					(137)		(137)
Net loss						(2,982)	(2,982)
Comprehensive loss							(3,119)
Balance at December 31, 2005	30,768	308	100,280	(33)	(389)	(834)	99,332
Issuance of Common Stock upon exercise of options	752	8	3,640				3,648
Issuance of Common Stock for Restricted Stock Awards	74						
Issuance of Common Stock for Employee Stock Purchase Plan	44		184				184
Stock-based compensation			2,746	33			2,779
Other comprehensive income change in unrealized gain on available-for-sale investments					310		310
Net loss						(5,338)	(5,338)
Comprehensive loss							(5,028)
Balance at December 31, 2006	31,638	316	106,850		(79)	(6,172)	100,915
Issuance of Common Stock upon exercise of options	639	6	2,919				2,925
	(5)		(35)				(35)

	Common Stock				**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings (Accumulated Deficit)**	
Repurchase of Restricted Common Stock							
Repurchase of Common Stock	(883)	(8)	(5,015)				(5,023)
Issuance of Common Stock in connection with asset purchase	500	5	2,118				2,123
Stock-based compensation			3,794				3,794
Other comprehensive income change in unrealized gain on available-for-sale investments					114		114
Net loss						(8,521)	(8,521)
Comprehensive loss							(8,407)
Balance at December 31, 2007	31,889	$ 319	$ 110,631	$	$ 35	$ (14,693)	$ 96,292

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

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MOSYS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities:			
Net loss	$ (8,521)	$ (5,338)	$ (2,982)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts	225		105
Depreciation and amortization	630	474	614
Amortization of intangible assets	394		
In-process research and development	966		
Stock-based compensation	3,766	2,746	36
Changes in assets and liabilities, net of assets acquired:			
Accounts receivable	1,371	(1,853)	382
Unbilled contracts receivable	(158)	8	(311)
Prepaid expenses and other assets	650	(201)	283
Deferred revenue	(418)	(690)	808
Accounts payable	(161)	71	116
Accrued expenses and other liabilities	157	(841)	(793)
Tax benefits associated with exercise of stock options			482
Net cash used in operating activities	(1,099)	(5,624)	(1,260)
Cash flows from investing activities:			
Purchase of property and equipment	(988)	(208)	(1,051)
Purchase of intangible and other assets	(1,539)		
Proceeds from sales and maturities of marketable securities	248,595	170,041	225,879
Purchase of marketable securities	(216,281)	(166,094)	(247,636)
Net cash provided by (used in) investing activities	29,787	3,739	(22,808)
Cash flows from financing activities:			
Proceeds from issuance of common stock	2,925	3,832	1,525
Repurchase of common stock	(5,058)		
Net cash provided by (used in) financing activities	(2,133)	3,832	1,525
Net increase (decrease) in cash and cash equivalents	26,555	1,947	(22,543)
Cash and cash equivalents at beginning of year	11,118	9,171	31,714
Cash and cash equivalents at end of year	$ 37,673	$ 11,118	$ 9,171
Supplemental disclosure:			
Cash paid for income taxes	$ 59	$ 42	$ 29
	$ 44	$	$

	Year Ended December 31,		
Transaction fees paid for repurchase of common stock			
Stock issued for purchase of intangible assets	$ 2,123	$	$

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

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MOSYS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 designs, develops, markets and licenses high performance semiconductor memory and analog/mixed-signal intellectual property (IP) used by the semiconductor industry, communications, networking and storage equipment manufacturers.

From its inception in 1991 through 1998, the Company focused primarily on the sale of stand-alone memory products. In the fourth quarter of 1998, the Company changed the emphasis of its business model to focus primarily on the licensing of its 1T-SRAM technologies and completed this transition in 2004 when the Company notified its customers of its decision to discontinue sales of its memory chip products and only license its technology.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The Company reports financial results on a calendar fiscal year. Certain amounts reported in previous years have been reclassified to conform with the 2007 presentation. The impact of these reclassifications had no effect on previously reported total revenue, net loss, total assets or stockholders' equity.

Use of Estimates

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

Foreign Currency

The Company has foreign offices located in Korea, Japan, Romania and China, which are operated as branches or subsidiaries of the Company. The functional currency of the Company's foreign entities is the U.S. dollar. Accordingly, the financial statements of these entities are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Exchange gains or losses from foreign currency transactions are included in the consolidated statement of operations and were not material for any period presented.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, approximates fair market value due to the relatively short period of time to maturity. The fair value of investments is determined using quoted market prices for those securities or similar financial instruments.

Cash Equivalents and Investments

The Company accounts for investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate

classification of

securities at the time of purchase. All securities are classified as available-for-sale. The Company's short-term and long-term investments are carried at fair value, based on quoted market prices, with the unrealized holding gains and losses reported in stockholders' equity. The Company evaluates declines in market value for potential impairment if the decline results in a value below cost and is determined to be other than temporary. Realized gains and losses and declines in the value judged to be other than temporary are included in other income and expenses. The cost of securities sold is based on the specific identification method.

The Company invests its excess cash in money market accounts, auction rate securities, corporate debt, commercial paper and government agency 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. Auction rate debt securities are classified as short-term investments because they have fixed reset dates within one year designed to allow investors to exit these instruments at par even though the underlying municipal note may have an original maturity of as much as 40 years. The Company's auction rate securities are classified as available-for-sale and are carried at fair value which approximates cost.

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. A specific allowance of up to 100% of the invoice value will be provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is remote. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral from its customers. The Company grants credit only to customers deemed credit worthy in the judgment of management. The Company maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable. The allowance for uncollectible accounts receivable was $225,000 and $0 at December 31, 2007 and 2006, respectively. Amounts written off in 2007, 2006 and 2005 were $0, $65,000 and $0, respectively.

Unbilled Contract Receivables

Under the percentage of completion method, if the amount of revenue recognized exceeds the amount of billings to a customer, the excess amount is carried as an unbilled contract receivable.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized over the shorter of their estimated useful life or the lease term.

Valuation of Long-lived Assets

The Company evaluates the recoverability of long-lived assets with finite lives in accordance with SFAS No. 144 (SFAS 144), "Accounting for the Impairment of Long-Lived Assets." Finite-lived intangible assets are being amortized on a straight-line basis over their estimated useful lives of three to five years. SFAS 144 requires recognition of impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized as the difference between the net book value of such assets and the future undiscounted cash flows attributable to such assets.

Purchased Intangible Assets

Intangible assets acquired by direct purchase are accounted for based on the fair value of assets received. Identifiable intangible assets are primarily comprised of developed technology, patent rights and workforce. Purchased intangibles with finite lives are generally amortized on a straight-line basis, which typically approximates the economic benefit of the intangible assets, over the respective estimated useful lives of up to five years.

