

GSI TECHNOLOGY INC
Form 10-K
June 10, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2009

or

o **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 000-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

77-0398779

(IRS Employer Identification No.)

2360 Owen Street

Santa Clara, California 95054

(Address of principal executive offices, zip code)

(408) 980-8388

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, \$0.001 par value	The NASDAQ Stock Market LLC

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on September 30, 2008, as reported on the NASDAQ Global Market was approximately \$72.5 million. Shares of the registrant's common stock held by each officer and director and each person who owns 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of June 4, 2009, there were 26,929,469 shares of the registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2009 annual meeting of stockholders are incorporated by reference into Part III hereof.

Table of Contents**GSI TECHNOLOGY, INC.****2009 FORM 10-K ANNUAL REPORT****TABLE OF CONTENTS**

	Page
<u>PART I</u>	
<u>Item 1.</u> <u>Business</u>	<u>3</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>15</u>
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	<u>30</u>
<u>Item 2.</u> <u>Properties</u>	<u>30</u>
<u>Item 3.</u> <u>Legal Proceedings</u>	<u>30</u>
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	<u>30</u>
<u>PART II</u>	
<u>Item 5.</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>31</u>
<u>Item 6.</u> <u>Selected Financial Data</u>	<u>33</u>
<u>Item 7.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 8.</u> <u>Financial Statements and Supplementary Data</u>	<u>48</u>
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>79</u>
<u>Item 9A(T).</u> <u>Controls and Procedures</u>	<u>79</u>
<u>Item 9B.</u> <u>Other Information</u>	<u>80</u>
<u>PART III</u>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>81</u>
<u>Item 11.</u> <u>Executive Compensation</u>	<u>81</u>
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>81</u>
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>81</u>
<u>Item 14.</u> <u>Principal Accounting Fees and Services</u>	<u>81</u>
<u>PART IV</u>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	<u>82</u>
<u>Signatures</u>	<u>84</u>

Forward-looking Statements

In addition to historical information, this Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements involve risks and uncertainties. Forward-looking statements are identified by words such as "anticipates," "believes," "expects," "intends," "may," "will," and other similar expressions. In addition, any statements which refer to expectations, projections, or other characterizations of future events, or circumstances, are forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those set forth in this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors," those described elsewhere in this report, and those described in our other reports filed with the Securities and Exchange Commission ("SEC"). We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update these forward-looking statements after the filing of this report. You are urged to review carefully and consider our various disclosures in this report and in our other reports publicly disclosed or filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

Table of Contents

PART I

Item 1. Business

Overview

We develop and market "Very Fast" static random access memory, or SRAM, products that are incorporated primarily in high-performance networking and telecommunications equipment, such as routers, switches, wide area network infrastructure equipment, wireless base stations and network access equipment. In addition, we serve the ongoing needs of the military, industrial, test equipment and medical markets for high-performance SRAMs. Based on the performance characteristics of our products and the breadth of our product portfolio, we consider ourselves to be a leading provider of Very Fast SRAMs.

We sell our products to leading original equipment manufacturer, or OEM, customers including Alcatel-Lucent, Cisco Systems and Huawei Technologies. We utilize a fabless business model, which allows us both to focus our resources on research and development, product design and marketing, and to gain access to advanced process technologies with only modest capital investment and fixed costs.

We were incorporated in California in 1995 under the name Giga Semiconductor, Inc. We changed our name to GSI Technology in December 2003 and reincorporated in Delaware in June 2004 under the name GSI Technology, Inc. Our principal executive offices are located at 2360 Owen Street, Santa Clara, California, 95054, and our telephone number is (408) 980-8388.

Industry Background

SRAM Market Overview

Virtually all types of high-performance electronic systems incorporate SRAMs. An SRAM is a memory device that retains data as long as power is supplied, without requiring any further user intervention. SRAMs offer the fastest access to stored data of any type of memory device.

There is a broad variety of SRAMs, characterized by a number of attributes, such as speed, memory capacity, or density, and power consumption. There are several different industry measures of speed:

latency, also referred to as random access time, which is the delay between the request for data and the delivery of such data for use and is measured in nanoseconds, or ns;

bandwidth, which is the rate at which data can be streamed to or from a device and is measured in gigabits per second;

clock frequency, which is the cycle rate of a clock within a synchronous device and is measured in megahertz, or MHz; and

clock access time, which is the delay between the beginning of the clock cycle and the delivery of data as measured in nanoseconds.

Historically, SRAMs have been utilized wherever other memory technologies have been inadequate. SRAMs demonstrate lower latency, resulting in faster random access times, relative to dynamic random access memory, or DRAM, and other types of memory technologies. However, over the past few decades, less expensive alternatives have been introduced to address certain applications formerly using lower performance SRAMs. For example, new types of DRAM are now in the process of displacing lower performance SRAM products in applications such as cell phones. As a result of the displacement of low performance SRAMs, the total market size for SRAMs is diminishing. However, due to their inherent higher latency characteristics, DRAMs cannot match the random access speed of high-performance SRAMs. Gartner Dataquest divides the SRAM market into segments based on speed.

Table of Contents

The highest performance segment is comprised of SRAMs that operate at speeds of less than 10 nanoseconds, which we refer to as "Very Fast SRAMs." Very Fast SRAMs are predominantly utilized in high-performance networking and telecommunications equipment.

Increasing Need for Very Fast SRAMs

Growth in data, voice and video traffic has driven the need for greater networking bandwidth, resulting in the continued expansion of the networking and telecommunications infrastructure. The continued growth in the level of Internet usage has led to the proliferation of a wide variety of equipment throughout the networking and telecommunications infrastructure, including routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment and a demand for new equipment with faster and higher performance. High-performance networking and telecommunications equipment requires Very Fast SRAMs. For example, in a typical router or switch, multiple Very Fast SRAMs are required to temporarily store, or buffer, data traffic and to provide rapid lookup of information in data tables. As networking equipment must increasingly support advanced traffic content such as Voice over Internet Protocol, or VoIP, and video streaming, demand for even higher performance Very Fast SRAMs is expected to continue to increase.

Demanding Requirements for Success in the Very Fast SRAM Market

The pressure on networking and telecommunications OEMs to bring higher performance equipment to market rapidly to support not only more traffic but also more advanced traffic content is compounded by the requirement that this new equipment occupy no more space than the equipment it replaces, which results in increased board density and the need for low power operations. In response to these pressures, OEMs have increasingly relied on providers that are capable of rapidly developing and introducing advanced, higher density, low power Very Fast SRAMs. The variety of applications for Very Fast SRAMs within the networking and telecommunications markets has also driven a need for more specialized products available in relatively low volumes. These specialized products include high-speed synchronous SRAMs with different density, latency and bandwidth capabilities. In general, OEMs prefer to work with a supplier who can address the full range of their high-performance Very Fast SRAM product requirements and, just as importantly, can offer the technical and logistic support necessary to sustain and accelerate their efforts.

We believe the key success factors for a Very Fast SRAM vendor are the ability to offer a broad catalog of high-performance, high-quality and high-reliability Very Fast SRAM products, to continuously introduce new products with higher speeds, lower power and greater densities, to maintain timely availability of prior generations of products for several years after their introductions, and to provide effective logistic and technical support throughout OEM customers' product development and manufacturing life cycles.

The GSI Solution

We endeavor to address the overall needs of our OEM customers for Very Fast SRAMs, not only satisfying their immediate requirements for our latest generation, highest performance integrated circuits, or ICs, but also providing them with the ongoing long-term support necessary during the entire lives of the systems in which our products are utilized. Accordingly, the key elements of our solution include:

Innovative Product Performance Leadership

High Speed. Through the use of advanced architectures, design methodologies and silicon process technologies, we have developed a wide variety of high-performance Very Fast SRAMs. The vast

Table of Contents

majority of our products have random access times of 9 nanoseconds or less, while our newest products have random access times of less than 5 nanoseconds and clock access times as fast as 0.45 nanoseconds with bandwidth as high as 48 gigabits per second. By providing higher performance Very Fast SRAMs, we enable our networking and telecommunications OEMs to continually design and develop higher performance products that support increasingly complex traffic content.

Low Power Consumption. Many of our Very Fast SRAMs require significantly less power than comparable products offered by our principal competitors. Because these products utilize less power and generate less heat, the reliability of the networking or telecommunications equipment in which they are employed increases. Furthermore, the low power utilization of our Very Fast SRAMs helps enable OEMs to add capabilities to their systems, which otherwise might not have been possible due to overall system power constraints.

Process Technology Leadership. We maintain our own process engineering capability and resources, which are located in close physical proximity to our manufacturer, Taiwan Semiconductor Manufacturing Company, or "TSMC." This enhances our ability to work closely with TSMC to develop certain modifications of the advanced process technologies used in the manufacturing of our Very Fast SRAMs in order to maximize product performance, optimize yields, lower manufacturing costs and improve quality. Our most advanced 36 and 72 megabit, or Mb, synchronous Very Fast SRAMs are manufactured using 90 nanometer process technology. We are currently developing 72 and 144 megabit synchronous Very Fast SRAMs using 65 nanometer process technology, which will allow us to further increase product performance, lower power consumption and reduce costs.

Product Innovation. We believe we have established a position as a technology leader in the design and development of Very Fast SRAMs. For example, we were the first supplier to introduce 72-bit-wide SRAMs as single monolithic ICs. In addition, we are the only vendor to offer a full line of Very Fast Synchronous SRAMs that operate and interface at 1.8 to 3.3 volts, giving our OEM customers the ability to use the same product in systems of theirs that operate at any voltage within that range. Moreover, for certain Very Fast Synchronous SRAMs, we are the only vendor to offer a product that operates at 1.8 volts, which uses approximately one half to two-thirds the power of our competitors' 2.5 volt products.

Broad and Readily Available Product Portfolio

Extensive Product Catalog. The Very Fast SRAM market is highly fragmented in terms of product features and specifications. To meet our OEM customers' diverse needs, we have what we believe is the broadest catalog of Very Fast SRAM products currently available. Our product line includes a wide range of Very Fast SRAMs with varying densities, features, clock speeds, and voltages, as well as several operating temperature ranges and numerous package options in both 5/6 (lead) and 6/6 (lead-free) versions, which are compliant with the European Union's Restriction on the Use of Hazardous Substances Directive 2002/95/EC.

Advanced Feature Sets. Our products offer features that address a broad range of our networking and telecommunications OEMs' system requirements. Among these features is a JTAG test port, named for the IEEE Joint Test Action Group, which enables post-assembly verification of the connection between our Very Fast SRAMs and an OEM customer's system board, thereby allowing an OEM customer of ours to develop, test and ship their products more rapidly. Additionally, we offer our FLXDrive feature, which allows system designers to optimize the signal integrity for any given requirement. We also provide OEMs the ability to employ certain of our Very Fast SRAMs in various modes of operation by using our products' mode control pins, thus increasing the flexibility of those products and their ready availability from our inventory.

Table of Contents

Superior Lifetime Availability of Products. Unlike the market for consumer electronics, the markets in which we compete, particularly the networking and telecommunications market, generally keep their system designs in production for extended periods of time and maintenance of those systems in the field for even longer periods is critical to their success. Our foundry-based manufacturing strategy, our process technology selections, our master-die design strategy and the design of our packaging, burn-in and test work-flows all contribute to allow us to meet and exceed our guarantee of providing a product life of at least seven years for any new product family we bring to market. These techniques also allow us to keep our delivery lead-times relatively short even for specialized, infrequently ordered members of those product families. We believe our approach is better suited to address the needs of our target markets than attempts to apply mass market manufacturing strategies to Very Fast SRAM products.

Multiple Temperature Grades. We offer both commercial and industrial temperature grades for all of our Very Fast SRAMs. This ability to perform at specification throughout the industrial temperature range of -40°C to +85°C is critical for Very Fast SRAMs used in a broad variety of networking and telecommunications applications, where the operating environments may be harsh. We can also offer military and extended temperature grades upon request for most of our Very Fast SRAMs.

Master Die Methodology

Our master die methodology enables multiple product families, and variations thereof, to be manufactured from a single mask set. As a result, based upon the way available die from a wafer are metalized, wire bonded, packaged and tested, from 19 mask sets we have created over 9,500 different products. Using these mask sets, we produce wafers that can be further processed upon customer orders into the final specified product thereby significantly shortening the overall manufacturing time. For example, from a 72 megabit mask set, we can produce three families of 72 megabit SRAM products. Our unique methodology results in the following benefits:

Rapid Order Fulfillment. We maintain a common pool of wafers that incorporate all available master die. Because we can typically create several different products from a single master die, we can respond to unforecasted customer orders more quickly than our competitors.

Reduced Cost. Our master die methodology allows us to reduce our costs through the purchase of fewer mask sets by allowing faster and less expensive internal product qualifications, by enabling more cost-efficient use of engineering resources and by reducing the incidence of obsolete inventory.

Customer Responsiveness

Customer-driven Solutions. We work closely with leading networking and telecommunications OEMs, as well as their chip-set suppliers, to better anticipate their requirements and to rapidly develop and implement solutions that allow them to meet their specific product performance objectives. Customer demand drives our business. For example, to address near term needs, we offer critical specification variations, such as special operating ranges or wire bond options on currently available products, while we also design new families of products to meet their emerging long term needs. As a consequence, our portfolio not only includes the widest selection of catalog parts available, it also includes an extensive list of custom, customer-specific products. This degree of responsiveness enables us to provide our OEM customers with the Very Fast SRAMs required for their applications.

Accelerated Time-to-market. Our extensive open libraries of design support tools as well as our ability to deliver the specific device required for system prototyping with very short notice enables networking and telecommunication OEMs to design and introduce differentiated products quickly as well as to reduce their development costs. Our open libraries give designers access 24 hours a day, seven days a week to electrical and behavioral simulation models. Behavioral models are offered in both Verilog and very high speed integrated circuits hardware description language ("VHDL") format

Table of Contents

to better fit different customers' simulation environments, further streamlining the customers' development process.

Quality and Reliability. Networking and telecommunications equipment typically have long product lives, and the cost to repair or replace this equipment due to product failure at any time is prohibitively expensive. The high-quality and reliability of Very Fast SRAMs incorporated in our OEM customers' products is, thus, critical. Every product family we offer is subjected to extensive long term reliability testing before receiving qualification certification, and every Very Fast SRAM shipped is first subjected to burn-in and then to final tests in which the SRAM is operated beyond its specified operating voltage and temperature ranges.

