THE WALL STREET
TRANSCRIPT

Questioning Market Leaders For Long Term Investors

Monolithic System Technology, Inc. (MOSY)

CHET SILVESTRI is Chief Executive Officer of Monolithic System Technology, Inc., and a Board member. He brings more than 25 years of experience in the semiconductor industry to MoSys, beginning as a design engineer and progressing through marketing, sales, R&D and executive management positions. Most recently, he held the position of CEO at CEVA, a leading provider of licensable digital signal processor cores and platform-level IP. Additionally, he served as CEO at Arcot Systems, Inc., COO of Tripath Technology, Inc. and President of the Microelectronic Division of SUN Microsystems, Inc., with responsibility for R&D, sales, manufacturing and marketing of the company's SPARC microprocessors and chipsets. He has also held senior management positions with top-tier technology companies including MIPS Computer Systems, Inc., and Intel Corporation. Mr. Silvestri earned his Bachelor of Science and Master of Science degrees in Electrical Engineering from Michigan State University and his MBA from the Harvard Graduate School of Business.

TWST: We would like to begin with a brief historical sketch of Monolithic System Technology and a picture of the things you are doing at the present time.

Mr. Silvestri: MoSys **is** a company that participates in the semiconductor intellectual property industry. We provide the building blocks to chip developers that are designing complex system-on-chips. These complex system-on-chips (SoCs) are being used more and more in consumer products like cell phones, portable multimedia players, digital TV, networking products and so forth. These complex SoCs are the preferred approach for building the new generation of consumer products. However, most companies lack the intellectual property building blocks that are required to design an SoC with modern functionality. As a result, they must rely on companies like MoSys to provide the critical elements they need to incorporate needed functionality. MoSys has always specialized in developing high-density memories. Today, our memory solutions are specifically designed to be embedded into system-on-chips.

TWST: What is your competition like?

Mr. Silvestri: Today, the only true alternative for putting a lot of memory on an SoC, is to try to separate the memory into two chips. The designer will use a separate memory chip and a relatively small amount of memory on the system-on-chip. But using Mosys technology, the designer has the ability to put large memories directly on to a single SoC.

TWST: Is it Moore's Law that states the capacity increases every six months or so?

Mr. Silvestri: Moore's Law deals with how many transistors that you can put on a single chip. The problem that we are addressing is the size of the memory and the power it consumes. The amount of memory bits required today is increasing dramatically. This situation exists because a few years ago, cellular telephones did not have cameras or the ability to store pictures or play video clips like today. The increasing multimedia functionality of many products, particularly in the consumer portable device market, requires significantly more memory in order to support these functional enhancements. Cameras used to be analog and use film. Today, they are digital and need larger memory capacity to store and manage digital images. The demand for memory has skyrocketed in consumer devices faster than the chip capability can provide. A different design technique is necessary and this is what MoSys provides.

TWST: What does this mean regarding your company? What's on your agenda for the next few years?

Mr. Silvestri: This is a big market, and the way consumer products are going, everything is moving to digital. We are going to continue to develop and improve our high-density memories to support, in particular, the new semiconductor process technologies. Currently, our customers are shipping products that incorporate our memory and are produced in 0.18 micron and 0.13 micron process technology. That's the technology that is being used in most of today's consumer products.

However, over the next few years, our memories will be incorporated into products using 90nm and 65nm process technology. So we have a strong research and development effort that will keep us moving forward in putting higher density memories on these new processes. In addition, we have to develop more turnkey memory products that are optimized for high volume consumer products like cell phones, multimedia products and networking products, because in the consumer world, the product life cycle is very short — sometimes less than one year. Everything is about time to market, and we have to develop more turnkey designs that our customers can use to reduce their time to market for their new products. We believe we can meet this challenge with our scalable family of CLASSIC Memory Macros.