Goodwill

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." The provisions of SFAS 142 require that a two-step impairment test be performed on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. For step one, the Company determines the fair value of its reporting unit using the market approach. Under the market approach, the Company estimates the fair value based on the market value of the reporting unit at the entity level. If the fair value of the reporting unit exceeds the carrying value of net assets to the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the net assets to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company must record an impairment loss equal to the difference. The Company performs its annual impairment test during the third quarter of each year and any potential impairment indicators are noted. The Company performed the annual impairment test during the third quarter of 2007, and the test did not indicate impairment of goodwill as of September 30, 2007. As of December 31, 2007, the Company had not identified any indicators of potential impairment.

Revenue Recognition

General

The Company generates revenue from the licensing of its intellectual property, or IP, and customers pay fees for licensing, non-recurring engineering services, royalties and maintenance and support. During 2004, the Company phased out sales of its proprietary memory chips and completed its final shipment of such products in early 2005. The Company applies the principles of Securities & Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," and 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 agreements. When sales arrangements contain multiple elements (e.g., license and services), the Company applies the provisions of Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 00-21, (EITF 00-21), "Revenue Arrangements with Multiple Deliverables," to determine the separate units of accounting that exist within the agreement. If more than one unit of accounting exists, the agreement consideration payable to us is allocated to each unit of accounting using either the relative fair value method or the residual fair value method as prescribed by EITF 00-21. Revenue is recognized for each unit of accounting when the revenue recognition criteria of SAB No. 104 have been met for that unit of accounting.

Licensing

Licensing revenue consists of fees earned from license agreements, development services and support and maintenance. For license agreements that do not require significant development,

modification or customization, revenues are generally recognized when the criteria of SAB No. 104 have been met. If any of these criteria are not met, revenues are deferred until such time as all criteria have been met

For license agreements which include deliverables that require significant production, modification or customization, the Company applies American Institute of Certified Public Accountants Statement of Position 81-1 (SOP 81-1), "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." When the Company has significant experience in meeting the design specification involved in the contract and the direct labor hours related to services under the contract can be reasonably estimated, the Company recognizes revenue over the period in which the contract services are performed. For these arrangements, the Company recognizes revenue using the percentage of completion method. The percentage of completion method includes judgmental elements, such as determining that the Company has the experience to meet the design specifications and estimation of the total direct labor hours. The Company follows this method because it can obtain reasonably dependable estimates of the direct labor hours to perform the contract services. The direct labor hours for the development of the licensee's design are estimated at the beginning of the contract. As these direct labor hours are incurred, they are used as a measure of progress towards completion. The Company has the ability to reasonably estimate the direct labor hours on a contract-by-contract basis based on its experience in developing prior licensees' designs. During the contract performance period, the Company reviews estimates of direct labor hours to complete the contracts as the contract progresses to completion and will revise its estimates of revenue and gross profit under the contract if the Company revises the estimations of the direct labor hours to complete. The Company's policy is to reflect any revision in the contract gross profit estimate in reported income in the period in which the facts giving rise to the revision become known. Under the percentage of completion method, provisions for estimated losses on uncompleted contracts are recorded in the period in which the likelihood of such losses is determined. Revenue recognized in any period is dependent on the Company's progress toward completion of projects in progress. Significant management judgment and discretion are used to estimate total direct labor hours. Any changes in or deviation from these estimates could have a material effect on the amount of revenue the Company recognizes in any period. If the amount of revenue recognized under the percentage of completion accounting method exceeds the amount of billings to a customer, then the excess amount is recorded as an unbilled contract receivable. Our total unbilled contract receivable was $518,000 and $360,000 as of December 31, 2007 and 2006, respectively. If inherent risks make estimates doubtful, the contract is accounted for under the completed contract method.

For contracts involving design specifications that the Company has not previously met, the Company defers the recognition of all revenue until the design meets the contractual design specifications and expenses the cost of revenue as incurred. When the Company has experience in meeting design specifications but does not have significant experience to reasonably estimate the direct labor hours related to services to meet a design specification, the Company defers both the recognition of revenue and the cost. For these arrangements, the Company recognizes revenue using the completed contract method. The Company recognized $128,000 of revenue under the completed contract method in 2007. In 2006 and 2005, no revenue was recognized under the completed contract method.

The Company provides support and maintenance under many of its license agreements. Under these arrangements, the Company provides unspecified upgrades, design rule changes and technical support. No other upgrades, products or other post-contract support are provided. Support and maintenance revenue is recognized at its fair value established by objective evidence, ratably over the period during which the obligation exists, typically 12 months. These arrangements are renewable annually by the customer. Revenue from support and maintenance was $484,000, $287,000 and $512,000 in 2007, 2006 and 2005, respectively, and was included in licensing revenue in the consolidated statements of operations.

From time to time, a licensee may cancel a project during the development phase. Such a cancellation is not within the Company's control and is often caused by changes in market conditions or the licensee's business. Cancellations of this nature are an aspect of the Company's licensing business, and, in general, license contracts allow the Company to retain all payments that the Company has received or is entitled to collect for items and services provided before the cancellation occurs. Typically under the Company's license agreements, the licensee is obligated to complete the project within a stated timeframe, including assisting the Company in completing the final milestone, and if the Company performs the contracted services, is obligated to pay the license fees even if the licensee fails to complete verification or cancels the project prior to completion. For accounting purposes the Company will consider a project to have been canceled even in the absence of specific notice from its licensee, if there has been no activity under the contract for six months or longer, and the Company believes that completion of the contract is unlikely. In this event, the Company recognizes revenue in the amount of cash received, if the Company has performed a sufficient portion of the development services. If a cancelled contract had been entered into before the establishment of technological feasibility, the costs associated with the contract would have been expensed prior to the recognition of revenue. In that case, there would be no costs associated with that revenue recognition, and gross margin would increase for the corresponding period. License revenue from cancelled contracts was $0, $225,000 and $240,000 for 2007, 2006 and 2005, respectively.

Royalty

Licensing contracts also provide for royalty reporting and payments at a stated rate based on actual units manufactured or sold by licensees for products that include the Company's technologies after the end of the quarter in which the sale or manufacture occurs. The Company generally recognizes royalties in the quarter in which the Company receives the licensee's report. However, due to a contract amendment with one customer in the fourth quarter of 2006, the Company started to recognize royalty revenue in the same quarter in which the units are sold by this customer based on royalty reports received from the customer. As a result of this contract amendment, additional royalty revenue representing 30% of total revenue was recognized in the fourth quarter of 2006. In addition, in the first quarter of 2006, the Company began recognizing revenue from two types of prepaid royalties: pre-production royalties, which cover a fixed number of future unit shipments and are paid in a lump sum when the Company enters into the licensing contract, and post-production royalties, which are paid in a lump sum after the licensee commences production of the royalty-bearing product and applied against future unit shipments. In either case, these prepaid royalties are non-refundable. Revenue is recognized upon execution of the contract provided that no further performance obligations exist. The Company records pre-production, prepaid royalties as license revenues and post-production, pre-paid royalties as royalty revenues.