The GSI Strategy

Our objective is to profitably increase our market share in the Very Fast SRAM market. Our strategy includes the following key elements:

Continue to Focus on the Networking and Telecommunications Markets. We intend to continue to focus on designing and developing low latency, high bandwidth and feature-rich memory products targeted primarily at the networking and telecommunications markets. Increasing network complexity due to higher traffic volume and more advanced traffic content continues to drive OEMs' demand for high-performance Very Fast SRAMs. We believe our active high-performance SRAM development and manufacturing expertise will continue to allow us to provide networking and telecommunications OEMs with the early access to next generation Very Fast SRAMs that offer superior performance, advanced feature sets and continued high reliability, which they need to allow them to design and develop new products that support increasingly complex traffic content and to bring networking and telecommunications equipment to market quickly.

Strengthen and Expand Customer Relationships. We are focused on maintaining close relationships with industry leaders to facilitate rapid adoption of our products and to enhance our position as a leading provider of high-performance Very Fast SRAM. We work with both our customers and with their non-memory IC suppliers that require high-performance memory support. We will continue to work with both groups at the pre-design and design stage of their projects in order to anticipate their future high-performance memory needs and to identify and respond to their immediate requests for currently available products and variants on currently available products. We plan to enhance our relationships with those leading OEMs and IC vendors and to develop similar relationships with additional OEMs and IC vendors.

Continue to Invest in Research and Development to Extend Our Technology Leadership. We believe we have established a position as a technology leader in the design and development of Very Fast SRAMs. Our Very Fast SRAM products most often provide the highest speed available at a given density for a given device configuration. We intend to maintain and advance our technology leadership through continual enhancement of our existing Very Fast SRAM products, particularly our SigmaQuad family of low latency, high-bandwidth synchronous SRAMs while we continue to broaden our product line with the introduction of other new Very Fast SRAMs.

Collaborate with Wafer Foundries to Leverage Leading-edge Process Technologies. We will continue to rely upon advanced complementary metal oxide semiconductor, or CMOS, technologies, the most commonly used process technologies for manufacturing semiconductor devices, from TSMC, to manufacture our products and will continue to provide TSMC with the sort of in-depth feedback for yield and performance improvement that can best come from very large array structures like those found on our products. Our most advanced products currently in production were designed using 90 nanometer process technology on 300 millimeter wafers. We intend to continue to collaborate closely with TSMC in the refinement of 65 nanometer process technology.

Table of Contents

Exploit New Market Opportunities. While we design our Very Fast SRAMs specifically for the networking and telecommunications markets, our products are applicable across a wide range of industries and applications. We have recently experienced significant growth in both the defense and medical markets and intend to continue penetrating these and other new markets with similar needs for high-performance memory technologies.

Products

We design, develop and market a broad range of high-performance Very Fast SRAMs primarily for the networking and telecommunications markets. We specialize in Very Fast SRAMs featuring high density, low latency, high bandwidth, fast clock access times and low power consumption. We continue to offer products for longer periods of time than our competitors, typically seven years or more following their initial introduction. Accordingly, we continue to offer products in a variety of package types that have been discontinued by other suppliers.

We currently offer more than 30 basic product configurations of our SRAMs based on their basic product type and their storage densities. These basic product configurations are the basis for over 9,500 individual products that incorporate a variety of performance specifications and optional features. Our products can be found in a wide range of networking and telecommunications equipment, including multi-service access routers, universal gateways, enterprise edge routers, service provider edge routers, optical edge routers, fast Ethernet switches, gigabit Ethernet switches, wireless base stations, Asymmetric Digital Subscriber Line ("ADSL") modems, wireless local area networks, Internet Protocol phones and OC192 layer 2 switches. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

Synchronous SRAM Products

Synchronous SRAMs are controlled by timing signals, referred to as clocks, which make them easier to use than older style asynchronous SRAMs with similar latency characteristics in applications requiring high bandwidth data transfers. Synchronous SRAMs that employ double data rate interface protocols can transfer data at much higher bandwidth than both single data rate and asynchronous SRAMs. Our single data rate synchronous SRAMs feature clock access times as short as 2 nanoseconds and our double data rate synchronous SRAMs have clock access times as fast as 0.45 nanoseconds. Today, we supply synchronous SRAMs that can cycle at operating frequencies as high as 450 MHz.

Burst and NBT SRAMs. We currently offer BurstRAMs and No Bus Turnaround, or NBT, SRAMs that implement a single data rate bus protocol. BurstRAMs were originally developed for microprocessor cache applications and have become the most widely used synchronous SRAM on the market. They are used in applications where large amounts of data are read or written in single sessions, or bursts. NBT SRAMs are a variation on the BurstRAM theme that were developed to address the needs of moderate performance networking applications. NBT SRAMs feature a single data rate bus protocol designed to minimize or eliminate wasted data transfer time slots on the bus when BurstRAMs switch from read to write operations. Both families of products can perform burst data transfers or single cycle transfers at the discretion of the user.

Our BurstRAMs and NBT SRAMs are offered in both pipeline and flow-through modes. Flow-through SRAMs allow the shortest latency. Pipelined SRAMs break the access into discrete clock-controlled steps, allowing new access commands to be accepted while an access is already in progress. Therefore, while flow-through SRAMs offer lower latency, pipelined SRAMs offer greater data bandwidth. Our BurstRAM and NBT SRAM products incorporate a number of features that reduce

Table of Contents

our OEM customers' cost of ownership and increase their design flexibility, including a JTAG test port and our FLXDrive feature, which allows system designers to optimize signal integrity for a given application.

We currently offer BurstRAMs and NBT SRAMs with storage densities of up to 144 megabits with clock frequency of up to 333 MHz and clock access times as fast as 2 nanoseconds that operate at 3.3, 2.5 or 1.8 volts.

SigmaQuad Products. High-performance quad data rate synchronous SRAMs have become the de facto standard for the networking and telecommunications industry. We offer a full line of quad data rate SRAMs, our SigmaQuad family. Quad data rate SRAMs are separate input/output, or I/O, synchronous SRAMs that features two independent double data rate data ports (two data ports times double data rate transfers equals quad data rate) controlled via a single address and control port. We offer our SigmaQuad devices in two different bus protocol versions, two different power supply and interface voltage versions, with two different data burst length options, all under the name SigmaQuad or SigmaQuad-II. In addition, the family also includes derivative products including a family of common I/O (a single bi-directional data port) double data rate SRAMs known as SigmaCIO DDR-II SRAMs and a smaller family of double data rate separate I/O SRAMs designed to address some segments of the market currently served by dual-port SRAMs, known as SigmaSIO DDR-II SRAMs.

We currently offer SigmaQuad products in three storage densities, 18 megabits, 36 megabits and 72 megabits, with clock frequency rates up to 450 MHz and clock access times as fast as 0.45 nanoseconds, that operate at voltages of 2.5 and 1.8 volts.

SigmaRAM Products. We offer a family of high-performance, low voltage, HSTL, or high speed transceiver logic, I/O synchronous SRAM products based on the SigmaRAM architecture, which are designed for use on large format printed circuit boards common in many networking and telecommunication products. These SRAMs utilize a unique architecture that provides the capability to incorporate the full range of popular SRAM functionality, including late write and double late write protocols, pipelined read cycles, burst data transfers, and double data rate read and write data transfers in common I/O format.

We currently offer SigmaRAM products with storage density of 18 megabits, speeds of up to 350 MHz and clock access times as fast as 1.7 nanoseconds that operate at 1.8 volts.

Asynchronous SRAM Products

Unlike synchronous SRAMs, asynchronous SRAMs employ a clock-free control interface. They are widely used in support of high-end digital signal processors, or DSPs. We believe we have one of the broadest portfolios of 3.3 volt, high-speed asynchronous SRAMs. These products are designed to meet the stringent power and performance requirements of networking and telecommunications applications, such as VoIP, cellular base stations, DSL line cards and modems.

We currently offer asynchronous SRAM products with a variety of storage densities between 1 megabit and 8 megabits and random access times ranging from 7 nanoseconds to 15 nanoseconds. All of our asynchronous SRAMs operate at 3.3 volts.

We intend to regularly introduce new products with high-performance advanced features of increasing complexity. These product solutions will require us to achieve volume production in a rapid timeframe. We believe that by using the advanced technologies offered by our fabrication partner and its expertise in high-volume manufacturing, we can rapidly achieve volume production. However, lead times for materials and components we order vary significantly and depend on such factors as the specific supplier, contract terms and demand for a component at a given time.

Table of Contents**Customers**

Our primary sales and marketing strategy is to achieve design wins with OEM customers who are leading networking and telecommunications companies. The following is a representative list of our OEM customers that directly or indirectly purchased more than \$550,000 of our products in the fiscal year ended March 31, 2009:

Alcatel-Lucent	Cisco Systems	Ericsson
Honeywell	Huawei Technologies	Motorola
Raytheon	Tellabs	ZTE

Many of our OEM customers use contract manufacturers to assemble their equipment. Accordingly, a significant percentage of our net revenues is derived from sales to these contract manufacturers and to consignment warehouses who purchase products from us for use by contract manufacturers. In addition, we sell our products to networking and telecommunications OEM customers indirectly through domestic and international distributors.

In the case of sales of our products to distributors and consignment warehouses, the decision to purchase our products is typically made by the OEM customers. In the case of contract manufacturers, OEM customers typically provide a list of approved products to the contract manufacturer, which then has discretion whether or not to purchase our products from that list.

Direct sales to contract manufacturers and consignment warehouses accounted for 29.3, 32.3% and 34.7% of our net revenues for fiscal 2009, 2008 and 2007, respectively. Sales to foreign and domestic distributors accounted for 61.1%, 63.1% and 59.0% of our net revenues for fiscal 2009, 2008 and 2007, respectively.

The following direct customers accounted for 10% or more of our net revenues in one or more of the following periods:

	Fiscal Year Ended March 31,		
	2009	2008	2007
Consignment warehouses:			
SMART Modular Technologies	25.7%	28.3%	29.7%
Distributors:			
Avnet Logistics	25.3	29.2	24.7
Nexcomm	10.6	7.4	7.0

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouse, SMART Modular Technologies, and also purchases some products through its contract manufacturers and directly from us. Based on information provided to us by Cisco Systems' consignment warehouse and contract manufacturers, purchases by Cisco Systems represented approximately 26%, 28% and 30% of our net revenues in fiscal 2009, 2008 and 2007, respectively.

Sales, Marketing and Technical Support

We sell our products primarily through our worldwide network of independent sales representatives and distributors. As of March 31, 2009, we employed 18 sales and marketing personnel, and were supported by over 200 independent sales representatives. We believe that our relationship with our three U.S. distributors, Arrow, Avnet and Nu Horizons, puts us in a strong position to address the Very Fast SRAM market in the U.S. We currently have regional sales offices located in Canada, China, Italy and the United States. We believe this international coverage allows us to better serve our distributors and OEM customers by providing them with coordinated support. We believe that our customers' purchasing decisions are based primarily on product performance, availability, features,

Table of Contents

quality, reliability, price, manufacturing flexibility and service. Many of our OEM customers have had long-term relationships with us based on our success in meeting these criteria.

Our sales are generally made pursuant to purchase orders received between one and six months prior to the scheduled delivery date. Because industry practice allows customers to reschedule or cancel orders on relatively short notice, these orders are not firm and hence we believe that backlog is not a good indicator of our future sales. We typically provide a warranty of up to 36 months on our products. Liability for a stated warranty period is usually limited to replacement of defective products.

Our marketing efforts are focused on increasing brand name awareness and providing solutions that address our customers' needs. Key components of our marketing efforts include maintaining an active role in industry standards committees, such as the JEDEC Solid State Technology Association (formerly the Joint Electron Device Engineering Council), or JEDEC, which is responsible for establishing detailed specifications, which can be utilized in future system designs. We believe that our participation in and sponsorship of numerous proposals within these committees have increased our profile among leading manufacturers in the networking and telecommunications segment of the Very Fast SRAM market. Our marketing group also provides technical, strategic and tactical sales support to our direct sales personnel, sales representatives and distributors. This support includes in-depth product presentations, datasheets, application notes, simulation models, sales tools, marketing communications, marketing research, trademark administration and other support functions.

We emphasize customer service and technical support in an effort to provide our OEM customers with the knowledge and resources necessary to successfully use our products in their designs. Our customer service organization includes a technical team of applications engineers, technical marketing personnel and, when required, product design engineers. We provide customer support throughout the qualification and sales process and continue providing follow-up service after the sale of our products and on an ongoing basis. In addition, we provide our OEM customers with comprehensive datasheets, application notes and reference designs.

Manufacturing

We outsource our wafer fabrication, assembly and a significant portion of our testing, which enables us to focus on our design strengths, minimize fixed costs and capital expenditures and gain access to advanced manufacturing technologies. Our engineers work closely with our outsource partners to increase yields, reduce manufacturing costs, and help assure the quality of our products.

Currently, all of our wafers are manufactured by TSMC under individually negotiated purchase orders. We do not currently have a long-term supply contract with TSMC, and therefore, TSMC is not obligated to manufacture products for us for any specified period, in any specified quantity or at any specified price, except as may be provided in a particular purchase order. Our future success depends in part on our ability to secure sufficient capacity at TSMC or other independent foundries to supply us with the wafers we require.

Most of our products are implemented using 0.13 micron and 90 nanometer process technologies on 300 millimeter wafers using process technology developed by TSMC. We currently have five separate product families in production using the 0.13 micron process. Our 72 megabit SigmaQuad, 72 megabit synchronous BurstRAM and NBT SRAM and our 36 megabit SigmaQuad products are currently manufactured using 90 nanometer process technology. We are also developing new synchronous SRAMs using 65 nanometer process technology.

Our master die methodology enables multiple product families, and variations thereof, to be manufactured from a single mask set. As a result, based upon the way available die from a wafer are metalized, wire bonded, packaged and tested, we can create a number of different products. The manufacturing process consists of two phases, the first of which takes approximately eight to twelve

Table of Contents

weeks and results in wafers that have the potential to yield multiple products within a given product family. After the completion of this phase, the wafers are stored pending customer orders. Once we receive orders for a particular product, we perform the second phase, consisting of final wafer processing, assembly, burn-in and test, which takes approximately six to ten weeks to complete. This two-step manufacturing process enables us to significantly shorten our product lead times, providing flexibility for customization and to increase the availability of our products.

All of our manufactured wafers are tested for electrical compliance and most are packaged at Advanced Semiconductor Engineering, or ASE, which is located in Taiwan. Our test procedures require that all of our products be subjected to accelerated burn-in and extensive functional electrical testing, a significant portion of which occurs at Sigurd Microelectronics Co. and King Yuan Electronics Company. We perform testing for most of our low volume products in-house at our Santa Clara, California and our Taiwan facilities and continue to transition final test away from outside test houses to our Taiwan facility.

