MoSys, Inc.
Form 10-Q
November 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission file number 000-32929

MOSYS, INC.

(Exact name of registrant as specified in its charter)

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

3301 Olcott Street

Santa Clara, California, 95054

(Address of principal executive office and zip code)

(408) 418-7500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer

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

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

As of November7, 2016, 66,306,047 shares of the Registrant's common stock, $0.01 par value, were outstanding.

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MOSYS, INC.

FORM 10-Q

September 30, 2016

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

MOSYS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,008	$ 5,640
Short-term investments	2,750	14,598
Accounts receivable, net	626	729
Inventories	1,424	1,597
Prepaid expenses and other	564	701
Total current assets	15,372	23,265
Property and equipment, net	1,492	1,630
Goodwill	23,134	23,134
Other	374	663
Total assets	$ 40,372	$ 48,692
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$ 261	$ 940
Accrued expenses and other	2,190	2,664
Total current liabilities	2,451	3,604
Convertible notes payable	8,238	—
Other long-term liabilities	240	247

Total liabilities	10,929	3,851
Commitments and contingencies (Note 4)		
Stockholders’ equity		
Preferred stock, $0.01 par value; 20,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value; 120,000 shares authorized; 66,306 shares and 65,496 shares issued and outstanding at September 30, 2016 and December 31, 2015 respectively	663	655
Additional paid-in capital	228,323	226,174
Accumulated other comprehensive loss	(1)	(16)
Accumulated deficit	(199,542)	(181,972)
Total stockholders’ equity	29,443	44,841
Total liabilities and stockholders’ equity	$ 40,372	$ 48,692

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

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MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenue				
Product	$ 1,205	$ 565	$ 3,612	$ 1,288
Royalty and other	368	457	1,045	1,504
Total net revenue	1,573	1,022	4,657	2,792
Cost of net revenue	658	793	2,484	1,593
Gross profit	915	229	2,173	1,199
Operating expenses				
Research and development	3,927	8,793	14,043	21,475
Selling, general and administrative	1,450	1,547	4,543	4,711
Restructuring charges	—	—	676	—
Total operating expenses	5,377	10,340	19,262	26,186
Loss from operations	(4,462)	(10,111)	(17,089)	(24,987)
Interest expense	(217)	—	(464)	—
Other income (expense), net	(2)	19	43	71
Loss before income taxes	(4,681)	(10,092)	(17,510)	(24,916)
Income tax provision	20	13	60	60
Net loss	$ (4,701)	$ (10,105)	$ (17,570)	$ (24,976)
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on available-for-sale securities	(1)	6	15	7
Comprehensive loss	$ (4,702)	$ (10,099)	$ (17,555)	$ (24,969)
Net loss per share				
Basic and diluted	$ (0.07)	$ (0.15)	$ (0.27)	$ (0.41)
Shares used in computing net loss per share				
Basic and diluted	66,091	65,317	65,918	61,486

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

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MOSYS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	$ (17,570)	$ (24,976)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	780	466
Stock-based compensation	1,794	2,864
Amortization of intangible assets	83	293
Amortization of debt issuance costs	23	—
Accrued interest	440	—
Loss on disposal of assets	5	—
Changes in assets and liabilities:		
Accounts receivable	103	(249)
Inventories	173	(383)
Prepaid expenses and other assets	343	(624)
Accounts payable	(759)	(238)
Accrued expenses and other liabilities	(383)	(275)
Net cash used in operating activities	(14,968)	(23,122)
Cash flows from investing activities:		
Purchases of property and equipment	(646)	(369)
Proceeds from sales and maturities of marketable securities	40,612	34,172
Purchases of marketable securities	(28,749)	(35,347)
Net cash provided by (used in) investing activities	11,217	(1,544)
Cash flows from financing activities:		
Proceeds from sale of common stock, net of issuance costs	—	21,368
Net proceeds from issuance of common stock	363	1,773
Proceeds from the issuance of notes payable, net of issuance costs	7,879	—
Payments on capital lease obligations	(123)	—
Net cash provided by financing activities	8,119	23,141
Net increase (decrease) in cash and cash equivalents	4,368	(1,525)

Cash and cash equivalents at beginning of period	5,640	3,110
Cash and cash equivalents at end of period	$ 10,008	$ 1,585
Supplemental disclosure:		
Issuance of convertible notes in settlement of accrued interest	$ 336	$ —

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

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MOSYS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. The Company and Summary of Significant Accounting Policies

The Company

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

The accompanying condensed consolidated financial statements of the Company have been prepared without audit in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The condensed consolidated balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that date. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted in accordance with these rules and regulations. The information in this report should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its most recent annual report on Form 10-K filed with the SEC.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) necessary to summarize fairly the Company's financial position, results of operations and cash flows for the interim periods presented. The operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other future period.