Cost of Revenue

Cost of licensing revenue consists primarily of engineering personnel and overhead allocation costs directly related to development services specified in agreements. These services typically include customization of the Company's memory IP circuitry to enable embedding it on a licensee's integrated circuit and may include engineering support to assist in the commencement of production of a licensee's products. The Company recognizes costs of licensing revenue in the following manner:

- If licensing revenue is recognized using the percentage of completion method, the associated cost of licensing revenue is recognized in the period in which the Company incurs the engineering costs.

- If licensing revenue is recognized using the completed contract method, and to the extent that the amount of engineering cost does not exceed the amount of the related licensing revenue, this cost is deferred on a contract-by-contract basis from the time the Company has established

technological feasibility of the product to be developed under the license. Technological feasibility is established when the Company has completed all activities necessary to demonstrate that the licensee's product can be produced to meet the performance specifications when incorporating its technology. Deferred costs are charged to cost of licensing revenue when the related revenue is recognized.

For contracts entered into prior to establishing technological feasibility, the Company does not defer related development costs, but rather expenses them in the period in which they are incurred. Consequently, upon completion of these contracts, the Company recognizes the related revenues without any corresponding costs.

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

Research and Development

Engineering cost is generally recorded as research and development expense in the period incurred and they include costs incurred with respect to internally developed technology and engineering services, as they are not directly related to a particular licensee, license agreement or license fees.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and complied with the disclosure provisions of SFAS No. 123 (SFAS 123), "Accounting for Stock-Based Compensation."

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS 123(R)), "Share-Based Payment," which establishes accounting for recognizing the fair value of stock-based payment awards. Accordingly, the expense of these awards is recognized on a straight-line basis over the requisite service period, usually the vesting period, based on the grant-date fair value.

The Company elected to adopt the modified prospective transition method as provided by SFAS 123(R). This method requires the Company to apply the provision of SFAS 123(R) to all stock-based payment awards after the adoption date. In accordance with the method, the Company's consolidated financial statements for periods prior to 2006 have not been restated to reflect, and do not include, the impact of SFAS 123(R).

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. Potential common shares are composed of incremental shares of common stock issuable upon the exercise of stock options or restricted stock awards. For the years ended December 31, 2007, 2006 and 2005, stock options to purchase 5.4 million, 5.7 million, and 6.5 million shares, respectively, were excluded from computation of diluted net loss per share as their inclusion would be anti-dilutive. The following table sets forth the

computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

	Year Ended December 31,		
	2007	2006	2005
Numerator:			
Net loss	$ (8,521)	$ (5,338)	$ (2,982)
Denominator:			
Shares used in computing net loss per share:			
Add: weighted-average common shares outstanding	32,101	31,364	30,534
Less: unvested common shares subject to repurchase	(107)	(66)	
Basic and diluted	31,994	31,298	30,534
Net loss per share:			
Basic and diluted	$ (0.27)	$ (0.17)	$ (0.10)

Options Issued to Non-Employees

The Company accounts for stock options or warrants granted to non-employees, excluding non-employee directors, under EITF No. 96-18, "Accounting for Equity Instruments with Variable Terms that are Issued for Consideration Other Than Employee Services under SFAS 123." The Company records the expense of such services based upon the estimated fair value of the equity instrument using the Black-Scholes pricing model. Assumptions used to value the equity instruments are consistent with equity instruments issued to employees. The Company charges the value of the equity instrument to earnings over the term of the service agreement. There were no stock option grants to non-employees, excluding non-employee directors in the years ended December 31, 2007, 2006 and 2005. However, $0.1 million was recognized as expense in 2007 due to the conversion of an employee into a consultant in May 2007.

Income Taxes

The Company accounts for income taxes using the asset and liability method as prescribed by SFAS No. 109 (SFAS 109), "Accounting for Income Taxes." Under the asset and liability method, the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities are recognized as deferred tax assets and liabilities. A valuation allowance is established for any deferred tax assets for which realization is more likely than not that all or a portion of the deferred tax assets will not be realized.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes an interpretation of SFAS 109," as issued by the FASB. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As a result of the implementation of FIN 48, the Company recognized no adjustment to the January 1, 2007 accumulated deficit balance. The Company believes that any income tax filing positions and deductions not sustained on audit will not result in a material change to its financial position or results of operations. Therefore, adoption of FIN 48 did not have a material effect on the Company's consolidated results of operations and financial condition for the year ended December 31, 2007.

The Company files U.S. federal and state and foreign income tax returns in jurisdictions with varying statutes of limitations. The Company is not currently under examination by income tax

authorities in federal, state or other foreign jurisdictions. The 2003 through 2007 tax years generally remain subject to examination by federal, state, and foreign tax authorities.

As of December 31, 2007, the Company does not have any unrecognized tax benefits and does not expect its unrecognized tax benefits to change significantly over the next 12 months. The Company recognizes interest related to unrecognized tax benefits in its income tax expense and penalties related to unrecognized tax benefits as other income and expenses. During the years ended December 31, 2007, 2006 and 2005, the Company did not recognize any interest or penalties.

Comprehensive Loss

Comprehensive loss, as defined, includes all changes in equity (net assets) during a period from non-owner sources. The difference between net loss and comprehensive loss is due to unrealized gains and losses on investments classified as available-for-sale. Comprehensive loss is reflected in the consolidated statements of stockholders' equity.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), "Fair Value Measurement." SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115." SFAS 159 permits companies to measure many financial instruments and certain other items at fair value at specified election dates. Unrealized gains and losses on these items will be reported in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

In June 2007, the FASB ratified EITF No. 07-3 (EITF 07-3), "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities." EITF 07-3 requires non-refundable advance payments for goods and services to be used in future research and development activities to be recorded as an asset and the payments to be expensed when the research and development activities are performed. EITF 07-3 applies prospectively for new contractual arrangements entered into beginning in the first quarter of fiscal year 2008. The Company has accounted for such payments consistent with EITF 07-3, therefore adoption of EITF 07-3 is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141(R)), "Business Combinations." SFAS 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will adopt this pronouncement in the first quarter of fiscal year 2009, and is currently evaluating the impact SFAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160 (SFAS 160), "Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB No. 51," which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company will adopt this pronouncement in the first quarter of fiscal year 2009 and does not expect the adoption of SFAS 160 will have a material impact on its consolidated results of operations and financial condition.