Research and Development

The design process for our products is complex. As a result, we have made substantial investments in computer-aided design and engineering resources to manage our design process. Research and development expenses were \$5.7 million in fiscal 2009, \$4.4 million in fiscal 2008 and \$5.0 million in fiscal 2007. Our research and development staff includes engineering professionals with extensive experience in the areas of SRAM design, DRAM design and systems level networking and telecommunications equipment design. Our current development focus is on the SigmaQuad SRAM family and a low latency DRAM family.

We are also leveraging our advanced design capabilities to expand into other networking and telecommunications products, including a channelized OC-3 processor that incorporates 20 megabits of SRAM. When completed, we believe this will be the first low-power, single IC device solution capable of simultaneously processing multiple types of traffic with OC-3 bandwidth. We have established a design center in Norcross, Georgia, to focus on the development of these products.

Competition

Our existing competitors include many large domestic and international companies, some of which have substantially greater resources, offer other sorts of memory and/or non-memory technologies and may have longer standing relationships with OEM customers than we do. Unlike us, some of our principal competitors maintain their own semiconductor fabs, which may, at times, provide them with capacity, cost and technical advantages.

Our principal competitors include Cypress Semiconductor, Integrated Device Technology, Integrated Silicon Solution, NEC, Renesas and Samsung Electronics. While some of our competitors offer a broad array of memory products and offer some of their products at lower prices than we do, we believe that our focus on and performance leadership in low latency, high density Very Fast SRAMs provide us with key competitive advantages.

We believe that our ability to compete successfully in the rapidly evolving markets for Very Fast SRAM products depends on a number of factors, including:

product performance, features, quality, reliability and price;

manufacturing flexibility, product availability and customer service throughout the lifetime of the product;

the timing and success of new product introductions by us, our customers and our competitors; and

Table of Contents

our ability to anticipate and conform to new industry standards.

We believe we compete favorably with our competitors based on these factors. However, we may not be able to compete successfully in the future with respect to any of these factors. Our failure to compete successfully in these or other areas could harm our business.

The market for Very Fast SRAM products is competitive and is characterized by technological change, declining average selling prices and product obsolescence. Competition could increase in the future from existing competitors and from other companies that may enter our existing or future markets with solutions that may be less costly or provide higher performance or more desirable features than our products. This increased competition may result in price reductions, reduced profit margins and loss of market share.

In addition, we are vulnerable to advances in technology by competitors, including new SRAM architectures as well as new forms of DRAM and other new memory technologies. Because we have limited experience developing IC products other than Very Fast SRAMs, any efforts by us to introduce new products based on a new memory technology may not be successful and our business may suffer.

Intellectual Property

Our ability to compete successfully depends, in part, upon our ability to protect our proprietary technology and information. We rely on a combination of patents, copyrights, trademarks, trade secret laws, non-disclosure and other contractual arrangements and technical measures to protect our intellectual property. We currently hold five United States patents and have several patent applications pending. We do not consider our existing patents to be materially important to our business, and we cannot assure you that any patents will be issued as a result of our pending applications or that any patents issued will be valuable to our business. We believe that factors such as the technological and creative skills of our personnel and the success of our ongoing product development efforts are more important than our patent portfolio in maintaining our competitive position. We generally enter into confidentiality or license agreements with our employees, distributors, customers and potential customers and limit access to our proprietary information. Our intellectual property rights, if challenged, may not be upheld as valid, may not be adequate to prevent misappropriation of our technology or may not prevent the development of competitive products. Additionally, we may not be able to obtain patents or other intellectual property protection in the future. Furthermore, the laws of certain foreign countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products more likely in these countries.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights, which have resulted in significant and often protracted and expensive litigation. We or our foundry from time to time are notified of claims that we may be infringing patents or other intellectual property rights owned by third parties. We have been subject to intellectual property claims in the past and we may be subject to additional claims and litigation in the future. Litigation by or against us relating to allegations of patent infringement or other intellectual property matters could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation results in a determination favorable to us. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology, discontinue the use of certain processes or obtain licenses to the infringing technology. Licenses may not be offered or the terms of any offered licenses may not be acceptable to us. If we fail to obtain a license from a third party for technology used by us, we could incur substantial liabilities and be required to suspend the manufacture of products or the use by our foundry of certain processes.

Table of Contents**Employees**

As of March 31, 2009, we had 108 full-time employees, including 48 engineers, of which 31 are in research and development and 29 have PhD or MS degrees, 18 employees in sales and marketing, eight employees in general and administrative capacities and 52 employees in manufacturing. Of these employees, 43 are based in our Santa Clara facility and 45 are based in our Taiwan facility. We believe that our future success will depend in large part on our ability to attract and retain highly-skilled, engineering, managerial, sales and marketing personnel. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe that our employee relations are good.

Investor Information

You can access financial and other information in the Investor Relations section of our website at www.gsitechnology.com. We make available, on our website, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

The charters of our Audit Committee, our Compensation Committee, and our Nominating and Governance Committee, and our code of conduct (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller, and senior financial officers) are also available at our website under "Corporate Governance." These items are also available to any stockholder who requests them by calling (408) 980-8388. The contents of our website are not incorporated by reference in this report.

The SEC maintains an Internet site that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Executive Officers

The following table sets forth certain information concerning our executive officers as of June 1, 2009:

Name	Age	Title
Lee-Lean Shu	54	President, Chief Executive Officer and Chairman
David Chapman	53	Vice President, Marketing
Didier Lasserre	44	Vice President, Sales
Douglas Schirle	54	Chief Financial Officer
Bor-Tay Wu	57	Vice President, Taiwan Operations
Ping Wu	52	Vice President, U.S. Operations
Robert Yau	56	Vice President, Engineering, Secretary and Director

Lee-Lean Shu co-founded our company in March 1995 and has served as our President and Chief Executive Officer and as a member of our Board of Directors since inception. In October 2000, Mr. Shu became Chairman of our Board. From January 1995 to March 1995, Mr. Shu was Director, SRAM Design at Sony Microelectronics Corporation, a semiconductor company and a subsidiary of Sony Corporation, and from July 1990 to January 1995, he was a design manager at Sony Microelectronics Corporation.

David Chapman has served as our Vice President, Marketing since July 2002. From November 1998 to June 2002, Mr. Chapman served as our Director of Strategic Marketing and Applications Engineering. From February 1988 to November 1998, Mr. Chapman served in various product planning and applications engineering management capacities in the Memory Operation division and later the

Table of Contents

Fast SRAM division of Motorola Semiconductor Product Sector, Motorola, Inc., an electronics manufacturer. Mr. Chapman has been a member of JEDEC since 1985, and served as Chairman of its SRAM committee in 1999.

Didier Lasserre has served as our Vice President, Sales since July 2002. From November 1997 to July 2002, Mr. Lasserre served as our Director of Sales for the Western United States and Europe. From July 1996 to October 1997, Mr. Lasserre was an account manager at Solectron Corporation, a provider of electronics manufacturing services. From June 1988 to July 1996, Mr. Lasserre was a field sales engineer at Cypress Semiconductor, a semiconductor company.

Douglas Schirle has served as our Chief Financial Officer since August 2000. From June 1999 to August 2000, Mr. Schirle served as our Corporate Controller. From March 1997 to June 1999, Mr. Schirle was the Corporate Controller at Pericom Semiconductor Corporation, a provider of digital and mixed signal integrated circuits. From November 1996 to February 1997, Mr. Schirle was Vice President, Finance for Paradigm Technology, a manufacturer of SRAMs, and from December 1993 to October 1996, he was the Controller for Paradigm Technology. Mr. Schirle was formerly a certified public accountant.

Bor-Tay Wu has served as our Vice President, Taiwan Operations since January 1997. From January 1995 to December 1996, Mr. Wu was a design manager at Atalent, an IC design company in Taiwan.

Ping Wu has served as our Vice President, U.S. Operations since September 2006. He served in the same capacity from February 2004 to April 2006. From April 2006 to August 2006, Mr. Wu was Vice President of Operations at QPixel Technology, a semiconductor company. From July 1999 to January 2004, Mr. Wu served as our Director of Operations. From July 1997 to June 1999, Mr. Wu served as Vice President of Operations at Scan Vision, a semiconductor manufacturer.

Robert Yau co-founded our company in March 1995 and has served as our Vice President, Engineering and as a member of our Board of Directors since inception. From December 1993 to February 1995, Mr. Yau was design manager for specialty memory devices at Sony Microelectronics Corporation. From 1990 to 1993, Mr. Yau was design manager at MOSEL/VITELIC, a semiconductor company.

Item 1A. Risk Factors

Our future performance is subject to a variety of risks. If any of the following risks actually occur, our business, financial condition and results of operations could suffer and the trading price of our common stock could decline. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations. You should also refer to other information contained in this report, including our consolidated financial statements and related notes.

Unpredictable fluctuations in our operating results could cause our stock price to decline.

Our quarterly and annual revenues, expenses and operating results have varied significantly and are likely to vary in the future. For example, in the twelve fiscal quarters ended March 31, 2009, we recorded net revenues of as much as \$17.3 million and as little as \$11.3 million and quarterly operating income of as much as \$4.1 million and as little as \$1.1 million. We therefore believe that period-to-period comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock price. In future periods, we may not have any revenue growth, or our revenues could decline. Furthermore, if our operating expenses exceed our expectations, our financial

Table of Contents

performance could be adversely affected. Factors that may affect periodic operating results in the future include:

our ability to attract new customers, retain existing customers and increase sales to such customers;

unpredictability of the timing and size of customer orders, since most of our customers purchase our products on a purchase order basis rather than pursuant to a long term contract;

changes in our customers' inventory management practices;

fluctuations in availability and costs associated with materials needed to satisfy customer requirements;

manufacturing defects, which could cause us to incur significant warranty, support and repair costs, lose potential sales, harm our relationships with customers and result in write-downs;

changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors; and

our ability to address technology issues as they arise, improve our products' functionality and expand our product offerings.

Our expenses are, to a large extent, fixed, and we expect that these expenses will increase in the future. We will not be able to adjust our spending quickly if our revenues fall short of our expectations. If this were to occur, our operating results would be harmed. If our operating results in future quarters fall below the expectations of market analysts and investors, the price of our common stock could fall.

Cisco Systems, our largest OEM customer, accounts for a significant percentage of our net revenues. If Cisco Systems, or any of our other major customers reduce the amount they purchase or stop purchasing our products, our operating results will suffer.

Cisco Systems, our largest OEM customer, purchases our products through SMART Modular Technologies, its consignment warehouse, through its contract manufacturers and directly from us. Based on information provided to us by consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 26%, 28% and 30% of our net revenues in fiscal 2009, 2008 and 2007, respectively. In the quarter ended March 31, 2007, Cisco Systems implemented a "lean manufacturing" program under which it reduced the levels of inventory carried by it and by its contract manufacturers. The transition to this new program resulted in reductions in purchases of our products by Cisco Systems' contract manufacturers during the quarters ended June 30, 2007 and March 31, 2007, as they drew down their existing inventories, and such reductions resulted in our net revenues for these quarters being less than in the quarter ended December 31, 2006. Purchases by Cisco Systems' consignment warehouses and contract manufacturers increased in the four quarters ended June 30, 2008 compared to the two prior quarters and then declined again in the three quarters ended March 31, 2009.

We expect that our operating results in any given period will continue to depend significantly on orders from our key OEM customers, particularly Cisco Systems, and our future success is dependent to a large degree on the business success of these OEMs over which we have no control. We do not have long-term contracts with Cisco Systems or any of our other major OEM customers, distributors or contract manufacturers that obligate them to purchase our products. Although Cisco Systems has completed the transition to its "lean manufacturing" program, we expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis and that such fluctuations may significantly affect our operating results in future periods. If we fail to continue to sell to our key OEM customers, distributors or contract manufacturers in sufficient quantities, the growth of our business could be harmed.

Table of Contents

We have incurred significant losses in prior periods and may incur losses in the future.

We have incurred significant losses in prior periods. For example, in fiscal 2003 and 2004, we incurred losses of \$7.4 million and \$670,000, respectively. Although we have operated profitably during the last five fiscal years, there can be no assurance that our Very Fast SRAMs will continue to receive broad market acceptance or that we will be able to sustain revenue growth or profitability. Our failure to do so may result in additional losses in the future. In addition, we expect our operating expenses to increase as we expand our business. If our revenues do not grow to offset these expected increased expenses, our business will suffer.

We depend upon the sale of our Very Fast SRAMs for most of our revenues, and a downturn in demand for these products could significantly reduce our revenues and harm our business.

We derive most of our revenues from the sale of Very Fast SRAMs, and we expect that sales of these products will represent the substantial majority of our revenues for the foreseeable future. Our business depends in large part upon continued demand for our products in the markets we currently serve, and adoption of our products in new markets. Market adoption will be dependent upon our ability to increase customer awareness of the benefits of our products and to prove their high-performance and cost-effectiveness. We may not be able to sustain or increase our revenues from sales of our products, particularly if the networking and telecommunications markets were to experience another significant downturn in the future. Any decrease in revenues from sales of our products could harm our business more than it would if we offered a more diversified line of products.

We are subject to the highly cyclical nature of the networking and telecommunications markets.

Our products are incorporated into routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment used in the highly cyclical networking and telecommunications markets. Our operating results declined sharply in fiscal 2002 and 2003 as a result of the severe contraction in demand for networking and telecommunications equipment in which our products are incorporated. Prior to this period of contraction, the networking and telecommunications markets experienced a period of rapid growth, which resulted in a significant increase in demand for our products. We expect that the networking and telecommunications markets will continue to be highly cyclical, characterized by periods of rapid growth and contraction. Our business and our operating results are likely to fluctuate, perhaps quite severely, as a result of this cyclicity.

The average selling prices of our products are expected to decline, and if we are unable to offset these declines, our operating results will suffer.

Historically, the average unit selling prices of our products have declined substantially over the lives of the products, and we expect this trend to continue. A reduction in overall average selling prices of our products could result in reduced revenues and lower gross margins. Our ability to increase our net revenues and maintain our gross margins despite a decline in the average selling prices of our products will depend on a variety of factors, including our ability to introduce lower cost versions of our existing products, increase unit sales volumes of these products, and introduce new products with higher prices and greater margins. If we fail to accomplish any of these objectives, our business will suffer. To reduce our costs, we may be required to implement design changes that lower our manufacturing costs, negotiate reduced purchase prices from our independent foundry, TSMC, and our independent assembly and test vendors, and successfully manage our manufacturing and subcontractor relationships. Because we do not operate our own wafer foundry or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own foundries or facilities.