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The Company's fiscal year ends on December 31 of each calendar year.

Use of Estimates

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

Cash Equivalents and Investments

The Company has invested its excess cash in money market accounts, certificates of deposit, commercial paper, corporate debt, government-sponsored enterprise bonds and municipal bonds and considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments with original maturities greater than three months and remaining maturities less than one year are classified as short-term investments.

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Investments with remaining maturities greater than one year are classified as long-term investments. Management generally determines the appropriate classification of securities at the time of purchase. All securities are classified as available-for-sale. The Company’s available-for-sale short-term and long-term investments are carried at fair value, with the unrealized holding gains and losses reported in accumulated other comprehensive loss. Realized gains and losses and declines in the value judged to be other than temporary are included in the other income, net line item in the condensed consolidated statements of operations and comprehensive loss. The cost of securities sold is based on the specific identification method.

Fair Value Measurements

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

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

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

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

Allowance for Doubtful Accounts

The Company establishes an allowance for doubtful accounts to ensure that its trade receivables balances are not overstated due to uncollectability. The Company performs ongoing customer credit evaluations within the context of the industry in which it operates and generally does not require collateral from its customers. A specific allowance of up to 100% of the invoice value is provided for any problematic customer balances. Delinquent account balances are written off after management has determined that the likelihood of collection is remote. The Company grants credit only to customers deemed creditworthy in the judgment of management. There was no allowance for doubtful accounts receivable at either September 30, 2016 or December 31, 2015.

Inventory

The Company values its inventories at the lower of cost, which approximates actual cost on a first-in, first-out basis, or market value. The Company records inventory reserves for estimated obsolescence or unmarketable inventories based upon assumptions about future demand and market conditions. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of. If actual market conditions are less favorable than those expected by management, additional adjustment to inventory valuation may be required. Charges for obsolete and slow moving inventories are recorded based upon an analysis of specific identification of obsolete inventory items and quantification of slow moving inventory items. The Company recorded no inventory reserves during the three or nine months ended September 30, 2016. Charges for the three and nine months ended September 30, 2015 were $0.2 million.

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Revenue Recognition

General

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

IC products

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

Royalty

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

Cost of Net Revenue

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

Goodwill

The Company reviews goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company first assesses qualitative factors to determine whether it is more-likely-than-not that the fair value of the reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If the qualitative assessment warrants further analysis, the Company compares the fair value of the reporting unit to its carrying value. The fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds the carrying value of net assets of the reporting unit, goodwill is not impaired, and the Company is not required to perform further testing. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, then the Company must record an impairment charge equal to the difference. The Company has determined that it has a single reporting unit for purposes of performing its goodwill impairment test. As the Company uses the market approach to assess impairment in the second step of the analysis, the price of its common stock is an important component of the fair value calculation. If the Company's stock price continues to experience significant price and volume fluctuations, this will impact the fair value of the reporting unit, which can lead to potential impairment in future periods. The Company performed step one of the annual impairment test in September 2016 and concluded no factors indicated impairment of goodwill.

Per Share Amounts

Basic net loss per share is computed by dividing net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share gives effect to all potentially dilutive common

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shares outstanding during the period. Potentially dilutive common shares consist of incremental shares of common stock issuable upon the exercise of stock options, vesting of stock awards and purchases under the employee stock purchase plan.