Note 2: Consolidated Balance Sheets and Statements of Operations Components

	December 31,	
	2007	**2006**
	(in thousands)	
Prepaid expenses and other current assets:		
Deferred costs of revenue	$ 32	$ 73
Tax receivable	1,131	210
Deferred tax assets		1,316
Prepaid expenses and other assets	1,230	1,232
	$ 2,393	$ 2,831
Property and equipment:		
Equipment, furniture and fixtures, leasehold improvements	$ 2,014	$ 1,468
Acquired software	1,560	935
	3,574	2,403
Less: Accumulated depreciation and amortization	(2,178)	(1,548)
	$ 1,396	$ 855
Accrued expenses and other liabilities:		
Accrued wages and employee benefits	$ 931	$ 950
Deferred incentive from lessor	155	216
Professional fees	263	130
Deferred rent	67	67
Accrued restructuring liability	53	154
Income taxes payable	2	77
Other	687	271
	$ 2,158	$ 1,865

Interest, other income and expenses:

	2007	**2006**	**2005**
		(in thousands)	
Interest income	$ 4,496	$ 3,822	$ 2,608
Other income (expense)	24	(536)	(17)

	2007	2006	2005
	$ 4,520	$ 3,286	$ 2,591

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Note 3: Fair Value of Financial Instruments

The estimated fair values of financial instruments outstanding at December 31, 2007 and 2006 were as follows (in thousands):

	2007		
	Cost	Gross Unrealized Gains	Fair Value
Cash	$ 37,673	$	$ 37,673
Short-term investments and auction rate securities:			
Corporate notes and commercial paper	$ 1,500	$	$ 1,500
US government debt securities	14,185	3	14,188
Market auction rate securities	11,600		11,600
Total short-term investments and auction rate securities	$ 27,285	$ 3	$ 27,288
Long-term investments:			
Corporate notes	$ 9,454	$ 12	$ 9,466
US government debt securities	4,207	20	4,227
Total long-term investments	$ 13,661	$ 32	$ 13,693

	2006		
	Cost	Gross Unrealized Losses	Fair Value
Cash	$ 8,520	$	$ 8,520
Cash equivalents:			
Commercial paper	2,600	(2)	2,598
Total cash and cash equivalents	$ 11,120	$ (2)	$ 11,118
Short-term investments and auction rate securities:			
Corporate notes	$ 24,892	$ (38)	$ 24,854
US government debt securities	22,166	(31)	22,135
Market auction rate securities	23,700		23,700
Total short-term investments and auction rate securities	$ 70,758	$ (69)	$ 70,689
Long-term investments:			
US government debt securities	$ 2,500	$ (8)	$ 2,492
Total long-term investments	$ 2,500	$ (8)	$ 2,492

Cost and fair value of commercial paper and investments based on three maturity groups at December 31, 2007 and 2006 were as follows (in thousands):

	2007		
	Cost	Gross Unrealized Gains	Fair Value
Due within 1 year	$ 15,685	$ 3	$ 15,688
Due in 1-2 years	13,661	32	13,693
Due in greater than 2 years	11,600		11,600
Total	$ 40,946	$ 35	$ 40,981

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	2006		
	Cost	Gross Unrealized Losses	Fair Value
Due within 1 year	$ 49,658	$ (71)	$ 49,587
Due in 1-2 years	2,500	(8)	2,492
Due in greater than 2 years	23,700		23,700
Total	$ 75,858	$ (79)	$ 75,779

Securities with contractual maturities greater than 2 years are for municipal notes investments with an auction reset feature. While the contractual maturities are long-term, the Company currently has the ability to liquidate these investments within the next twelve months, provided that there is a market for these securities, and classifies these as short-term investments (see Note 12).

Note 4. Asset Acquisitions

On July 2, 2007, the Company entered into an asset purchase agreement and a transition services agreement with Atmel Corporation (Atmel) with respect to the purchase of several analog/mixed-signal integrated circuit designs and related assets from Atmel, including the rights to acquire an Atmel subsidiary located in Romania that employed 58 people and another Atmel subsidiary located in China that employed 45 people at the time of purchase. Under the agreement, the Company made a cash payment of $1.0 million, assumed net liabilities of acquired subsidiaries, and agreed to reimburse certain pre-closing operating expenses for a total purchase amount of $1.4 million.

On August 8, 2007, the Company acquired intellectual property and other assets from LSI Design and Integration Corporation (LDIC) in a transaction related to the Atmel acquisition. The Company acquired this technology and related assets in exchange for 500,000 shares of the Company's common stock with a grant-date fair value of $7.07 per share. Of the 500,000 shares issued by the Company for the LDIC acquisition, $2.1 million (which represents the 300,000 shares valued at $7.07) has been recorded as intangible assets and the other 200,000 shares have been reserved for future distribution to employees and are recognized as compensation expense over the vesting period (see Note 6). The Company recorded the fair value of the 300,000 shares as part of the asset purchase consideration. In addition, the agreement calls for an earn-out payment equal to 25% of the license and royalty revenues generated by the Company from the integrated circuit designs acquired from Atmel and LDIC that are recognized in the first 12 calendar months following the closing date. Any such payments will be recorded as additional purchase consideration when earned.

In accordance with SFAS No. 141, "Business Combinations," and EITF No. 98-3, "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business," the Company has determined that the purchase of assets did not have the necessary outputs and infrastructure to meet the definition of a business and therefore, was not accounted for as a business combination. Accordingly, no goodwill was recorded for these asset acquisitions. The Company has evaluated the specified assets and, in accordance with SFAS No. 142, "Goodwill and Other intangible Assets," has allocated the cost of the acquisition to the individual assets based on their relative fair values. The Company is amortizing the amortizable identified intangible assets based on their respective useful lives, ranging from three to five years.

The components of purchased intangible assets are as follows (in thousands):

Developed technology	$ 1,559
In-process research and development	966
Patents	496
Assembled workforce	493
Business permits	12
Total intangible assets acquired	$ 3,526

In connection with the asset acquisitions, the Company recorded an expense of $1.0 million in 2007 for the write-off of acquired in-process technology. The purchase price allocated to acquired in-process technology was determined through established valuation techniques. The acquired in-process technology was immediately expensed because technological feasibility had not been established and no future alternative use existed. The write-off of acquired in-process technology has been recorded as a separate line item in the consolidated statements of operations. Amortization expense in 2007 was $0.4 million and has been included in research and development in the consolidated statements of operations. The estimated aggregate amortization expense to be recognized in future years is approximately $0.8 million for 2008, $0.8 million for 2009, $0.4 million for 2010 and $0.1 million for 2011. As of December 31, 2007, purchased intangible assets and their related accumulated amortization and estimated lives were as follows (in thousands):

	Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Developed technology	3	$ 1,559	$ 260	$ 1,299
Patents	5	496	50	446
Assembled workforce	3	493	82	411
Business permits	3	12	2	10
Total		$ 2,560	$ 394	$ 2,166

Note 5: Income Taxes

The (provision) benefit for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Current portion:			
State	$ (6)	$ (6)	$ 31
Foreign	(19)	(103)	(23)
	(25)	(109)	8
Deferred:			
U.S. federal			3
			3
Total	$ (25)	$ (109)	$ 11

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2007	2006
Deferred tax assets (liabilities):		
Federal and state loss carryforwards	$ 4,603	$ 4,608
Reserves, accruals and other	451	462
Depreciation and amortization	490	(54)
Acquired intangibles	(165)	
Deferred stock-based compensation	1,369	686
Research and development credit carryforwards	4,015	1,758
Foreign tax credits	816	1,211
Canadian loss and research and development pool carryforwards	5,842	5,106
	17,421	13,777
Less: Valuation allowance	(17,421)	(12,461)
Net deferred tax assets	$	$ 1,316

The valuation allowance increased by $5.0 million and $1.5 million during the years ended December 31, 2007 and 2006, respectively. The valuation allowance at December 31, 2007 includes $1.9 million related to stock option deductions incurred prior to January 1, 2006, the benefit of which will be credited to additional paid-in capital when realized.