Table of Contents

We rely heavily on distributors and our success depends on our ability to develop and manage our indirect distribution channels.

A significant percentage of our sales are made to distributors and to contract manufacturers who incorporate our products into end products for OEMs. For example, in fiscal 2009, 2008 and 2007, our distributor Avnet Logistics accounted for 25.3%, 29.2% and 24.7%, respectively, of our net revenues. Avnet Logistics and our other existing distributors may choose to devote greater resources to marketing and supporting the products of other companies. Since we sell through multiple channels and distribution networks, we may have to resolve potential conflicts between these channels. For example, these conflicts may result from the different discount levels offered by multiple channel distributors to their customers or, potentially, from our direct sales force targeting the same equipment manufacturer accounts as our indirect channel distributors. These conflicts may harm our business or reputation.

We may be unable to accurately predict future sales through our distributors, which could harm our ability to efficiently manage our resources to match market demand.

Our financial results, quarterly product sales, trends and comparisons are affected by fluctuations in the buying patterns of the OEMs that purchase our products from our distributors. While we attempt to assist our distributors in maintaining targeted stocking levels of our products, we may not consistently be accurate or successful. This process involves the exercise of judgment and use of assumptions as to future uncertainties, including end user demand. Inventory levels of our products held by our distributors may exceed or fall below the levels we consider desirable on a going-forward basis. This could result in distributors returning unsold inventory to us, or in us not having sufficient inventory to meet the demand for our products. If we are not able to accurately predict sales through our distributors or effectively manage our relationships with our distributors, our business and financial results will suffer.

A small number of customers generally account for a significant portion of our accounts receivable in any period, and if any one of them fails to pay us, our operating results will suffer.

At March 31, 2009, five customers accounted for 27%, 16%, 14%, 10% and 10% of our accounts receivable, respectively. If any of these customers do not pay us, our operating results will be harmed. Generally, we do not require collateral from our customers.

If the recent worsening of credit market conditions continues or increases, it could have a material adverse impact on our investment portfolio.

Recent U.S. sub-prime mortgage defaults have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. The short-term funding markets experienced credit issues during the second half of fiscal 2008 which continued throughout fiscal 2009, leading to liquidity disruption in asset-backed commercial paper and failed auctions in the auction rate securities markets. If the global credit market continues to deteriorate, our investment portfolio may be impacted and we could determine that some of our investments are impaired. This could materially adversely impact our results of operations and financial condition.

We could become subject to claims and litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant costs.

In recent years, there has been significant litigation in the semiconductor industry involving patents and other intellectual property rights. In the past, we have been subject to claims and litigation regarding alleged infringement of other parties' intellectual property rights. In 2002, we settled patent litigation filed against us by one of our competitors. In connection with the settlement, we obtained a license from that competitor and agreed to pay a license fee and ongoing royalties. We could become

Table of Contents

subject to additional litigation in the future as a result of allegations that we infringe others' intellectual property rights or that our use of intellectual property otherwise violates the law. Claims that our products infringe the proprietary rights of others would force us to defend ourselves and possibly our customers or manufacturers against the alleged infringement. Any such litigation regarding intellectual property could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. If any claims received in the future were to be upheld, the consequences to us would be severe and could require us to:

stop selling our products that incorporate the challenged intellectual property;

obtain a license to sell or use the relevant technology, which license may not be available on reasonable terms or at all;

pay damages; or

redesign those products that use the disputed technology.

Although patent disputes in the semiconductor industry have often been settled through cross-licensing arrangements, we may not be able in any or every instance to settle an alleged patent infringement claim through a cross-licensing arrangement. We have a more limited patent portfolio than many of our competitors. If a successful claim is made against us or any of our customers and a license is not made available to us on commercially reasonable terms or we are required to pay substantial damages or awards, our business, financial condition and results of operations would be materially adversely affected.

Our business will suffer if we are unable to protect our intellectual property.

Our success and ability to compete depends in large part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws and non-disclosure and other contractual agreements to protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement, or to protect us from the claims of others. Monitoring unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Our attempts to enforce our intellectual property rights could be time consuming and costly. Litigation may be necessary in order to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. If competitors are able to use our technology without our approval or compensation, our ability to compete effectively could be harmed.

The market for Very Fast SRAMs is highly competitive.

The market for Very Fast SRAMs, which are used primarily in networking and telecommunications equipment, is characterized by price erosion, rapid technological change, cyclical market patterns and heightened foreign and domestic competition. Several of our competitors offer a broad array of memory products and have greater financial, technical, marketing, distribution and other resources than we have. Some of our competitors maintain their own semiconductor fabrication facilities, which may provide them with capacity, cost and technical advantages over us. We cannot assure you that we will be able to compete successfully against any of these competitors. Our ability to compete successfully in this market depends on factors both within and outside of our control, including:

real or perceived imbalances in supply and demand of Very Fast SRAMs;

the rate at which OEMs incorporate our products into their systems;

Table of Contents

the success of our customers' products;

our ability to develop and market new products;

access to advanced process technologies at competitive prices; and

the supply and cost of wafers.

In addition, we are vulnerable to advances in technology by competitors, including new SRAM architectures and new forms of DRAM, or the emergence of new memory technologies that could enable the development of products that feature higher performance, lower cost or lower power capabilities. Additionally, the trend toward incorporating SRAM into other chips in the networking and telecommunications markets has the potential to reduce future demand for Very Fast SRAM products. There can be no assurance that we will be able to compete successfully in the future. Our failure to compete successfully in these or other areas could harm our business.

We may experience difficulties in transitioning to smaller geometry process technologies and other more advanced manufacturing process technologies, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition the manufacture of our products to smaller geometry process technologies. This transition will require us to migrate to new manufacturing processes for our products and redesign certain products. The manufacture and design of our products is complex, and we may experience difficulty in transitioning to smaller geometry process technologies or new manufacturing processes. These difficulties could result in reduced manufacturing yields, delays in product deliveries and increased expenses. We are dependent on our relationships with TSMC to transition successfully to smaller geometry process technologies and to more advanced manufacturing processes. We cannot assure you that TSMC will be able to effectively manage the transition or that we will be able to maintain our relationship with TSMC. If we or TSMC experience significant delays in this transition or fail to implement these transitions, our business, financial condition and results of operations could be materially and adversely affected.

Manufacturing process technologies are subject to rapid change and require significant expenditures for research and development.

We continuously evaluate the benefits of migrating to smaller geometry process technologies in order to improve performance and reduce costs. Historically, these migrations to new manufacturing processes have resulted in significant initial design and development costs associated with pre-production mask sets for the manufacture of new products with smaller geometry process technologies. For example, in fiscal 2006, we incurred \$678,000 in research and development expense associated with pre-production mask sets, which were not later used in production as part of the transition to our new 90 nanometer process technology. We will incur similar expenses in the future as we continue to transition our products to smaller geometry processes. The transition costs inherent in the transition to new manufacturing process technologies will adversely affect our operating results and our gross margin.

Our products are complex to design and manufacture and could contain defects, which could reduce revenues or result in claims against us.

We develop complex products. Despite testing by us and our OEM customers, design or manufacturing errors may be found in existing or new products. These defects could result in a delay in recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may also cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts, result in a loss of market acceptance

Table of Contents

of our products and harm our relationships with our OEM customers. Our OEM customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Defects in wafers and other components used in our products and arising from the manufacturing of these products may not be fully recoverable from TSMC or other suppliers. For example, in the quarter ended December 31, 2005, we incurred a charge of approximately \$900,000 related to the write-off of inventory resulting from an error in the assembly process at one of our suppliers. This write-off adversely affected our operating results for fiscal 2006.

We are dependent on a number of single source suppliers, and if we fail to obtain adequate supplies, our business will be harmed and our prospects for growth will be curtailed.

We currently purchase several key components used in the manufacture of our products from single sources and are dependent upon supply from these sources to meet our needs. If any of these suppliers cannot provide components on a timely basis, at the same price or at all, our ability to manufacture our products will be constrained and our business will suffer. For example, we obtain wafers from a single foundry, TSMC. If we are unable to obtain an adequate supply of wafers from TSMC or find alternative sources in a timely manner, we will be unable to fulfill our customer orders and our operating results will be harmed. We do not have supply agreements with TSMC or any of our independent assembly and test suppliers, and instead obtain manufacturing services and products on a purchase order basis. Our suppliers, including TSMC, have no obligation to supply products or services to us for any specific product, in any specific quantity, at any specific price or for any specific time period. As a result, the loss or failure to perform by any of these suppliers could adversely affect our business and operating results.

Should any of our single source suppliers experience manufacturing failures or yield shortfalls, be disrupted by natural disaster or political instability, choose to prioritize capacity or inventory for other uses or reduce or eliminate deliveries to us, we likely will not be able to enforce fulfillment of any delivery commitments and we would have to identify and qualify acceptable replacements from alternative sources of supply. In particular, if TSMC is unable to supply us with sufficient quantities of wafers to meet all of our requirements, we would have to allocate our products among our customers, which would constrain our growth and might cause some of them to seek alternative sources of supply. Since the manufacturing of wafers and other components is extremely complex, the process of qualifying new foundries and suppliers is a lengthy process and there is no assurance that we will be able to find and qualify another supplier without materially adversely affecting our business, financial condition and results of operations.

Because we outsource our wafer manufacturing and independent wafer foundry capacity is limited, we may be required to enter into costly long-term supply arrangements to secure foundry capacity.

We do not have long-term supply agreements with TSMC, but instead obtain our wafers on a purchase order basis. In order to secure future wafer supply from TSMC or from other independent foundries, we may be required to enter into various arrangements with them, which could include:

contracts that commit us to purchase specified quantities of wafers over extended periods;

investments in and joint ventures with the foundries; or

non-refundable deposits with or prepayments or loans to foundries in exchange for capacity commitments.

We may not be able to make any of these arrangements in a timely fashion or at all, and these arrangements, if any, may not be on terms favorable to us. Moreover, even if we are able to secure

Table of Contents

independent foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

If we are unable to offset increased wafer fabrication costs by increasing the average selling prices of our products, our gross margins will suffer.

If there is a significant upturn in the networking and telecommunications markets that results in increased demand for our products and competing products, the available supply of wafers may be limited. As a result, we could be required to obtain additional manufacturing capacity in order to meet increased demand. Securing additional manufacturing capacity may cause our wafer fabrication costs to increase. If we are unable to offset these increased costs by increasing the average selling prices of our products, our gross margins will decline.

Demand for our products may decrease if our OEM customers experience difficulty manufacturing, marketing or selling their products.

Our products are used as components in our OEM customers' products. For example, Cisco Systems, our largest OEM customer, incorporates our products in a number of its networking routers and switches. Accordingly, demand for our products is subject to factors affecting the ability of our OEM customers to successfully introduce and market their products, including:

capital spending by telecommunication and network service providers and other end users who purchase our OEM customers' products;

the competition our OEM customers face, particularly in the networking and telecommunications industries;

the technical, manufacturing, sales and marketing and management capabilities of our OEM customers;

the financial and other resources of our OEM customers; and

the inability of our OEM customers to sell their products if they infringe third-party intellectual property rights.

As a result, if OEM customers reduce their purchases of our products, our business will suffer.

Downturns in the semiconductor industry may harm our revenues and margins.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by production overcapacity, high inventory levels and accelerated erosion of average selling prices. From time to time, the semiconductor industry also has experienced periods of increased demand and production capacity constraints.

Our operating results may suffer during the down portion of these cycles. For example, the SRAM industry experienced significant declines in the average selling prices of SRAM products during the recent downturn in the semiconductor industry. We expect similar declines to occur in the future. Downturns in the semiconductor industry could cause our stock price to be volatile, and a prolonged decline in the industry could adversely affect our revenues. If we are unable to control our expenses adequately in response to reduced net sales, our results of operations would be negatively impacted. For example, the industry downturn in 2001 resulted in a \$3.9 million inventory write-off in fiscal 2002.

Table of Contents

If we do not successfully develop new products to respond to rapid market changes due to changing technology and evolving industry standards, particularly in the networking and telecommunications markets, our business will be harmed.

If we fail to offer technologically advanced products and respond to technological advances and emerging standards, we may not generate sufficient revenues to offset our development costs and other expenses, which will hurt our business. The development of new or enhanced products is a complex and uncertain process that requires the accurate anticipation of technological and market trends. In particular, the networking and telecommunications markets are rapidly evolving and new standards are emerging. We are vulnerable to advances in technology by competitors, including new SRAM architectures, new forms of DRAM and the emergence of new memory technologies that could enable the development of products that feature higher performance or lower cost. We may experience development, marketing and other technological difficulties that may delay or limit our ability to respond to technological changes, evolving industry standards, competitive developments or end-user requirements. For example, because we have limited experience developing integrated circuits, or IC, products other than Very Fast SRAMs, our efforts to introduce new products may not be successful and our business may suffer. Other challenges that we face include:

our products may become obsolete upon the introduction of alternative technologies;

we may incur substantial costs if we need to modify our products to respond to these alternative technologies;

we may not have sufficient resources to develop or acquire new technologies or to introduce new products capable of competing with future technologies;

new products that we develop may not successfully integrate with our end-users' products into which they are incorporated;

we may be unable to develop new products that incorporate emerging industry standards;

we may be unable to develop or acquire the rights to use the intellectual property necessary to implement new technologies;
and

when introducing new or enhanced products, we may be unable to manage effectively the transition from older products.

Our products have lengthy sales cycles that make it difficult to plan our expenses and forecast results.

Our products are generally incorporated in our OEM customers' products at the design stage. However, their decisions to use our products often require significant expenditures by us without any assurance of success, and often precede volume sales, if any, by a year or more. If an OEM customer decides at the design stage not to incorporate our products into their products, we will not have another opportunity for a design win with respect to that customer's product for many months or years, if at all. Our sales cycle can take up to 24 months to complete, and because of this lengthy sales cycle, we may experience a delay between increasing expenses for research and development and our sales and marketing efforts and the generation of volume production revenues, if any, from these expenditures. Moreover, the value of any design win will largely depend on the commercial success of our OEM customers' products. There can be no assurance that we will continue to achieve design wins or that any design win will result in future revenues.

Any significant order cancellations or order deferrals could adversely affect our operating results.

We typically sell products pursuant to purchase orders that customers can generally cancel or defer on short notice without incurring a significant penalty. Any significant cancellations or deferrals in the future could materially and adversely affect our business, financial condition and results of operations.

Table of Contents

Cancellations or deferrals could cause us to hold excess inventory, which could reduce our profit margins, increase product obsolescence and restrict our ability to fund our operations. We generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not pay for these products, we could miss future revenue projections or incur significant charges against our income, which could materially and adversely affect our operating results.