The following table sets forth securities outstanding which were excluded from the computation of diluted net loss per share as their inclusion would be anti-dilutive (in thousands):

	September 30, 2016	September 30, 2015
Options outstanding to purchase common stock	5,575	8,635
Employee stock purchase plan	476	445
Unvested restricted common stock units	1,501	242
Convertible debt	9,262	—
Total	16,814	9,322

Comprehensive Loss

Comprehensive loss includes unrealized gains and losses on available-for-sale securities. Realized gains and losses on available-for-sale securities are reclassified from accumulated other comprehensive loss and included in other income, net in the condensed consolidated statements of operations and comprehensive loss. All amounts recorded in the three and nine months ended September 30, 2016 and 2015 were not considered significant.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method. Unamortized debt issuances costs are presented in the condensed consolidated balance sheet as a direct deduction from the carrying amount of the related debt liability and accounted for as debt discounts.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting

Revenue Gross versus Net), which clarified the revenue recognition implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarified the revenue recognition guidance regarding the identification of performance obligations and the licensing implementation. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which narrowly amended the revenue recognition guidance regarding collectibility, noncash consideration, presentation of sales tax and transition. ASU 2016-08, ASU 2016-10 and ASU 2016-12 will be effective during the same period as ASU No. 2014-09, Revenue from Contracts with Customers, which is effective for annual reporting periods beginning after December 15, 2017, with the option to adopt one year earlier. The Company is still evaluating the impact of the adoption of these ASUs.

Note 2: Fair Value of Financial Instruments

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

	September 30, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 10,008	$ —	$ —	$ 10,008
Short-term investments:				
U.S. government-sponsored enterprise bonds	$ 500	$ —	$ —	$ 500
Corporate notes	2,251	—	(1)	2,250
Total short-term investments	$ 2,751	$ —	$ (1)	$ 2,750

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	December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 5,640	$ —	$ —	$ 5,640
Short-term investments:				
U.S. government-sponsored enterprise bonds	$ 6,243	$ —	$ —	$ 6,243
Municipal bonds	200	—	—	200
Corporate notes	8,171	—	(16)	8,155
Total short-term investments	$ 14,614	$ —	$ (16)	$ 14,598

As of September 30, 2016, unrealized losses on available for sale securities were insignificant. As of December 31, 2015 the estimated fair values of available-for-sale securities with unrealized losses were (in thousands):

	December 31, 2015		
	Cost	Unrealized Losses	Fair Value
Short-term investments:			
Corporate notes	$ 8,171	$ (16)	$ 8,155
Total short-term investments	$ 8,171	$ (16)	$ 8,155

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

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 3,203	$ 3,203	$ —	$ —
U.S. government-sponsored enterprise bonds	2,900	—	2,900	—
Corporate notes	5,000	—	5,000	—

Total assets	$ 11,103	$ 3,203	$ 7,900	$ —

	December 31, 2015			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	$ 2,238	$ 2,238	$ —	$ —
U.S. government-sponsored enterprise bonds	7,525	—	7,525	—
Municipal bonds	200	—	200	—
Corporate notes	8,255	—	8,255	—
Certificates of deposit	240	—	240	—
Total assets	$ 18,458	$ 2,238	$ 16,220	$ —

There were no transfers in or out of Level 1 and Level 2 securities during the three or nine months ended September 30, 2016 and 2015.

Note 3. Balance Sheet Detail

	September 30, 2016	December 31, 2015
	(in thousands)	
Inventories, net:		
Work-in-process	$ 1,311	$ 1,478
Finished goods	113	119
	$ 1,424	$ 1,597

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Identifiable intangible assets relating to a patent license were (dollar amounts in thousands):

	September 30, 2016			
	Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent license	7	$ 780	$ 529	$ 251

	December 31, 2015			
	Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent license	7	$ 780	$ 446	$ 334

The net carrying value of the patent license has been included in the other assets line item in the condensed consolidated balance sheets. Amortization expense has been included in research and development expense in the condensed consolidated statements of operations and comprehensive loss. The estimated aggregate amortization expense to be recognized in future years is less than $0.1 million for the remainder of 2016 and $0.1 million annually for 2017 and 2018.

Note 4. Commitments and Contingencies

Indemnification

In the ordinary course of business, the Company enters into contractual arrangements under which it may agree to indemnify the counterparties from any losses incurred relating to breach of representations and warranties, failure to perform certain covenants, or claims and losses arising from certain events as outlined within the particular contract, which may include, for example, losses arising from litigation or claims relating to past performance. Such indemnification clauses may not be subject to maximum loss clauses. The Company has also entered into indemnification agreements with its officers and directors. No material amounts were reflected in the Company's condensed consolidated financial statements for the three or nine months ended September 30, 2016 or 2015 related to these indemnifications.