As of December 31, 2007, the Company had net operating loss carryforwards of approximately $14.7 million for federal income tax purposes and approximately $16.2 million for state income tax purposes. These losses are available to reduce taxable income and expire at various times from 2013 through 2027. Approximately $3.8 million of federal net operating loss carryforwards and $3.1 million of state net operating loss carryforwards from 2007 and 2006, respectively, are related to excess tax benefits from stock-based compensation and will be charged to additional paid-in capital when utilized.

The Company also had federal research and development tax credit carryforwards of approximately $2.8 million, which will expire beginning in 2008, and California research and development credits of approximately $1.8 million, which do not have an expiration date. The Company had foreign tax credits available for federal income tax purposes of approximately $816,000 which will begin to expire in 2009. The Company had Canadian operating loss and research and development pool carryforwards of $14.8 million, which will begin to expire in 2008.

Utilization of the Company's net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration or elimination of the net operating loss and tax credit carryforwards before utilization. Management does not believe it is likely that utilization will in fact be significantly limited due to ownership change limitation provisions.

In 2007, the Company favorably settled its U.S. income tax return examination for 2002 and thereby obtained a tax refund of approximately $635,000. In conjunction with this settlement, the Company has filed a U.S. income tax refund claim to carry back its net operating losses to 2004 for approximately $767,000. This refund claim was included in prepaid expenses and other assets as of December 31, 2007.

A reconciliation of income taxes provided at the federal statutory rate (35% in 2007, 2006 and 2005) to actual income tax expense follows (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Income tax benefit computed at U.S. statutory rate	$ (2,973)	$ (1,830)	$ (1,048)
State income tax (net of federal benefit)	6	6	4
Foreign income tax at rate different from U.S. statutory rate	35	168	47
Research & development credits	(364)	(113)	(96)
Foreign tax credit	(26)	(433)	
Stock-based compensation	383	341	
Valuation allowance changes affecting tax provision	2,910	1,948	1,029
Other	54	22	53
Income tax provision (benefit)	$ 25	$ 109	$ (11)

The domestic and foreign components of earnings before taxes were as follows (in thousands):

	Year Ended December 31,		
	2007	2006	2005
U.S.	$ (8,548)	$ (5,158)	$ (2,851)
Non-U.S.	52	(71)	(142)
	$ (8,496)	$ (5,229)	$ (2,993)

Note 6: Stock-Based Compensation

Equity Compensation Plans

Common Stock Option Plans

In 1996, the Company adopted the 1996 Stock Plan (1996 Plan), which expired in 2006. As of December 31, 2007, no options were available for future issuance under the 1996 Plan and options to purchase 117,000 shares were outstanding with a weighted-average exercise price of $8.50 per share. Under the 1996 Plan, incentive stock options were granted at a price not less than 100% of the fair value of the stock at the date of grant, as determined by the board of directors. Nonqualified stock options were to be granted at a price not less than 85% of the fair value of the stock at the date of grant, as determined by the board of directors. Options generally vest over a four-year period and are exercisable immediately for a maximum period of ten years after the date of grant. As the 1996 Plan has expired, additional equity awards under the 1996 Plan have been discontinued. The 1996 Plan will remain in effect as to outstanding equity awards granted under the plan prior to the date of expiration.

The Company's 2000 employee stock option plan was adopted in October 2000 in connection with the Company's reincorporation in Delaware. In 2004, the Company obtained stockholder approval of its Amended and Restated 2000 Stock Option and Equity Incentive Plan (Amended 2000 Plan) to provide additional incentive to its employees and directors. The Amended 2000 Plan authorizes the board of directors or the compensation committee of the board of directors to grant a broad range of awards in addition to stock options, including stock grants, restricted stock, performance-based awards, restricted stock units representing a right to acquire shares in the future and stock appreciation rights and to determine the applicable terms, including price, of such awards. Under the Amended 2000 Plan, the maximum number of shares reserved for issuance is 8,207,000,

plus an annual increase of 500,000 on January 1 of each year, or a lesser amount determined by the board of directors. The term of options granted under the Amended 2000 Plan may not exceed ten years. The term of all incentive stock

options granted to an optionee who, at the time of grant, owns stock representing more than 10% of the voting power of all classes of the Company's stock may not exceed five years.

The exercise price of incentive stock options granted under the Amended 2000 Plan must be at least equal to the fair market value of the shares on the date of grant. The exercise price of nonstatutory stock options granted under the Amended 2000 Plan will be determined by the board of directors, the compensation committee or board designated personnel and the exercise price of a nonstatutory stock option is not subject to any price restriction under the Amended 2000 Plan. No incentive stock option may be granted to any employee who on the date of grant owns more than 10% of the Company's common stock, unless the exercise price of the option is equal to at least 110% of the fair market value of such shares on the date of grant. In addition, the Amended 2000 Plan provides for automatic acceleration of vesting for options granted to non-employee directors in the event of an acquisition of the Company. Generally, options granted under the Amended 2000 Plan after March 30, 2006 vest over a four-year period and are exercisable for a maximum period of six years after the date of grant.

The Company may also award shares to new employees as a material inducement to the acceptance of employment with the Company, and such awards are not made under the Amended 2000 Plan. These grants must be approved by the compensation committee of the board of directors, a majority of the independent directors or an authorized executive officer, as determined under NASDAQ Marketplace Rules.

Employee Stock Purchase Plan

The Company's 2000 Employee Stock Purchase Plan (ESPP) was adopted in October 2000 to become effective upon the pricing date of the Company's initial public offering. A total of 500,000 shares of common stock have been reserved for issuance under the purchase plan. In addition, the purchase plan provides for an automatic annual increase in the number of shares reserved under the plan on January 1 of each year, equal to the lesser of 100,000 shares, one percent of the Company's outstanding shares of common stock on such date or a lesser amount determined by the board of directors. The purchase plan, which is intended to qualify under Section 423 of the Internal Revenue Code, is administered by the board of directors or a committee appointed by the board of directors.

Employees, including officers and employee directors but excluding 5% stockholders, are eligible to participate if they are customarily employed for at least 20 hours per week and for more than five months in any calendar year. The purchase plan permits eligible employees to purchase common stock through payroll deductions, which may not exceed 10% of an employee's compensation. Employees will be permitted to invest a maximum of $25,000 in any offering period.

The purchase plan has been implemented in a series of overlapping offering periods, each to be approximately 12 months in duration. Offering periods begin on the first trading day on or after January 1 and July 1 of each year and end on the last trading day in the period ending twelve months later. Each participant is granted an option on the first day of the offering period, and such option will be automatically exercised at the end of month six of the offering period and on the last day of the offering period. The purchase price of the common stock under the purchase plan is equal to 85% of the lesser of the fair market value per share of common stock on the start date of the offering period or on the date on which the option is exercised. Employees may end their participation in an offering period at any time during that period, and participation ends automatically on termination of employment with the Company. The purchase plan will terminate in June 2010, unless sooner terminated by the board of directors.