As our business grows, such growth may place a significant strain on our management and operations and, as a result, our business may suffer.

We plan to continue expanding our business, and our expected growth could place a significant strain on our management systems, infrastructure and other resources. To manage the expected growth of our operations and increases in the number of our personnel, we will need to invest the necessary capital to improve our operational, financial and management controls and our reporting systems and procedures. Our controls, systems and procedures might not be adequate to support a growing public company. In addition, we may not have sufficient administrative staff to support our operations. For example, we currently have only five employees in our finance department in the United States, including our Chief Financial Officer. Furthermore, our officers have limited experience in managing large or rapidly growing businesses and the majority of our management had no previous experience in managing a public company or communicating with securities analysts and public company investors. If our management fails to respond effectively to changes in our business, our business may suffer.

Our international business exposes us to additional risks.

Products shipped to destinations outside of the United States accounted for 61.6%, 53.0% and 48.9% of our net revenues in fiscal 2009, 2008 and 2007, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan. We intend to expand our international business in the future. Conducting business outside of the United States subjects us to additional risks and challenges, including:

heightened price sensitivity from customers in emerging markets;

compliance with a wide variety of foreign laws and regulations;

legal uncertainties regarding taxes, tariffs, quotas, export controls, competition, export licenses and other trade barriers;

political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;

difficulties in collecting accounts receivable and longer accounts receivable payment cycles;

difficulties in staffing and managing personnel, distributors and representatives;

limited protection for intellectual property rights in some countries; and

fluctuations in freight rates and transportation disruptions.

Moreover, our reporting currency is the U.S. dollar. However, a portion of our cost of revenues and our operating expenses is denominated in currencies other than the U.S. dollar, primarily the New Taiwanese dollar. As a result, appreciation or depreciation of other currencies in relation to the U.S. dollar could result in transaction gains or losses that could impact our operating results. We do not currently engage in currency hedging activities.

Table of Contents

TSMC, our other independent suppliers and many of our OEM customers have operations in the Pacific Rim, an area subject to significant earthquake risk and adverse consequences related to the potential outbreak of contagious diseases such as the H1N1 Flu.

The foundry that manufactures our products, TSMC, and all of the principal independent suppliers that assemble and test our products are located in Taiwan. Many of our customers are also located in the Pacific Rim. The risk of an earthquake in these Pacific Rim locations is significant. The occurrence of an earthquake or other natural disaster near the fabrication facilities of TSMC or our other independent suppliers could result in damage, power outages and other disruptions that impair their production and assembly capacity. Any disruption resulting from such events could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling, packaging or production testing from the affected contractor to another third-party vendor. In such an event, we may not be able to obtain alternate foundry capacity on favorable terms, or at all.

The outbreak of SARS in 2003 curtailed travel to and from certain countries, primarily in the Asia-Pacific region, and limited travel within those countries. If there were to be another outbreak of a contagious disease, such as SARS or the H1N1 Flu, that significantly affected the Asia-Pacific region, the operations of our key suppliers could be disrupted. In addition, our business could be harmed if such an outbreak resulted in travel being restricted, as it was during parts of 2003, or if it adversely affected the operations of our OEM customers or the demand for our products or our OEM customers' products.

Changes in Taiwan's political, social and economic environment may affect our business performance.

Because much of the manufacturing and testing of our products is conducted in Taiwan, our business performance may be affected by changes in Taiwan's political, social and economic environment. For example, any political instability resulting from the relationship among the United States, Taiwan and the People's Republic of China could damage our business. Moreover, the role of the Taiwanese government in the Taiwanese economy is significant. Taiwanese policies toward economic liberalization, and laws and policies affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change, resulting in greater restrictions on our ability and our suppliers' ability to do business and operate facilities in Taiwan. If any of these changes were to occur, our business could be harmed and our stock price could decline.

Market demand for our products may decrease as a result of changes in general economic conditions, as well as incidents of terrorism, war and other social and political instability.

Our revenues and gross profit depend largely on general economic conditions and, in particular, the strength of demand for our products in the markets in which we are doing business. From time to time, customers and potential customers have elected not to make purchases of our products due to reduced budgets and uncertainty about the future, and, in the case of distributors, declining demand from their customers for their solutions in which they integrate our products. Similarly, from time to time, acts of terrorism have had a negative impact on information technology spending. High fuel prices, ongoing concerns regarding the U.S. and worldwide economies and continuing turmoil in the Middle East and elsewhere have increased uncertainty in the United States and our other markets. Should the downturn in U.S. and global economic activity continue, our customers may delay or reduce their purchases of information technology, which would result in lower demand for our products and adversely affect our results of operations.

Table of Contents

We are substantially dependent on the continued services and performance of our senior management and other key personnel.

Our future success is substantially dependent on the continued services and continuing contributions of our senior management who must work together effectively in order to design our products, expand our business, increase our revenues and improve our operating results. The loss of services of Lee-Lean Shu, our President and Chief Executive Officer, Robert Yau, our Vice President of Engineering, any other executive officer or other key employee could significantly delay or prevent the achievement of our development and strategic objectives. We do not have employment contracts with, nor maintain key person insurance on, any of our executive officers.

If we are unable to recruit or retain qualified personnel, our business and product development efforts could be harmed.

We must continue to identify, recruit, hire, train, retain and motivate highly skilled technical, managerial, sales and marketing and administrative personnel. Competition for these individuals is intense, and we may not be able to successfully recruit, assimilate or retain sufficiently qualified personnel. We may encounter difficulties in recruiting and retaining a sufficient number of qualified engineers, which could harm our ability to develop new products and adversely impact our relationships with existing and future end-users at a critical stage of development. The failure to recruit and retain necessary technical, managerial, sales, marketing and administrative personnel could harm our business and our ability to obtain new OEM customers and develop new products.

We may need to raise additional capital in the future, which may not be available on favorable terms or at all, and which may cause dilution to existing stockholders.

We may need to seek additional funding in the future. We do not know if we will be able to obtain additional financing on favorable terms, if at all. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, and we may be required to reduce operating costs, which could seriously harm our business. In addition, if we issue equity securities, our stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of our common stock.

Our products are increasingly being incorporated into advanced military electronics, and changes in international geopolitical circumstances and domestic budget considerations may hurt our business.

Our products are increasingly being incorporated into advanced military electronics such as radar and guidance systems. Military expenditures and appropriations for such purchases have risen significantly in recent years. However, should the current conflicts in Iraq and Afghanistan and the general war on terror subside, our operating results would likely suffer. Domestic budget considerations may also adversely affect our operating results. For example, if governmental appropriations for military purchases of electronic devices that include our products are reduced, our revenues will likely decline.

If we acquire any companies or technologies in the future, they could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results.

In the future, we may acquire or make investments in companies, assets or technologies that we believe are complementary or strategic. We have not made any acquisitions or investments to date, and therefore our ability as an organization to make acquisitions or investments is unproven. If we decide to make an acquisition or investment, we face numerous risks, including:

difficulties in integrating operations, technologies, products and personnel;

Table of Contents

diversion of financial and managerial resources from existing operations;

risk of overpaying for or misjudging the strategic fit of an acquired company, asset or technology;

problems or liabilities stemming from defects of an acquired product or intellectual property litigation that may result from offering the acquired product in our markets;

challenges in retaining key employees to maximize the value of the acquisition or investment;

inability to generate sufficient return on investment;

incurrence of significant one-time write-offs; and

delays in customer purchases due to uncertainty.

If we proceed with an acquisition or investment, we may be required to use a considerable amount of our cash, or to finance the transaction through debt or equity securities offerings, which may decrease our financial liquidity or dilute our stockholders and affect the market price of our stock. As a result, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be harmed.

We incur significant costs as a result of being a public company, and the related commitment of resources may divert management attention from our business and impair our financial results.

As a public company, we are incurring and will continue to incur additional legal, accounting and other expenses that we did not incur as a private company. The Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and The NASDAQ Marketplace Rules now apply to us as a public company. Compliance with these rules and regulations have required significant increases in our legal and financial budgets and may also strain our personnel, systems and resources.

The Exchange Act requires, among other things, filing of annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Satisfying these requirements involves a commitment of significant resources and management oversight. As a result of management's efforts to comply with such requirements, other important business concerns may receive insufficient attention, which could have a material adverse effect on our business, financial condition and results of operations. Failure to meet certain of these regulatory requirements could also cause us to be delisted from the NASDAQ Global Market.

In addition, in order to comply with these requirements, we are hiring and will continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge, which will increase our operating expenses in future periods.

We also expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors' and officers' insurance, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors, particularly to serve on our audit committee, and qualified executive officers.

If we fail to maintain proper and effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, our ability to operate our business and investors' views of us.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming

Table of Contents

process. On a continuous basis, we update our internal controls documentation and, where appropriate, improve our internal controls and procedures as we are subject to Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal control over financial reporting and in the future a report by our independent registered public accounting firm addressing the effectiveness of our internal control over financial reporting. Both we and our independent registered public accounting firm are, or will be, testing our internal controls in anticipation of becoming fully subject to Section 404 requirements and, as part of that documentation and testing, will identify areas for further attention and improvement. Implementing any appropriate changes to our internal controls may entail substantial costs in order to modify our existing financial and accounting systems, take a significant period of time to complete, and distract our officers, directors and employees from the operation of our business. These changes may not, however, be effective in maintaining the adequacy of our internal controls. Any failure to maintain that adequacy, or a consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs, materially impair our ability to operate our business, and adversely affect our stock price.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous and toxic materials. If we were to violate or become liable under environmental laws in the future as a result of our inability to obtain permits, human error, accident, equipment failure or other causes, we could be subject to fines, costs, or civil or criminal sanctions, face property damage or personal injury claims or be required to incur substantial investigation or remediation costs, which could be material, or experience disruptions in our operations, any of which could have a material adverse effect on our business. In addition, environmental laws could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances applicable to specified electronic products placed on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the RoHS Directive). We also expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we change the design and/or manufacturing of our products, any of which could have a material adverse effect on our business.

The trading price of our common stock is subject to fluctuation and is likely to be volatile.

The trading price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including:

actual or anticipated declines in operating results;

changes in financial estimates or recommendations by securities analysts;

announcements by us or our competitors of financial results, new products, significant technological innovations, contracts, acquisitions, strategic relationships, joint ventures, capital commitments or other events;

rapid changes in industry estimates in demand for Very Fast SRAM products;

Table of Contents

the gain or loss of significant orders or customers;

recruitment or departure of key personnel; and

market conditions in our industry, the industries of our customers and the economy as a whole.

In recent years the stock market in general, and the market for technology stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of our common stock might experience significant fluctuations in the future, including fluctuations unrelated to our performance. These fluctuations could materially adversely affect our business relationships, our ability to obtain future financing on favorable terms or otherwise harm our business. In addition, in the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. This risk is especially acute for us because the extreme volatility of market prices of technology companies has resulted in a larger number of securities class action claims against them. Due to the potential volatility of our stock price, we may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources. This could harm our business and cause the value of our stock to decline.

Our executive officers, directors and entities affiliated with them hold a substantial percentage of our common stock.

As of May 31, 2009, our executive officers, directors and entities affiliated with them beneficially owned approximately 24% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over, and may be able to effectively control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

The provisions of our charter documents might inhibit potential acquisition bids that a stockholder might believe are desirable, and the market price of our common stock could be lower as a result.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock. Our Board of Directors can fix the price, rights, preferences, privileges and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock might delay or prevent a change in control transaction. As a result, the market price of our common stock and the voting and other rights of our stockholders might be adversely affected. The issuance of preferred stock might result in the loss of voting control to other stockholders. We have no current plans to issue any shares of preferred stock. Our charter documents also contain other provisions, which might discourage, delay or prevent a merger or acquisition, including:

our stockholders have no right to remove directors without cause;

our stockholders have no right to act by written consent;

our stockholders have no right to call a special meeting of stockholders; and

stockholders must comply with advance notice requirements to nominate directors or submit proposals for consideration at stockholder meetings.

These provisions could also have the effect of discouraging others from making tender offers for our common stock. As a result, these provisions might prevent the market price of our common stock from increasing substantially in response to actual or rumored takeover attempts. These provisions might also prevent changes in our management.

Table of Contents

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our executive offices, our principal administration, marketing and sales operations and a portion of our research and development operations are located in approximately 20,300 square feet of space in Santa Clara, California, which we occupy under a lease expiring in May 2010. In addition, we occupy approximately 25,250 square feet in a facility located in Hsin Chu, Taiwan under a lease expiring in August 2010. This facility supports our manufacturing activities. We believe that both our Santa Clara and Taiwan facilities are adequate for our needs for the foreseeable future. We also lease space in Georgia and Texas. The aggregate annual gross rent for our facilities was approximately \$616,000 in fiscal 2009.

Item 3. *Legal Proceedings*

None.

Item 4. *Submission of Matters to a Vote of the Security Holders*

None.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock has traded on the NASDAQ Global Market under the symbol "GSIT" since our initial public offering on March 29, 2007. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock on such market.

Fiscal Year Ended March 31, 2009	High	Low
First quarter	\$4.44	\$2.68
Second quarter	\$4.22	\$3.21
Third quarter	\$3.75	\$2.42
Fourth quarter	\$2.88	\$2.00
Fiscal Year Ended March 31, 2008		
First quarter	\$5.80	\$4.17
Second quarter	\$5.09	\$2.47
Third quarter	\$3.39	\$2.22
Fourth quarter	\$3.06	\$2.25

Holders of Common Stock

On June 4, 2009, the closing price of our common stock on the NASDAQ National Market was \$3.43 and there were 69 holders of record of our common stock. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain future earnings to finance the growth and development of our business, and we do not anticipate declaring or paying any cash dividends in the foreseeable future.

Securities Authorized for Issuance under Equity Compensation Plans

Please see Part III, Item 12 of this report for information regarding securities authorized for issuance under our equity compensation plans. Such information is incorporated by reference from our definitive proxy statement for our 2009 annual meeting of stockholders.

Use of Proceeds

On March 29, 2007, our Registration Statement on Form S-1 (333-139885) covering the initial public offering of our common stock was declared effective by the SEC. We registered 6,131,111 shares to be sold by us and up to 919,667 shares to be sold by selling stockholders to cover an over-allotment option granted to the underwriters. All 6,131,111 shares offered by us were sold at an initial public offering price of \$5.50, for an aggregate offering price of \$33,721,111. On April 27, 2007, the underwriters partially exercised their over-allotment option, and an additional 303,583 shares were sold by the selling stockholders for an aggregate offering price of \$1,669,706. We did not receive any portion of the proceeds from the sale of shares by the selling stockholders upon exercise of the underwriters' over-allotment option.