There is a very wide range of products that need both low cost and low power such as cameras, cell phones, camcorders. These are the primary targets for us. With that being said, we have recently re-organized the company to ensure we not only develop the correct products for customers in our target markets, but also ensure timely execution and delivery of those products.

TWST: What would all these things look like three to five years from now?

Mr. Silvestri: I think that we see snippets of that today. The cell phone is the best example, because this is rapidly becoming the single point of quick integration for virtually everything. A few years ago, all we did was talk, and there was a fairly simple ringing sound to announce incoming calls. Now you can select virtually any kind of ring-tone and even play audio on your phone. You can take pictures with it, you can download video and the screens themselves are getting higher and higher resolution. And don't forget you can also play more and more complex and interesting games on mobile phones. So everything that you would historically do in a separate dedicated consumer product, you are able to do today and will be able to do even better in the future generation of cell phones.

TWST: How many employees do you have?

Mr. Silvestri: MoSys has about 90 employees.

"*Our memories are not only high density and high performance, but also consume much less power than a traditional memory. Any device that operates off a battery has more challenges, and MoSys has the best solution to address this problem. There is a very wide range of products that need both low cost and low power such as cameras, cell phones, camcorders.*"

TWST: What challenges or problems could lie ahead for you?

Mr. Silvestri: This is a very rapidly-growing market and like other smaller companies, a focus on execution is always important. MoSys has the technology and know-how that we've developed over many years; therefore we now have to prioritize and put our efforts into those places where we can really provide the most bang for the buck.

TWST: Would you go into some detail on that?

Mr. Silvestri: It is the cost sensitive, power sensitive applications that really benefit. Our memories are not only high density and high performance, but also consume much less power than a traditional memory. Any device that operates off a battery has more challenges, and MoSys has the best solution to address this problem.

TWST: What do you expect it to be like in a few years?

Mr. Silvestri: A stable staff count is part of the highly leveraged business model of a semiconductor intellectual property company. We have expert designers for our embedded memories and we don't need a lot more. We are not building chips. We are not running a huge manufacturing line. We are developing the intellectual property, and that's the people. So we don't see a very large need to grow our headcount. The business model is based on royalties. When our licensees' products reach production, we collect royalties on their shipments. This does not require headcount growth.

TWST: As the CEO, do you still have time to participate actively in a creative process?

Mr. Silvestri: My role as a CEO is really one of helping prioritize, because there are so many things we could address in this

broad and rapidly growing market. It's very important to pick the right things in the short term to maximize the value to the customers and the return to the company. We have a very strong R&D team led by our Chief Technical Officer, Wingyu Leung, who is a visionary in this field and is also one of the Founders of the company. I am supremely confident in our creative process.

TWST: What do you focus on?

Mr. Silvestri: I focus on the target applications and the turnkey platform developments that will address the applications. We want to really help customers accelerate time to market. In this way, I help chart the direction of our product roadmap and ensure that our resources are strategically focused on doing those things that allow our customers to improve their time to market.

TWST: What are the elements in your own background that led you to become CEO of Monolithic System Technology?

Mr. Silvestri: My entire professional career has been in chips and microprocessors, starting with my career at Intel and going forward. However, I have also spent a lot of my 25 plus years in this business running semiconductor intellectual property businesses. As a result, I have more than 10 years of experience with the intellectual property business model, which is different from a chip business. I have gleaned a lot of experience in IP and some know-how over the years and I like the model. I think there's a lot of value in this kind of company because of the high profit margins and scalability.

TWST: Would you tell us about the backgrounds of one or two of your colleagues?

Mr. Silvestri: In terms of the management, Monolithic System or MoSys, as we call it, has gone through some evolution. The company originally started producing memory chips and the company was structured to develop, manufacture and sell memory chips. But at the end of 2004, the company stopped selling chips and today we only develop the intellectual property and license it to the companies that build the chips. Therefore, we really need a different kind of a sales force, a different kind of a management and a different kind of a company structure.