Pursuant to authorization by the compensation committee of the board of directors, the Company's ESPP is currently inactive.

Stock-Based Compensation Expense

In accordance with SFAS 123(R), the Company recorded $3.8 million and $2.7 million of stock-based compensation expense in 2007 and 2006, respectively. The total compensation cost of options granted, but not yet vested, as of December 31, 2007 was $10.6 million and is expected to be recognized as expense over a weighted average period of approximately 2.55 years.

SFAS 123(R) requires the Company to present the tax benefits resulting from tax deductions in excess of the compensation cost recognized from the exercise of stock options as financing cash flows in the consolidated statement of cash flows. For the year ended December 31, 2007, there were no such tax benefits associated with the exercise of stock options due to the Company's loss position.

In November 2005, the FASB issued Staff Position (FSP) No. FAS 123(R)-3 (FSP 123R-3), "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." The Company has elected to adopt the alternative transition (short-cut) method described in the FSP 123R-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

On August 8, 2007, the Company acquired intellectual property and other assets from LDIC (see Note 4) and issued 500,000 shares of common stock with a grant date fair value of $7.07 per share to LDIC. Of these 500,000 shares, 300,000 shares are subject to vesting in equal annual installments on each of the first two anniversaries of the closing date. The fair value of these shares or $2.1 million was included in the purchase price of the asset acquisition. LDIC allocated the remaining 200,000 shares for future distribution to employees hired by the Company in connection with the Atmel acquisition. These shares will vest in equal annual installments on each of the first two anniversaries of the closing date, subject to the continued employment and will be accounted for as compensation expense over the vesting period.

On November 8, 2007, the Company hired a new chief executive officer and the board of directors approved three option grants to this new officer with an exercise price equal to the fair market value of our common stock on the date of grant. One option grant is for 800,000 shares of common stock and vests in equal amounts monthly for two years from November 8, 2007. The second option grant is for 350,000 shares of common stock and vests as to: i) 80% of these shares if the average closing price of the Company's common stock for any 90-day period is at least $10.00 per share, and ii) the remaining 20% of these shares pro rata for each $0.01 increase in the average price up to $12.00 per share. The third option grant is for 100,000 shares of common stock and vests as to: i) 50% of the shares if the average closing price of the Company's common stock for any 90-day period is at least $13.00 per share, and ii) the remaining 50% of these shares pro rata for each $0.01 increase up to $15.00 per share. The vesting of all three option grants is subject to continued employment (or service as a director or consultant). In accordance with SFAS 123R, in consideration of the market condition vesting requirement included for the second and third option grants, the Company valued the options using the binomial lattice model. Total compensation for these options was valued at $875,000. The compensation expense is being recognized ratably over the requisite service period of three and three and a half years for the 350,000 and 100,000 shares, respectively. If the market condition is met before the requisite service period has elapsed, the unrecognized compensation cost related to the vested shares would be recognized immediately when the market condition is met.

Valuation Assumptions and Expense Information under SFAS 123(R)

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

	Year Ended December 31,	
Employee stock options:	**2007**	**2006**
Risk-free interest rate	3.6% - 5.1%	4.4% - 5.1%
Volatility	47.1% - 56.0%	47.1% - 56.0%
Expected life (years)	4.0	4.0
Dividend yield	0%	0%

The risk-free interest rate was derived from the Daily Treasury Yield Curve Rates as published by Department of the Treasury as of the grant date for terms equal to the expected terms of the options. The expected volatility was based on the combination of historical volatility, excluding the volatility during the period of a one time non-recurring event, which was the aborted acquisition of the Company by Synopsys, Inc. in 2004, and the expected future volatility of the Company's stock price. 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 since the Company has never paid dividends and has no intention to pay dividends in the near future.

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

A summary of the option and restricted stock award (RSA) activity under the 1996 Plan and Amended 2000 Plan is presented below (in thousands, except exercise price):

	Options Outstanding		
	Available for Grant	Number of Shares	Weighted Average Exercise Prices
Balance at December 31, 2004	2,138	5,757	$ 6.11
Additional authorized under the 2000 Plan	500		
Options granted	(2,648)	2,648	$ 5.41
Options cancelled	1,522	(1,522)	$ 5.80
Options exercised		(406)	$ 2.98
Balance at December 31, 2005	1,512	6,477	$ 6.09
Additional authorized under the 2000 Plan	500		
Options granted	(1,072)	1,072	$ 7.48
RSAs granted	(74)		
Options cancelled	1,129	(1,129)	$ 7.91
RSAs cancelled	8		
Options exercised		(752)	$ 4.85
Option expired	(1,063)		
Balance at December 31, 2006	940	5,668	$ 6.17
Additional authorized under the 2000 Plan	500		
Options granted	(1,532)	1,532	$ 7.84
Options cancelled	1,150	(1,150)	$ 6.34
RSAs cancelled	4		
Exercised		(639)	$ 4.54
Balance at December 31, 2007	1,062	5,411	$ 6.80

	Number of Options	Weighted Average Grant-Date Fair Value
Non-vested options at December 31, 2006	3,045	$ 2.82
Granted	1,532	$ 3.21
Vested	(1,165)	$ 2.73
Cancelled	(1,150)	$ 2.84
Non-vested options at December 31, 2007	2,262	$ 3.12

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, 2005		
Granted	475	$ 7.59
Cancelled		
Exercised		
Balance at December 31, 2006	475	$ 7.59
Granted	1,500	$ 5.76
Cancelled	(356)	$ 7.47
Exercised		
Balance at December 31, 2007	1,619	$ 5.92

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

	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2005		
Granted	74	$ 5.91
Vested		
Cancelled	(8)	$ 5.91
Non-vested shares at December 31, 2006	66	$ 5.91
Granted	500	$ 7.07
Vested	(23)	$ 5.91
Cancelled	(4)	$ 5.91
Non-vested shares at December 31, 2007	539	$ 6.99

The following table summarizes significant ranges of outstanding and exercisable options and inducement grants as of December 31, 2007 (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
$1.00 - $4.09	796	6.27	$ 3.85	$ 797	587	6.29	$ 3.85	$ 589
$4.10 - $8.00	4,445	5.98	$ 6.01	$ 120	1,852	4.05	$ 6.00	$ 100
$8.01 - $10.00	1,402	4.40	$ 8.80		475	3.70	$ 9.45	

	Options Outstanding				Options Exercisable			
$10.01 - $15.69	387	3.09	$ 10.98		387	3.09	$ 10.98	
	7,030	5.54	$ 6.60	$ 917	3,301	4.29	$ 6.70	$ 689

As of December 31, 2007, the Company had 6,198,055 shares fully vested and expected to vest, after estimated forfeitures, with a remaining contractual life of 5.44 years, weighted average exercise price of $6.57 and aggregate intrinsic value of $0.9 million.