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Table of Contents

The principal purposes of the offering were to obtain additional capital, establish a public market for our common stock and facilitate our future access to public capital markets. We have used the proceeds from the offering as follows:

Underwriting discount	\$ 2,360,000
Offering expenses	739,000
Repurchase of common stock	3,706,736
Capital expenditures	3,935,000
Accounts payable	4,360,000
Income taxes	5,412,800
Payroll and payroll related expenses	13,207,575
 Total	 \$33,721,111

Issuer Purchases of Equity Securities

On November 6, 2008, our Board of Directors authorized us to repurchase, at management's discretion, up to \$10 million of our common stock. Under the repurchase program, we may repurchase shares from time to time on the open market or in private transactions. The specific timing and amount of the repurchases will be dependent on market conditions, securities law limitations and other factors. The repurchase program may be suspended or terminated at any time without prior notice. During the quarter ended March 31, 2009, we repurchased 590,765 shares at an average price of \$2.68. Below is a summary of our common stock repurchases during the quarter ended March 31, 2009.

Period	Average Shares Repurchased	Price Per Share	Value that May Yet Be Repurchased Under the Program
Beginning approximate dollar value available to be repurchased as of January 1, 2009			\$ 7,491,714
January 1 - January 31, 2009	447,043	\$ 2.78	6,249,073
February 1 - February 28, 2009	86,311	\$ 2.45	6,037,846
March 1 - March 31, 2009	57,411	\$ 2.22	5,910,387
 Total shares repurchased	 590,765		
 Ending approximate dollar value that may be repurchased under the Program as of March 31, 2009			 \$ 5,910,387

Table of Contents**Item 6. Selected Financial Data**

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this report. The selected consolidated statement of operations data set forth below for the fiscal years ended March 31, 2009, 2008 and 2007 and the selected consolidated balance sheet data as of March 31, 2009 and 2008 are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this report. The selected consolidated statement of operations data set forth below for the fiscal years ended March 31, 2006 and 2005 and the selected consolidated balance sheet data as of March 31, 2007, 2006 and 2005 are derived from audited consolidated financial statements not included in this report.

	Fiscal Year Ended March 31,				
	2009(1)	2008(1)	2007(1)	2006	2005
	(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Net revenues	\$ 62,108	\$ 53,170	\$ 58,159	\$ 43,141	\$ 45,736
Cost of revenues	35,552	31,847	36,042	29,229	30,715
Gross profit	26,556	21,323	22,117	13,912	15,021
Operating expenses:					
Research and development	5,737	4,365	4,951	5,377	4,804
Selling, general and administrative	9,295	9,464	6,209	4,797	5,756
Total operating expenses	15,032	13,829	11,160	10,174	10,560
Income from operations	11,524	7,494	10,957	3,738	4,461
Interest and other income (expense), net	1,363	1,784	728	682	164
Income before income taxes	12,887	9,278	11,685	4,420	4,625
Provision for (benefit from) income taxes	3,598	2,505	4,251	171	(155)
Net income	\$ 9,289	\$ 6,773	\$ 7,434	\$ 4,249	\$ 4,780
Basic and diluted net income per share available to common stockholders:					
Basic	\$ 0.33	\$ 0.25	\$ 1.04	\$ 0.54	\$ 0.63
Diluted	\$ 0.33	\$ 0.24	\$ 0.32	\$ 0.19	\$ 0.21
Weighted average shares used in per share calculations:					
Basic	27,735	27,537	6,253	6,148	6,112
Diluted	28,836	28,624	22,837	22,586	22,562

Table of Contents

	2009	2008	March 31, 2007	2006	2005
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$47,337	\$39,565	\$ 8,275	\$15,505	\$11,522
Working capital	59,754	55,070	32,999	26,453	23,504
Total assets	92,673	88,315	49,910	39,544	33,524
Redeemable convertible preferred stock			9,007	9,007	9,007
Total stockholders' equity	84,705	77,140	29,732	20,958	16,568

(1)

On April 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method. The impact of adoption of SFAS 123(R) was to reduce income before income taxes by \$1,216,000 and net income by \$1,165,000 for fiscal 2007. Reductions in income before income taxes and net income were \$1,461,000 and \$1,320,000, respectively, in fiscal 2008. Reductions in income before income taxes and net income were \$1,328,000 and \$1,160,000, respectively, in fiscal 2009.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ substantially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Risk Factors" and elsewhere in this report. The following discussion should be read together with our consolidated financial statements and the related notes included elsewhere in this report.

Overview

We are a fabless semiconductor company that designs, develops and markets Very Fast static random access memories, or SRAMs, primarily for the networking and telecommunications markets. We are subject to the highly cyclical nature of the semiconductor industry, which has experienced significant fluctuations, often in connection with fluctuations in demand for the products in which semiconductor devices are used. Beginning in fiscal 2001, the networking and telecommunications markets experienced an extended period of severe contraction, during which our operating results sharply declined. Between fiscal 2004 and fiscal 2006, demand for networking and telecommunications equipment recovered. During the first three quarters of fiscal 2007, demand for such equipment accelerated and, as a result, our operating results improved. In the fourth quarter of fiscal 2007 and the first quarter of fiscal 2008, revenues again declined due, in part, to the implementation of a "lean manufacturing" program by our largest customer, Cisco Systems. Purchases by Cisco Systems' consignment warehouses and contract manufacturers increased in the four quarters ended June 30, 2008 compared to the two prior quarters and then declined again in the three quarters ended March 31, 2009. We expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis. The worldwide credit crisis and the resulting economic impact on the end markets we serve adversely impacted our financial results for the two quarters ended March 31, 2009, and we expect that such fluctuations may significantly affect our operating results in future periods. However, with no debt, substantial liquidity and anticipated positive cash flows from operations, we believe we are in a better position than many other companies of our size.

Revenues. Our revenues are derived primarily from sales of our Very Fast SRAM products. Sales to networking and telecommunications OEMs accounted for 65% to 80% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

As is typical in the semiconductor industry, the selling prices of our products generally decline over the life of the product. Our ability to increase net revenues, therefore, is dependent upon our ability to increase unit sales volumes of existing products and to introduce and sell new products with higher average selling prices in quantities sufficient to compensate for the anticipated declines in selling prices of our more mature products. Although we expect the average selling prices of individual products to decline over time, we believe that, over the next several quarters, our overall average selling prices will increase due to a continuing shift in product mix to a higher percentage of higher price, higher density products. Our ability to increase unit sales volumes is dependent primarily upon increases in customer demand but, particularly in periods of increasing demand, can also be affected by our ability to increase production through the availability of increased wafer fabrication capacity from TSMC, our wafer supplier, and our ability to increase the number of good integrated circuit die produced from each wafer through die size reductions and yield enhancement activities.

We may experience fluctuations in quarterly net revenues for a number of reasons. Historically, orders on hand at the beginning of each quarter are insufficient to meet our revenue objectives for that

Table of Contents

quarter and are generally cancelable up to 30 days prior to scheduled delivery. Accordingly, we depend on obtaining and shipping orders in the same quarter to achieve our revenue objectives. In addition, the timing of product releases, purchase orders and product availability could result in significant product shipments at the end of a quarter. Failure to ship these products by the end of the quarter may adversely affect our operating results. Furthermore, our customers may delay scheduled delivery dates and/or cancel orders within specified time frames without significant penalty.

We sell our products through our direct sales force, international and domestic sales representatives and distributors. Revenues from product sales, except for sales to distributors, are generally recognized upon shipment, net of sales returns and allowances. Sales to consignment warehouses, who purchase products from us for use by contract manufacturers, are recorded upon delivery to the contract manufacturer. Sales to distributors are recorded as deferred revenues for financial reporting purposes and recognized as revenues when the products are resold by the distributors to the OEM. Sales to distributors are made under agreements allowing for returns or credits under certain circumstances. We therefore defer recognition of revenue on sales to distributors until products are resold by the distributor.

Historically, a small number of OEM customers have accounted for a substantial portion of our net revenues, and we expect that significant customer concentration will continue for the foreseeable future. Many of our OEMs use contract manufacturers to manufacture their equipment. Accordingly, a significant percentage of our net revenues is derived from sales to these contract manufacturers and to consignment warehouses. In addition, a significant portion of our sales are made to foreign and domestic distributors who resell our products to OEMs, as well as their contract manufacturers. Direct sales to contract manufacturers and consignment warehouses accounted for 29.3%, 32.3% and 34.7% of our net revenues for fiscal 2009, 2008 and 2007, respectively. Sales to foreign and domestic distributors accounted for 61.1%, 63.1% and 59.0% of our net revenues for fiscal 2009, 2008 and 2007, respectively. The following direct customers accounted for 10% or more of our net revenues in one or more of the following periods:

	Fiscal Year Ended		
	March 31,		
	2009	2008	2007
Consignment warehouses:			
SMART Modular Technologies	25.7%	28.3%	29.7%
Distributors:			
Avnet Logistics	25.3	29.2	24.7
Nexcomm	10.6	7.2	8.7

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouse, SMART Modular Technologies, and also purchases some products through its contract manufacturers and directly from us. Historically, purchases by Cisco Systems have fluctuated from period to period. Based on information provided to us by Cisco Systems' consignment warehouse and contract manufacturers, purchases by Cisco Systems represented approximately 26%, 28% and 30% of our net revenues in fiscal 2009, 2008 and 2007, respectively. During the quarter ended March 31, 2007, Cisco Systems announced the implementation of a "lean manufacturing" program under which it reduced the levels of inventory carried by it and by its contract manufacturers. The transition to this new program resulted in reductions in purchases of our products by Cisco Systems' contract manufacturers during the quarter ended March 31, 2007, as they drew down existing inventories. This transition continued to impact our revenues in the quarter ended June 30, 2007. Purchases by Cisco Systems' consignment warehouses and contract manufacturers increased in the four quarters ended June 30, 2008 compared to the two immediately preceding quarters and then declined again in the three quarters ended March 31, 2009. We expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis and that such fluctuations may significantly

Table of Contents

affect our operating results in future periods. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in fiscal 2009, 2008 or 2007.

Cost of Revenues. Our cost of revenues consists primarily of wafer fabrication costs, wafer sort, assembly, test and burn-in expenses, the amortized cost of production mask sets, stock-based compensation and the cost of materials and overhead from operations. All of our wafer manufacturing and assembly operations, and a significant portion of our product testing operations, are outsourced. Accordingly, most of our cost of revenues consists of payments to TSMC and independent assembly and test houses. Because we do not have long-term, fixed-price supply contracts, our wafer fabrication and other outsourced manufacturing costs are subject to the cyclical fluctuations in demand for semiconductors. Cost of revenues also includes expenses related to supply chain management, quality assurance, and final product testing and documentation control activities conducted at our headquarters in Santa Clara, California and our branch operations in Taiwan.

Gross Profit. Our gross profit margins vary among our products and are generally greater on our higher density products and, within a particular density, greater on our higher speed and industrial temperature products. We expect that our overall gross margins will fluctuate from period to period as a result of shifts in product mix, changes in average selling prices and our ability to control our cost of revenues, including costs associated with outsourced wafer fabrication and product assembly and testing.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, the cost of developing prototypes, stock-based compensation and fees paid to consultants. We charge all research and development expenses to operations as incurred. We charge mask costs used in production to costs of revenues over a 12-month period. However, we charge costs related to pre-production mask sets, which are not used in production, to research and development expenses at the time they are incurred. These charges often arise as we transition to new process technologies and, accordingly, can cause research and development expenses to fluctuate on a quarterly basis. We believe that continued investment in research and development is critical to our long-term success, and we expect to continue to devote significant resources to product development activities. Accordingly, we expect that our research and development expenses will increase in future periods, although such expenses as a percentage of net revenues may fluctuate.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of commissions paid to independent sales representatives, salaries, stock-based compensation and related expenses for personnel engaged in sales, marketing, administrative, finance and human resources activities, professional fees, costs associated with the promotion of our products and other corporate expenses. We expect that our sales and marketing expenses will increase in absolute dollars in future periods as we continue to grow and expand our sales force but that, to the extent our revenues increase in future periods, these expenses will generally decline as a percentage of net revenues. We also expect that, in support of our continued growth and our operations as a public company, general and administrative expenses will continue to increase in absolute dollars for the foreseeable future but will fluctuate as a percentage of net revenues.

Table of Contents**Results of Operations**

The following table sets forth statement of operations data as a percentage of net revenues for the periods indicated:

	Fiscal Year Ended March 31,		
	2009	2008	2007
Net revenues	100.0%	100.0%	100.0%
Cost of revenues	57.2	59.9	62.0
Gross profit	42.8	40.1	38.0
Operating expenses:			
Research and development	9.2	8.2	8.5
Selling, general and administrative	15.0	17.8	10.7
Total operating expenses	24.2	26.0	19.2
Income from operations	18.6	14.1	18.8
Interest and other income (expense), net	2.2	3.4	1.3
Income before income taxes	20.8	17.5	20.1
Provision for income taxes	5.8	4.7	7.3
Net income	15.0%	12.8%	12.8%

Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008

Net Revenues. Net revenues increased by 16.8% from \$53.2 million in fiscal 2008 to \$62.1 in fiscal 2009. Direct and indirect sales to Cisco Systems, our largest customer, increased by \$0.9 million from \$15.1 million in fiscal 2008 to \$16.0 million in fiscal 2009. Strength in our North American business and Asian business accounted for the balance of the increase in net revenues. The improvement in net revenues was positively affected by the continued acceptance of our SigmaQuad product line which resulted in 221% increase in Sigma Quad shipments compared to fiscal 2008, accounting for 12.8% of total shipments in fiscal 2009.

Cost of Revenues. Cost of revenues increased by 11.6% from \$31.8 million in fiscal 2008 to \$35.6 million in fiscal 2009. This increase was due to the increase in net revenues. Cost of revenues included stock-based compensation expense of \$297,000 and \$294,000, respectively, in fiscal 2009 and fiscal 2008. Cost of revenues in fiscal 2008 also benefited from a one time payment of \$371,000 received from a third party for rights to second source our 36 megabit SigmaQuad products.

Gross Profit. Gross profit increased by 24.5% from \$21.3 million in fiscal 2008 to \$26.6 in fiscal 2009. Gross margin increased from 40.1% in fiscal 2008 to 42.8% in fiscal 2009. The increase in gross margin was primarily related to a shift in product mix to higher density, higher margin products.