So we spent the bulk of last year rebuilding the sales organization, including a new VP of Sales to really align around this business model. Our new VP of Sales has many years of semiconductor intellectual property experience and we have populated our improved sales force with experienced individuals having the same IP experience.

TWST: Who is competing with you and what are your competitive advantages?

Mr. Silvestri: If you want to put a memory on the chip, historically, companies like Virage Logic and Artisan have provided the tools or the designs for you to do that with small memories, because they use a conventional memory design. So you could build small memories on a chip even today, using intellectual properties from those companies. If you want to put a large memory on the chip, it is more problematic, and the only real competitor is the chip company's ability to re-partition the design so that the large memory can be built in a separate chip. Once you do this, there are many companies that will sell you dedicated memory chips. This is a more expensive solution, but mixing the memory and the logic on a single SoC has eluded most companies' capability. That's where we have our competitive advantage.

TWST: Do you see any need to improve the company's capital structure?

Mr. Silvestri: Although we are a small company, our gross margins are around 85% to 90%, so we generate a lot of cash. Our capital expenditures are also very low so there is really no need to raise capital. In a sense, we just need to remain focused on growing the business. If we can grow the business, everything else will take care of itself.

TWST: When you say everything else will take care of itself, does that include investor relations or are you fairly active in investor relations?

Mr. Silvestri: We're fairly active as a public company — spending a lot of time with our shareholders, making sure they understand what we've done, what our results are and where we are going, just as we do with our customers.

TWST: Would you say your company is difficult to understand?

Mr. Silvestri: I think that the semiconductor intellectual property business model is different. There are fewer companies that use this business model compared to the number of chip companies that investors can research. It requires more explanation to describe the significant differences between a chip company and an IP company, like Mosys. We have to take the time to explain what we do.

TWST: What are your feelings about acquiring or being acquired?

Mr. Silvestri: There are a fair number of small intellectual property companies and consolidation is always something that can be attractive. If we are addressing the same customers, there are always efficiencies of scale. We will continue to look at other intellectual property companies that might fit within our business model. There are not nearly as many of them as there are chip companies, so it's harder to do.

TWST: What would be the two or three best reasons for the long-term investor to look very closely at MoSys?

Mr. Silvestri: I think one of the reasons is the market we're addressing is really at the beginning of its growth curve and is entering into what we call our "sweet-spot." In other words, the number of devices and chips that are out there that need our kind of high-density memories is growing dramatically. So we can address a very large market. In 2005, approximately $50 billion of SoCs were shipped. If we were to collect our average 2% royalty on all of these chips, it would amount to $1 billion of royalty revenue for us. That is the available market size.

Number two, we're a highly leveraged financial model, and with our revenues in the teens and growing, we can generate a lot of profit and cash flow as we build the company. So the earnings growth potential is very strong in the company.

TWST: When you were in college and graduate school more than 25 years ago, could you see that this sort of thing would be around and that you would be doing it?

Mr. Silvestri: I always had an interest in electronics and I am an Electrical Engineer by training. I was trained at the early stages of integrated circuits, so I knew ICs. But the kind of ICs we were developing or even envisioning were far different. They were going into the military or specialized products. The PC hadn't even been invented; in fact, it wasn't even invented when I started at Intel. We didn't see it. The PC changed everything and the technology has now spilled over into consumer products. This happened in a relatively short period of time. You didn't even imagine 20 years ago that you would be taking all your photographs digitally.

TWST: Is there anything you would like to add, particularly regarding challenges, opportunities, strategies and long-term objectives?

Mr. Silvestri: There are many other related technologies that we can develop, based on the know-how and the techniques we use for our high density SRAMs. Our labs are very active in working on new technologies and some of it is looking very exciting. So we will be able to not only grow the company vertically by penetrating more and more designs with our current technology, but horizontally, as we develop other related technologies that are also very attractive for consumer products.

TWST: Thank you.

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