The total fair value of shares vested using the Black-Scholes method during the year ended December 31, 2007 was $3.9 million. The total intrinsic value of employee stock options exercised during the years ended December 31, 2007, 2006 and 2005 were $2.4 million, $2.6 million and $1.0 million, respectively.

Options exercisable were 3.3 million, 2.6 million, and 2.7 million at December 31, 2007, 2006, and 2005, respectively.

Pro Forma Information Prior to the Adoption of SFAS 123(R)

Prior to January 1, 2006, the Company accounted for stock-based compensation arrangements in accordance with the provisions of APB 25, and complied with the disclosure provisions of SFAS 123. Under APB 25, compensation cost is, in general, recognized based on the excess, if any, of the fair market value of the Company's stock on the date of grant over the amount an employee must pay to acquire the stock. Deferred stock-based compensation is being amortized using the graded vesting method over the vesting period of each respective option, which is generally four years.

Had compensation cost for the Company's option plans been determined based on the fair value at the grant dates, as prescribed in SFAS 123, the Company's net loss for 2005 would have been as follows (in thousands, except per share amounts):

	Year Ended December 31, 2005	
Net loss:		
As reported	$	(2,982)
Stock-based compensation expense reported in consolidated statements of operations, net of related tax effects		36
Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects		(6,046)
Pro forma net loss	$	(8,992)
Losses per share:		
Basic and diluted as reported	$	(0.10)
Basic and diluted pro forma	$	(0.29)

The fair value of each grant was estimated on the date of grant using the Black-Scholes method with the following assumptions used for grants during the applicable periods:

Employee stock options	Year Ended December 31, 2005
Expected life (in years)	4.0 - 5.0
Risk-free interest rate	3.7% - 4.5%
Volatility	56.7%
Dividend yield	0%

Employee stock purchase plan shares	2005
Expected life (in years)	1.0
Risk-free interest rate	2.8% - 3.5%
Volatility	44.0%
Dividend yield	0%

Note 7. Stockholders' Equity

The Company's board of directors may issue up to 20,000,000 shares of preferred stock without stockholder approval on such terms as the board might determine. The rights of the holders of common stock will be subject to, and might be adversely affected by, the rights of the holders of any preferred stock that might be issued in the future.

Stockholder Rights Plan

The Company's Stockholder Rights Plan, which was adopted in October 2000 and became effective June 27, 2001, is intended to protect stockholders from unfair or unfriendly takeover practices. In accordance with this plan, the board of directors declared a dividend distribution of one Series AA preferred stock purchase right on each outstanding share of its common stock held as of June 27, 2001, and on each share of common stock issued by the Company thereafter. Each right entitles the registered holder to purchase from the Company one one-thousandth share of Series AA preferred stock at a price of $110. The rights become exercisable in certain circumstances, including the acquisition by any person or group, or the commencement or announcement of a tender or exchange offer for the acquisition, of beneficial ownership of 15% or more of the Company's common stock without the approval of the board of directors (except for certain affiliates prior to the effective date of the Plan as to whom this ownership limit is 25%). The rights do not confer any rights as a stockholder until they are exercised. In the event the rights become exercisable, each right will entitle the holder to acquire shares of common stock of the Company or the acquiring corporation (in the event of merger or similar business combination) having a value equal to twice the purchase price of the right. The rights are redeemable by the Company prior to exercise at $0.01 per right and expire on October 11, 2010.

In 2004, the Company amended its Stockholder Rights Plan twice; once, in connection with the proposed acquisition of the Company by Synopsys, Inc., and a second time to permit the acquisition of shares representing more than 15% of its common stock by a brokerage firm that manages independent customer accounts and generally does not have any discretionary voting power with respect to such shares. Notwithstanding amendments of this nature, the Company's intention is to maintain and enforce the terms of this plan, which could delay, deter or prevent an investor from acquiring the Company in a transaction that could otherwise result in stockholders receiving a premium over the market price for their shares of common stock.

Stock Repurchase Plan

In August 2007, the Company's board of directors authorized the Company to purchase up to $19.5 million of its common stock through August 2008. The share repurchases may be made from time to time in the open market subject to market conditions and other factors, in accordance with SEC requirements. These repurchases may be commenced or suspended at any time or from time to time without prior notice. As of December 31, 2007, the Company had repurchased approximately 883,000 shares of common stock for approximately $5.0 million. The total purchase price was reflected as a decrease to stockholders' equity during the year ended December 31, 2007. Common stock repurchased under the program was recorded based upon the date of the applicable trade for accounting purposes. All shares repurchased were retired in 2007.

Note 8: Retirement Savings Plan

Effective January 1997, the Company adopted the MoSys 401(k) Plan (the Savings Plan) which qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. All full-time employees who are at least 21 years of age are eligible to participate in the Savings Plan at the time of hire. Participants may contribute up to 15% of their earnings to the Savings Plan. The Company makes a matching contribution on behalf of each Participant in an amount equal to 25% of a participant's contributions during the plan year. The Company made matching contributions of $212,000, $153,000, and $127,000 in 2007, 2006 and 2005, respectively.

Note 9: Business Segments, Concentration of Credit Risk and Significant Customers

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

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, short-term and long-term investments and accounts receivable. Cash, cash equivalents, short-term and long term investments are deposited with high credit quality institutions.

The Company sold its products and licensed its technologies to customers in North America, Asia and Europe as follows (in thousands):

	Years Ended December 31,		
	2007	**2006**	**2005**
Japan	$ 10,826	$ 9,010	$ 7,636
United States	2,289	3,165	3,630
Taiwan	827	1,710	479
Asia	381	659	537
Europe	11	365	
Total	$ 14,334	$ 14,909	$ 12,282

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

	Years Ended December 31,		
	2007	**2006**	**2005**
Customer A	70%	27%	35%
Customer B		25%	17%

One customer accounted for 56% of net accounts receivable at December 31, 2007. One customer accounted for 89% of net accounts receivable at December 31, 2006.

Net property and equipment, classified by major geographic areas were as follows at December 31, 2007 and 2006 (in thousands):

	December 31,	
	2007	**2006**
	(in thousands)	

	December 31,	
U.S.	$ 1,179	$ 830
Non-U.S.	217	25
Total	$ 1,396	$ 855

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Note 10: Commitments and Contingencies

Leases and Purchase Commitments

The Company leases its facilities under non-cancelable operating leases that expire at various dates through June 2010. Rent expense was approximately $862,000, $699,000, and $797,000, for the years ended December 31, 2007, 2006, and 2005, respectively. The leases provide for monthly payments and are being charged to operations ratably over the lease terms. In addition to the minimum lease payments, the Company is responsible for property taxes, insurance and certain other operating costs. Future minimum lease payments under the non-cancelable operating leases as of December 31, 2007 were as follows (in thousands):

Year Ended December 31,	Minimum Lease Commitments	Sublease Income	Net Lease Commitments
2008	$ 825	$ (35)	$ 790
2009	516		516
2010	201		201
Total minimum payments	$ 1,542	$ (35)	$ 1,507

As of December 31, 2007, the Company had a three year purchase commitment of $1.7 million for licenses related to computer-aided design tools payable in quarterly installments through December 2010.