Research and Development Expenses. Research and development expenses increased 31.4% from \$4.4 million in fiscal 2008 to \$5.7 million in fiscal 2009. This increase was primarily due to increases in payroll related expenses and outside design fees, both related to our low latency DRAM project. Research and development expenses included stock-based compensation expense of \$436,000 and \$469,000, respectively, in fiscal 2009 and fiscal 2008.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 1.8% from \$9.5 million in fiscal 2008 to \$9.3 million in fiscal 2009. This decrease was primarily related to a \$368,000 decrease in outside consulting expenses related to implementation and maintenance of our new enterprise resource planning ("ERP") system and Sarbanes-Oxley Act

Table of Contents

compliance, a \$318,000 decrease in legal expenses and a decrease in stock-based compensation, partially offset by increases of \$433,000 in payroll related expenses and \$121,000 in commissions for our independent sales representatives. Stock-based compensation expense of \$595,000 and \$698,000 were included in selling, general and administrative expenses in fiscal 2009 and fiscal 2008, respectively.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased 23.6% from \$1.8 million in fiscal 2008 to \$1.4 million in fiscal 2009. This decrease was primarily the result of a decrease in interest income due to lower interest rates earned on our invested cash balances.

Provision for Income Taxes. The provision for income taxes increased from \$2.5 million in fiscal 2008 to \$3.6 million in fiscal 2009. This increase was due to the increased pre-tax income in fiscal 2009 compared to fiscal 2008.

Net Income. Net income increased 37.1% from \$6.8 million in fiscal 2008 to \$9.3 million in fiscal 2009. This increase was primarily due to the increased net revenues and changes in operating expenses and gross profit discussed above.

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Net Revenues. Net revenues decreased by 8.6% from \$58.2 million in fiscal 2007 to \$53.2 million in fiscal 2008. This reduction in net revenues was principally due to overall weakness in the telecommunications segment of the network equipment market resulting in decreased orders from our distributors as they, and a number of our OEM customers who buy from them, adjusted their purchasing based on their own inventory levels. In addition, direct and indirect sales to Cisco Systems, our largest customer, were down approximately 13% in fiscal 2008 compared to fiscal 2007 due, in part, to the continued impact of the implementation of its lean manufacturing program, described above. During the first six months of fiscal 2008, Cisco Systems' contract manufacturers further curtailed their purchases of our products as they continued to work against their existing inventories. Although sales for Cisco Systems related business increased in the three quarters ending March 31, 2008 compared to the quarter ended June 30, 2007, they were still less than the levels achieved in each of the three quarters ended December 31, 2006.

Cost of Revenues. Cost of revenues decreased by 11.6% from \$36.0 million in fiscal 2007 to \$31.8 million in fiscal 2008. This decrease was due to the decrease in net revenues. Cost of revenues included stock-based compensation expense of \$294,000 and \$227,000, respectively, in fiscal 2008 and fiscal 2007. Cost of revenues in fiscal 2008 also reflected a one time payment of \$371,000 received from a third party for rights to second source our 36 megabit SigmaQuad products.

Gross Profit. Gross profit decreased by 3.6% from \$22.1 million in fiscal 2007 to \$21.3 million in fiscal 2008. Gross margin increased from 38.0% in fiscal 2007 to 40.1% in fiscal 2008. The increase in gross margin was primarily related to a shift in product mix to higher density, higher margin products.

Research and Development Expenses. Research and development expenses decreased 11.8% from \$5.0 million in fiscal 2007 to \$4.4 million in fiscal 2008. This decrease was primarily due to decreases in prototype expenses, depreciation expense and stock-based compensation expense. Research and development expenses included stock-based compensation expense of \$469,000 and \$515,000, respectively, in fiscal 2008 and fiscal 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 52.4% from \$6.2 million in fiscal 2007 to \$9.5 million in fiscal 2008. Major contributors to the increased selling, general and administrative expenses were increases in outside accounting fees, outside legal expenses, outside consultant fees, insurance expenses and stock-based compensation costs. Most of the increases in outside accounting fees, legal fees, insurance costs and consulting expenses during fiscal 2008 were related to our becoming a public company. Stock-based compensation expense of \$698,000

Table of Contents

and \$474,000 were included in selling, general and administrative expenses in fiscal 2008 and fiscal 2007, respectively.

Interest and Other Income (Expense), Net. Interest and other income (expense), net increased 145.1% from \$728,000 in fiscal 2007 to \$1,784,000 in fiscal 2008. This increase was primarily the result of an increase in interest income due to higher interest rates and higher average balances of invested cash resulting from the investment of the net proceeds from our initial public offering which closed on April 3, 2007.

Provision for Income Taxes. The provision for income taxes decreased from \$4.3 million in fiscal 2007 to \$2.5 million in fiscal 2008. This decrease was due to the decreased pre-tax income in fiscal 2008 compared to fiscal 2007 and increases in pre-tax income in low tax jurisdictions in fiscal 2008 compared to fiscal 2007.

Net Income. Net income decreased 8.9% from \$7.4 million in fiscal 2007 to \$6.8 million in fiscal 2008. This decrease was primarily due to the decreased net revenues and changes in operating expenses and gross profit discussed above.

Liquidity and Capital Resources

Since our inception, we have used proceeds from a number of sources, including the private sale of \$9.6 million of equity securities, bank borrowings and cash generated by operating activities to support our operations, acquire capital equipment and finance accounts receivable and inventory growth. Our liquidity was enhanced by the receipt of net proceeds of approximately \$30.0 million from the initial public offering of our common stock which closed on April 3, 2007.

As of March 31, 2009, our principal sources of liquidity were cash, cash equivalents and short-term investments of \$47.3 million compared to \$39.6 million as of March 31, 2008.

Net cash provided by operating activities was \$16.2 million for fiscal 2009 compared to \$18.8 million for fiscal 2008 and net cash used by operating activities of \$4.7 million for fiscal 2007. The primary uses of cash in fiscal 2009 were reductions of \$2.2 million in deferred revenue and \$1.3 million in accounts payable. These reductions were both in response to the current worldwide credit crisis as we and our distributors both reduced inventory levels. These uses of cash were primarily offset by decreases of \$3.8 million in inventory and \$1.8 million in accounts receivable. The reduction in accounts receivable reflects the lower level of net revenues in the fourth quarter of fiscal 2009 compared to the fourth quarter of fiscal 2008. The primary uses of cash in fiscal 2008 were an increase in receivables of \$1.1 million and a reduction in accounts payable of \$578,000. These uses of cash were offset primarily by a decrease in inventory of \$7.8 million as we reduced inventory purchases from TSMC and net income of \$6.8 million. The primary uses of cash in fiscal 2007 were increases of \$12.0 million for inventory and \$2.0 million for accounts receivable. Inventory levels increased in fiscal 2007 as we took advantage of favorable wafer pricing offered to us by TSMC. The increased level of accounts receivable reflects the higher level of net revenues in the fourth quarter of fiscal 2007 compared to the fourth quarter of fiscal 2006. These uses of cash were partially offset by net income of \$7.4 million.

Net cash used in investing activities was \$16.2 million in fiscal 2009, \$37.9 million in fiscal 2008 and \$2.0 million in fiscal 2007. Investing activity in fiscal 2009 consisted primarily of the purchase of short-term and long-term investments of \$49.7 million, primarily state and municipal obligations and corporate notes, and the purchase of test equipment and software in the amount of \$674,000. These uses were partially offset by the sale and current maturities of short-term investments of \$34.2 million. As of March 31, 2009 we had no investments in auction rate securities or other illiquid investments. Investing activity in fiscal 2008 consisted primarily of the purchase of short-term and long-term investments of \$75.8 million, primarily state and municipal obligations and auction rate securities, and

Table of Contents

the purchase of test equipment and software in the amount of \$3.3 million. These uses were partially offset by the sale and current maturities of short-term investments of \$40.2 million, including the majority of the auction rate securities that we previously purchased. As of March 31, 2008, the carrying value of our two investments in auction rate securities totaled \$2.8 million. These auction rate securities were called at par in April 2008 and December 2008, respectively, and we received the entire par value amount. Investing activities in fiscal 2007 consisted primarily of purchases of test equipment and expenditures related to the implementation of our new enterprise resource planning, or ERP, system.

Net cash used in financing activities in fiscal 2009 primarily consisted of the repurchase of our common stock for a total purchase price of \$4.1 million, partially offset by \$544,000 in net proceeds from the sale of common stock pursuant to our employee stock plans. Net cash provided by financing activities in fiscal 2008 included \$97,000 in net proceeds from the sale of common stock pursuant to option exercises and \$31.4 million in net proceeds from our initial public offering of common stock that occurred on April 3, 2007, offset by \$739,000 in costs related to our initial public offering. Net cash provided by financing activities in fiscal 2007 included net proceeds of \$124,000 from the sale of common stock pursuant to option exercises. Fiscal 2007 financing activities included the use of \$580,000 of cash for offering expenses paid in connection with our initial public offering.

At March 31, 2009 we had total minimum lease obligations of approximately \$749,000 from April 1, 2009 through August 31, 2010, under non-cancelable operating leases.

We believe that our existing balances of cash, cash equivalents and short-term investments, and cash flow expected to be generated from our future operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. Our future capital requirements will depend on many factors, including the rate of revenue growth that we experience, the extent to which we utilize subcontractors, the levels of inventory and accounts receivable that we maintain, the timing and extent of spending to support our product development efforts and the expansion of our sales and marketing efforts. Additional capital may also be required for the consummation of any acquisition of businesses, products or technologies that we may undertake. We cannot assure you that additional equity or debt financing, if required, will be available on terms that are acceptable or at all.

Contractual Obligations

The following table describes our contractual obligations as of March 31, 2009:

	Payments due by period				Total
	Up to 1 year	1-3 years	3-5 years	More than 5 years	
Facilities and equipment leases	\$ 607,000	\$ 142,000	\$	\$	\$ 749,000
Wafer purchase obligations	5,145,000				5,145,000
	\$5,752,000	\$ 142,000	\$	\$	\$ 5,894,000

As of March 31, 2009, the current portion of our unrecognized tax benefits was \$471,000, and the long-term portion was \$351,000. The unrecognized tax benefits balance as of March 31, 2009 of \$1,107,000 would affect our effective tax rate if recognized. As of March 31, 2009, \$365,000 of unrecognized tax benefits have been recorded as a reduction to net deferred tax assets.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at

Table of Contents

the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are inherent in the preparation of the consolidated financial statements and include estimates affecting revenue recognition, obsolete and excess inventory, the valuation allowance on deferred tax assets, the valuation of equity instruments and stock-based compensation. We believe that we consistently apply these judgments and estimates and that our financial statements and accompanying notes fairly represent all periods presented. However, any errors in these judgments and estimates may have a material impact on our balance sheet and statement of operations. Critical accounting estimates, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding revenue recognition, the valuation of inventories, taxes and stock-based compensation.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility of the resulting receivable is reasonably assured. Under these criteria, revenue from the sale of our products is generally recognized upon shipment according to our shipping terms, net of accruals for estimated sales returns and allowances based on historical experience. Sales to distributors are made under agreements allowing for returns or credits. We defer recognition of revenue on sales to distributors until products are resold by the distributor to the end-user. Distributors have stock rotation, price protection and ship from stock pricing adjustment rights, and we therefore defer recognition of revenue on sales to distributors until products are resold by the distributor. We are unable to reasonably estimate the inventory that could be returned pursuant to the stock rotation rights. In light of possible changes to sales prices resulting from price protection and price adjustment rights granted, we are unable to reasonably estimate possible changes and the resulting sales price to the distributor is not fixed or determinable until the final sale to the end user. Sales to consignment warehouses, who purchase products from us for use by contract manufacturers, are recorded upon delivery to the contract manufacturers.

The timing of recognizing revenues on product sales to distributors is dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us monthly data regarding the product, price, quantity, and end customer for their shipments as well as the quantities of our products they have in stock at month end. In determining the appropriate amount of revenue to recognize, we use this data in reconciling differences between our estimate of their inventory levels and their reported inventories and shipment activities. If distributors incorrectly report their inventories or shipment activities, it could lead to inaccurate reporting of our revenues and income. As of March 31, 2009 and 2008, reconciling differences were not significant after appropriately accounting for goods-in-transit.

Valuation of Inventories. Inventories are stated at the lower of cost or market value, cost being determined on a weighted average basis. Our inventory write-down allowance is established when conditions indicate that the selling price of our products could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. We consider the need to establish the allowance for excess inventory generally based on inventory levels in excess of 12 months of forecasted demand for each specific product. Inventory consists of finished goods at our premises or consignment warehouses, work in progress at our premises or our contract manufacturers and finished goods at distributors. Historically, it has been difficult to forecast customer demand especially at the part-number level. Many of the orders we receive from our customers and distributors request delivery of product on relatively short notice and with lead times less than our manufacturing cycle time. In order to provide competitive delivery times to our customers, we build and stock a certain amount of inventory in anticipation of customer demand that may not materialize. Moreover, as is common in the semiconductor industry, we may allow customers to cancel orders with minimal advance notice. Thus, even product built to satisfy specific customer orders may not ultimately be required to fulfill customer

Table of Contents

demand. Nevertheless, at any point in time, some portion of our inventory is subject to the risk of being materially in excess of our projected demand. Additionally, our average selling prices could decline due to market or other conditions, which creates a risk that costs of manufacturing our inventory may not be recovered. These factors contribute to the risk that we may be required to record additional inventory write-downs in the future, which could be material. In addition, if actual market conditions are more favorable than expected, inventory previously written down may be sold to customers resulting in lower cost of sales and higher income from operations than expected in that period.

Taxes. We account for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. We make certain estimates and judgments in the calculation of tax liabilities and the determination of deferred tax assets, which arise from temporary differences between tax and financial statement recognition methods. We record a valuation allowance to reduce our deferred tax assets to the amount that management estimates is more likely than not to be realized. If in the future we determine that we are not likely to realize all or part of our net deferred tax assets, an adjustment to deferred tax assets would be charged to earnings in the period such determination is made.

In addition, the calculation of tax liabilities involves inherent uncertainty in the application of complex tax laws. We record tax reserves for additional taxes that we estimate we may be required to pay as a result of future potential examinations by federal and state taxing authorities. If the payment ultimately proves to be unnecessary, the reversal of these tax reserves would result in tax benefits being recognized in the period we determine such reserves are no longer necessary. If an ultimate tax assessment exceeds our estimate of tax liabilities, an additional charge to provision for income taxes will result.

FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under the Interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values.