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

Legal Matters

The Company is not a party to any material legal proceeding that the Company believes is likely to have a material adverse effect on its 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 5. 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. Net 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 and short term and long-term investments are deposited with high credit quality institutions.

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The Company recognized revenue from shipment of ICs and licensing of its technologies to customers by geographical location as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
North America	$ 937	$ 507	$ 2,905	$ 1,233
Japan	398	177	1,103	431
Taiwan	209	329	581	1,065
Rest of world	29	9	68	63
Total net revenue	$ 1,573	$ 1,022	$ 4,657	$ 2,792

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
Customer A	41	%	36	%	47	%	27	%
Customer B	25	%	14	%	23	%	12	%
Customer C	13	%	32	%	12	%	37	%

*Represents less than 10%

Two customers accounted for 81% of net accounts receivable at September 30, 2016. Three customers accounted for 94% of net accounts receivable at December 31, 2015.

Note 6. Income Tax Provision

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

The Company files U.S. federal and state and foreign income tax returns in jurisdictions with varying statutes of limitations. All tax returns from 2011 to 2015 may be subject to examination by the Internal Revenue Service, California and other states. Returns filed in foreign jurisdictions may be subject to examination for the years 2007 to 2015. As of September 30, 2016, the Company has not recorded any liability for unrecognized tax benefits related to uncertain tax positions.

Note 7. Stock-Based Compensation

The expense relating to stock options is recognized on a straight-line basis over the requisite service period, usually the vesting period, based on the grant-date fair value. The unamortized compensation cost, net of expected forfeitures, as of September 30, 2016 was $2.9 million related to stock options and is expected to be recognized as expense over a weighted average period of approximately 2.8 years. The expense related to restricted stock units (RSUs) is recognized over a three-to-five year vesting period and is based on the fair value of the underlying stock on the dates of grant. The unamortized compensation cost, net of expected forfeitures, as of September 30, 2016 was $0.7 million related to RSUs which is expected to be recognized as expense over a weighted average period of approximately 2.3 years.

The Company presents the tax benefits resulting from tax deductions in excess of the compensation cost recognized from the exercise of stock options as financing cash flows in the condensed consolidated statements of cash flows. For the three and nine months ended September 30, 2016 and 2015, there were no such tax benefits associated with the exercise of stock options due to the Company’s loss positions.

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Valuation Assumptions

The fair value of the Company’s stock options granted for the three and nine months ended September 30, 2016 and 2015 was estimated on the grant dates using the Black-Scholes valuation option-pricing model with the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Employee stock options:	2016	2015	2016	2015
Risk-free interest rate	1.0% -1.2%	1.4%	1.0% -1.2%	0.6% - 1.7%
Volatility	61.4% - 63.8%	59.3%	61.4% - 63.8%	55.7% - 59.3%
Expected life (years)	4.0 - 5.0	4.0	4.0 - 5.0	4.0 - 5.0
Dividend yield	0%	0%	0%	0%

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

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

Common Stock Options and Restricted Stock

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

Options outstanding

	Shares Available for Grant	Number of Shares	Weighted Average Exercise Prices
Balance at December 31, 2015	1,059	6,749	$ 3.51
Additional shares authorized under the Amended 2010 Plan	500	—	—
Restricted stock units cancelled and returned to Plan	14	—	—
Options cancelled and returned to Plan	232	(232)	$ 3.30
Options cancelled and expired	—	(80)	$ 4.18
Balance at March 31, 2016	1,805	6,437	$ 3.51
Additional shares authorized under the Amended 2010 Plan	2,000	—	—
Restricted stock units cancelled and returned to Plan	2	—	—
Options cancelled and returned to Plan	413	(413)	$ 3.87
Options cancelled and expired	—	(500)	$ 4.53
Balance at June 30, 2016	2,220	5,524	$ 3.40
Restricted stock units granted	(1,439)	—	—
Restricted stock units cancelled and returned to Plan	43	—	—
Options granted	(3,778)	3,778	$ 0.70
Options cancelled and returned to Plan	3,726	(3,726)	$ 3.50
Balance at September 30, 2016	772	5,576	$ 1.50

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

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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, 2015	1,640	$ 4.37
Cancelled		