Indemnifications

In the ordinary course of business, the Company enters into contractual arrangements under which the Company may agree to indemnify the counter-party 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 amounts are reflected in our consolidated financial statements as of December 31, 2007 or 2006 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 payments related to these indemnification agreements.

Legal Matters

On March 31, 2004, UniRAM Technology, Inc. (UniRAM) filed a complaint against the Company in the United States District Court for the Northern District of California, alleging trade secret misappropriation and patent infringement. On October 24, 2006, the Company settled all outstanding litigation with UniRAM related to the trade secret misappropriation and patent infringement suit. Under the settlement agreement, the companies agreed to dismiss all outstanding claims and counterclaims with prejudice. The Company paid UniRAM $2.4 million, and received a complete release of all claims as well as a future fully paid license for itself and all of its licensees to UniRAM's relevant intellectual property.

The Company is not a party to any material legal proceeding which would have a material adverse effect on its 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 11. Related Party Transactions

One of the Company's directors is an executive officer of a customer of the Company. Revenue from this customer for the years ended December 31, 2007 and 2006 was $28,000 and $471,000, respectively. In addition, another of the Company's directors serves as a member of the board of directors of another customer. Revenue from this customer for the year ended December 31, 2007 was $128,000.

Note 12. Subsequent Events

Investments

As of December 31, 2007, the Company held $11.6 million of municipal notes investments, classified as short-term investments, with an auction reset feature (adjustable rate securities) whose underlying assets were primarily in student loans and which had an AAA credit rating. During January 2008, the Company successfully liquidated $2.4 million of the securities and, as of February 29, 2008, the Company held $9.2 million of adjustable rate securities. Subsequently, all of these adjustable rate securities failed in auctions. An auction failure means that the parties wishing to sell their securities could not do so as a result of a lack of buying demand. These developments may result in the classification of some or all of these securities as long-term investments in the Company's consolidated financial statements for the first quarter of 2008. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may in the future be required to record an impairment charge on these investments.

The Company believes that it will be able to liquidate these adjustable rate securities without significant loss, and that these adjustable rate securities are not impaired, primarily due to government guarantees of the underlying securities. However, it could take until the final maturity of the underlying notes (up to 40 years) to realize the Company's investments' recorded value. The Company currently has the ability and intent to hold its $9.2 million of adjustable rate securities held as of February 29, 2008, until market stability is restored with respect to these securities.

Schedule II Valuation and Qualifying Accounts
(In thousands)

		Additions		Deductions	
Description	**Balance at beginning of period**	**Charged to costs and expenses**	**Charged to other accounts**	**Amount recovered or written off**	**Balance at end of period**
Allowance for doubtful accounts					
Year ended December 31, 2007	$	$ 225	$	$	$ 225
Year ended December 31, 2006	$ 105	$	$	$ (105)	$
Year ended December 31, 2005	$	$ 105	$	$	$ 105

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INDEX OF EXHIBITS

2.1(1)	Merger Agreement regarding the Registrant's reincorporation in Delaware
2.2(2)	Share Purchase Agreement for the shares of ATMOS Corporation
3.1	Not currently in use
3.2	Not currently in use
3.3(1)	Restated Certificate of Incorporation of the Registrant
3.3.1	Certificate of Amendment to Restricted Certificate of Incorporation
3.4(1)	Bylaws of the Registrant
3.4.1(3)	Amendment to Bylaws effective December 20, 2007
4.1(1)	Specimen common stock certificate
4.2(1)	Not currently in use
4.3(1)	Rights Agreement
4.3.1(4)	First Amendment to Rights Agreement, dated as of February 23, 2004
4.3.2(5)	Second Amendment to Rights Agreement, dated as of December 14, 2004
10.1(1)	Form of Indemnity Agreement between the Registrant and each of its directors and executive officers
10.2(1)	Not currently in use
10.3(1)*	1996 Stock Plan and form of Option Agreement thereunder
10.4(1)*	Form of Restricted Stock Purchase Agreement
10.5(1)*	2000 Employee Stock Option Plan and form of Option Agreement thereunder
10.5.1(6)*	Amended and Restated 2000 Equity Incentive and Stock Option Plan
10.6(1)*	2000 Employee Stock Purchase Plan and form of Subscription Agreement thereunder
10.13 *	Employment Agreement and Release between Registrant and Chester J. Silvestri dated November 8, 2007
10.14	Not currently in use
10.15(7)*	Form of Stock Option Agreement pursuant to Amended and Restated 2000 Stock Option and Equity Incentive Plan
10.16(8)	Lease Agreement between Registrant and Sunnyvale Mathilda Investors, LLC dated as of May 6, 2005
10.17(8)*	Employment offer letter agreement between the Registrant and Dhaval Ajmera dated October 3, 2005
10.18	Not currently in use
10.19	Not currently in use
10.20	Not currently in use
10.21(9)*	Form of New Employee Inducement Grant Stock Option Agreement
10.22	Not currently in use
10.23	Not currently in use
10.24*	Employment offer letter agreement and Mutual Agreement to Arbitrate between Registrant and Leonard Perham dated as of November 8, 2007
10.25*	New Employee Inducement Grant Stock Option Agreements between Registrant and Leonard Perham dated as of November 8, 2007
10.26*	Employment offer letter agreement between the Registrant and James W. Sullivan dated January 18, 2008
10.27*	Change-in-control Agreement between Registrant and James W. Sullivan dated January 18, 2008
10.28*	Employment offer letter agreement between Registrant and Didier Lacroix dated as of February 21, 2008
10.29*	Change-in-control Agreement between Registrant and Didier Lacroix dated as of February 21, 2008

21.1	List of subsidiaries

23.1	Consent of Independent Registered Public Accounting Firm Burr, Pilger & Mayer LLP
23.2	Consent of Independent Registered Public Accounting Firm BDO Seidman, LLP
24.1	Power of Attorney (see signature page)
31.1	Rule 13a-14 certification
31.2	Rule 13a-14 certification
32	Section 1350 certification

(1) Incorporated by reference to the same-numbered exhibit to the Company's Registration Statement on Form S-1, as amended, originally filed August 4, 2000, declared effective June 27, 2001 (Commission file No. 333-43122).

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

(3) Incorporated by reference to the same-numbered exhibit to Form 8-K filed by the Company on December 21, 2007 (Commission File No. 000-32929).

(4) Incorporated by reference to Exhibit 1 to Form 8-A/A filed by the Company on December 22, 2004 (Commission File No. 000-32929).

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

(6) Incorporated by reference to the Company's proxy statement on Schedule 14A filed by the Company on October 7, 2004 (Commission File No. 000-32929).

(7) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on August 9, 2005 (Commission File No. 000-32925).

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

(9) Incorporated by reference to the same-numbered exhibit to Form 10-Q filed by the Company on May 9, 2006 (Commission File No. 000-32929).

* Management contract, compensatory plan or arrangement.