Stock Based Compensation. On April 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method. Under this method, our stock-based compensation costs recognized during the fiscal year ended March 31, 2007 were comprised of compensation costs for all share-based payment awards granted subsequent to April 1, 2006 and of compensation costs related to share-based payment awards that were unvested on April 1, 2006, based on their grant-date fair value estimated using the Black-Scholes option pricing model. Prior periods were not restated. As stock-based compensation expense recognized in the statement of operations for fiscal 2009, 2008, 2007 is based on options ultimately expected to vest, it has been reduced by the amount of estimated forfeitures.

We chose the straight-line method of allocating compensation cost over the requisite service period of the related award under SFAS 123(R). We calculated the expected term based on the historical average period of time that options were outstanding as adjusted for expected changes in future exercise patterns, which, for options granted in fiscal 2009 resulted in an expected term of approximately five years. For options granted in fiscal 2008 and fiscal 2007, our analysis resulted in an expected term of approximately four years. We based our estimate of expected volatility on the estimated volatility of similar entities whose share prices are publicly available. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected life of the options. The dividend yield is 0%, based on the fact that we have never paid

Table of Contents

dividends and have no present intention to pay dividends. Determining some of these assumptions requires significant judgment and changes to these assumptions could result in a significant change to the calculation of stock-based compensation in future periods.

The impact of adoption of SFAS 123(R) was to reduce income before income taxes by \$1,216,000, net income by \$1,165,000 and basic and diluted earnings per share by \$0.19 and \$0.05, respectively, for fiscal 2007. SFAS 123(R) requires cash flows, if any, resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Adoption of FAS No. 123(R) did not have an impact on operating and financing cash flows because we did not have any excess tax benefits in the period of adoption.

Prior to the adoption of SFAS No. 123(R), we recognized forfeitures of unvested stock options as they occurred. Upon adoption of SFAS No. 123(R), we began estimating future forfeitures and recognizing the effect of such forfeitures on the grant date of the awards. SFAS No. 123(R) requires a one-time cumulative adjustment at the adoption date to record an estimate of future forfeitures on the unvested outstanding awards. Based on our estimate of the impact of future forfeitures on the expense recognized for unvested options at the date of adoption, such one-time cumulative adjustment was determined to be immaterial.

We have no stock-based compensation arrangements with non-employees.

Given the absence of an active market for our common stock prior to our becoming a public company, our board of directors estimated the fair value of our common stock for purposes of determining stock-based compensation expense for the periods presented. Through September 2006, the board of directors determined the estimated fair value of our common stock, based in part on our historic net revenues and a market determined revenue multiplier as well as the following:

the prices for our convertible preferred stock sold to investors in arms-length transactions, and the rights, preferences and privileges of that redeemable convertible preferred stock relative to those of our common stock;

the launch of new products;

our financial position, historic operating results and revenue growth;

the fact that the option grants involved illiquid securities in a private company; and

the likelihood of achieving a liquidity event, such as an initial public offering or sale of the company, for the shares of common stock underlying the options given prevailing market conditions.

In October 2006, we obtained an independent valuation from a third party valuation consultant of our common stock as of September 30, 2006 which assisted in our determination of value for grants made from October 2006 to November 21, 2006. We continued to rely in part on this third party valuation for options granted in January 2007 in addition to the methods described above for grants prior the October 2006.

We believe that we have used reasonable methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants Practice Guide, Valuation of Privately-Held-Company Equity Securities Issued as Compensation, to determine the fair value of our common stock. If we had made different assumptions and estimates than those described above, the amount of our recognized and to be recognized stock-based compensation expense, net income (loss) and net income (loss) per share amounts could have been materially different.

Table of Contents

Off-Balance Sheet Arrangements

At March 31, 2009, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to the type of financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, to be effective for interim or annual financial periods ending after June 15, 2009. This statement does not materially change the existing guidance but introduces the concept of financial statements being *available to be issued*. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. We plan to adopt this standard in the first quarter of fiscal 2010.

In April 2009, the Financial Accounting Standards Board ("FASB") issued Staff Position ("FSP") No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amended previous guidance for determining whether impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We plan to adopt this FSP in the first quarter of fiscal 2010 and do not expect the adoption to have a material effect on our results of operations or financial position.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. We plan to adopt this FSP in the first quarter of fiscal 2010 and do not expect the adoption to have a material effect on our results of operations or financial position.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amended FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial

Table of Contents

statements. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We plan to adopt this FSP in the first quarter of fiscal 2010.

In March 2009, the FASB unanimously voted for the *FASB Accounting Standards Codification* (the "Codification") to be effective for interim and annual periods beginning on September 15, 2009. Other than resolving certain minor inconsistencies in current United States Generally Accepted Accounting Principles ("GAAP"), the Codification is not meant to change GAAP, but is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification is a new structure which organizes existing accounting pronouncements into approximately 90 accounting topics. Once approved, the Codification will be the single source of authoritative U.S. GAAP. All guidance included in the Codification will be considered authoritative at that time, even guidance that comes from what is currently deemed to be a non-authoritative section of a standard. Once the Codification becomes effective, all non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. We adopted this statement in the fourth quarter of fiscal 2009 and the adoption did not result in a change in any of our current accounting practices.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133* ("SFAS 161"), which expanded the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 specifically requires entities to provide enhanced disclosures addressing: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We adopted this pronouncement in the fourth quarter of fiscal 2009 and the adoption did not have any affect as we do not engage in any hedging activities.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R"). SFAS 141R replaces SFAS 141, *Business Combinations* ("SFAS 141"). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will apply prospectively to business combinations for which the acquisition date is on or after April 1, 2009, the beginning of our next fiscal year. While we have not yet evaluated this statement for the impact, if any, that SFAS 141R will have on our consolidated financial statements, we will be required to expense costs related to any acquisitions after March 31, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 amended Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership

Table of Contents

interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for our fiscal year beginning April 1, 2009. We do not expect the impact of its adoption to have any affect as we have no noncontrolling interests.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that were not previously required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have an effect on our financial position or results of operations as we did not elect this fair value option.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 established a framework for measuring fair value and expands disclosures about fair value measurements. The changes to previous practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13* ("FSP 157-1"). FSP 157-1 amended SFAS 157 to exclude from its scope SFAS No. 13 and other pronouncements that address fair value measurements for purposes of lease classification or measurement. The scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value (including assets and liabilities not related to leases). In February 2008, the FASB issued Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157, in situations where the market is not active. We considered the guidance provided by FSP 157-3 in our determination of estimated fair values as of December 31, 2008, and determined that the impact was not material. We adopted SFAS 157 effective April 1, 2008 for financial assets and liabilities measured on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our financial position or results of operations. See Note 6 to the consolidated financial statements for more information regarding the adoption of SFAS 157.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risk. Our revenues and expenses, except those expenses related to our operations in Taiwan, including subcontractor manufacturing expenses, are denominated in U.S. dollars. As a result, we have relatively little exposure for currency exchange risks, and foreign exchange losses have been minimal to date. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we feel our foreign currency exposure has increased, we may consider entering into hedging transactions to help mitigate that risk.

Interest Rate Sensitivity. We had cash, cash equivalents, short term investments and long-term investments totaling \$66.8 million at March 31, 2009. These amounts were invested primarily in money market funds, state and municipal obligations and corporate notes. The cash, cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. We believe a hypothetical 100 basis point increase in interest rates would not materially affect the fair value of our interest-sensitive financial instruments. Declines in interest rates, however, will reduce future investment income.

Table of Contents

Item 8. Financial Statements and Supplementary Data

GSI TECHNOLOGY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>49</u>
<u>Consolidated Balance Sheets As of March 31, 2009 and 2008</u>	<u>50</u>
<u>Consolidated Statements of Operations For the Three Years Ended March 31, 2009, 2008 and 2007</u>	<u>51</u>
<u>Consolidated Statements of Stockholders' Equity For the Three Years Ended March 31, 2009, 2008 and 2007</u>	<u>52</u>
<u>Consolidated Statements of Cash Flows For the Three Years Ended March 31, 2009, 2008 and 2007</u>	<u>53</u>
<u>Notes to Consolidated Financial Statements</u>	<u>54</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders
of GSI Technology, Inc.:**

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of GSI Technology, Inc. and its subsidiaries at March 31, 2009 and March 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
June 10, 2009

Table of Contents

GSI TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS

	March 31,	
	2009	2008
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 12,597	\$ 15,899
Short-term investments	34,740	23,666
Accounts receivable, net	5,622	7,476
Inventories	10,995	15,704
Prepaid expenses and other current assets	2,442	1,807
Deferred income taxes	975	1,327
Total current assets	67,371	65,879
Property and equipment, net	5,126	5,840
Long-term investments	19,428	15,605
Other assets	748	991
Total assets	\$92,673	\$88,315
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 2,908	\$ 4,282
Accrued expenses and other liabilities	1,973	1,584
Deferred revenue	2,736	4,943
Total current liabilities	7,617	10,809
Income taxes payable	351	366
Total liabilities	7,968	11,175
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: \$0.001 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: none		
Common stock: \$0.001 par value		
Authorized: 150,000,000 shares		
Issued and outstanding: 26,719,537 and 27,755,490 shares, respectively	27	28
Additional paid-in capital	46,202	48,139
Accumulated other comprehensive income	230	16
Retained earnings	38,246	28,957
Total stockholders' equity	84,705	77,140
Total liabilities and stockholders' equity	\$92,673	\$88,315

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

Table of Contents**GSI TECHNOLOGY, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended March 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Net revenues	\$ 62,108	\$ 53,170	\$ 58,159
Cost of revenues	35,552	31,847	36,042
Gross profit	26,556	21,323	22,117
Operating expenses:			
Research and development	5,737	4,365	4,951
Selling, general and administrative	9,295	9,464	6,209
Total operating expenses	15,032	13,829	11,160
Income from operations	11,524	7,494	10,957
Interest income, net	1,461	1,703	769
Other income (expense), net	(98)	81	(41)
Income before income taxes	12,887	9,278	11,685
Provision for income taxes	3,598	2,505	4,251
Net income	\$ 9,289	\$ 6,773	\$ 7,434
Basic and diluted net income per share available to common stockholders:			
Basic	\$ 0.33	\$ 0.25	\$ 1.04
Diluted	\$ 0.33	\$ 0.24	\$ 0.32
Weighted average shares used in per share calculations:			
Basic	27,735	27,537	6,253
Diluted	28,386	28,624	22,837

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

Table of Contents

GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Deferred	Accumulated	Retained	Total
	Shares	Amount	Paid-in	Stock-Based	Other	Earnings	Stockholders'
			Capital	Compensation	Comprehensive		Equity
	(In thousands, except share amounts)						
Balance, March 31, 2006	6,164,286	\$ 6	\$ 6,368	\$ (166)	\$	\$ 14,750	\$ 20,958
Issuance of common stock under employee stock option plans	179,125		124				124
Reversal of deferred stock-based compensation upon adoption of SFAS 123(R)			(166)	166			
Stock-based compensation expense			1,216				1,216
Net income and comprehensive income						7,434	7,434
Balance, March 31, 2007	6,343,411	6	7,542			22,184	29,732
Conversion of preferred stock to common stock upon effective date of initial public offering	15,120,168	15	8,992				9,007
Issuance of common stock upon effective date of initial public offering, net of issuance costs	6,131,111	6	30,035				30,041
Issuance of common stock under employee stock option plans	160,800	1	96				97
Stock-based compensation expense			1,461				1,461
Windfall tax benefit from stock options exercised			13				13
Comprehensive income:							
Net income						6,773	6,773
Net unrealized gain on available-for-sale investments						16	16
Total comprehensive income							6,789
Balance, March 31, 2008	27,755,490	28	48,139		16	28,957	77,140
Issuance of common stock under employee stock option plans	424,226		544				544
Repurchase of common stock	(1,460,179)	(1)	(4,089)				(4,090)
Stock-based compensation expense			1,328				1,328
Windfall tax benefit from stock options exercised			280				280

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Comprehensive income:	
Net income	9,289
Net unrealized gain on available-for-sale investments	214
Total comprehensive income	9,503
Balance, March 31, 2009	26,719,537
	\$ 27
	\$ 46,202
	\$ 230
	\$ 38,246
	\$ 84,705

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

GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 9,289	\$ 6,773	\$ 7,434
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Allowance for sales returns and doubtful accounts	7	8	(105)
Provision for excess and obsolete inventories	942	713	388
Depreciation and amortization	1,362	1,187	836
Stock-based compensation	1,328	1,461	1,216
Deferred income taxes	591	(211)	40
Windfall tax benefits from stock options exercised	(280)	(13)	
Amortization of bond premium on investments	876	340	
Changes in assets and liabilities:			
Accounts receivable	1,847	(1,087)	(1,997)
Inventory	3,767	7,792	(11,997)
Prepaid expenses and other assets	(631)	789	(806)
Accounts payable	(1,322)	(578)	(512)
Accrued expenses and other liabilities	628	413	162
Deferred revenue	(2,207)	1,239	600
Net cash provided by (used in) operating activities	16,197	18,826	(4,741)
Cash flows from investing activities:			
Decrease in restricted cash		1,000	
Purchase of investments	(49,713)	(75,822)	(9,500)
Sales and maturities of short-term investments	34,154	40,227	9,500
Purchases of property and equipment	(674)	(3,339)	(2,033)
Net cash used in investing activities	(16,233)	(37,934)	(2,033)
Cash flows from financing activities:			
Initial public offering costs paid during the year		(739)	(580)
Proceeds from initial public offering, net of underwriting discount		31,361	
Repurchase of common stock	(4,090)		
Windfall tax benefits from stock options exercised	280	13	
Proceeds from issuance of common stock under employee stock plans	544	97	124
Net cash provided by (used in) financing activities	(3,266)	30,732	(456)
Net increase (decrease) in cash and cash equivalents	(3,302)	11,624	(7,230)
Cash and cash equivalents at beginning of the year	15,899	4,275	11,505
Cash and cash equivalents at end of the year	\$ 12,597	\$ 15,899	\$ 4,275
Non-cash financing activities:			
Purchases of property and equipment through accounts payable and accruals	\$ 259	\$ 285	\$ 1,342
Conversion of preferred stock to common stock	\$	\$ 9,007	\$

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Supplemental cash flow information:

Cash paid for income taxes	\$ 2,732	\$ 2,777	\$ 4,096
Cash paid for interest	\$	\$	\$ 8

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

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

GSI Technology, Inc. (the "Company") was incorporated in California in March 1995 and reincorporated in Delaware on June 9, 2004. The Company is a provider of "Very Fast" SRAM products that are incorporated primarily in high-performance networking and telecommunications equipment, such as routers, switches, wide area network infrastructure equipment, wireless base stations and network access equipment. In addition, the Company serves the ongoing needs of the military, industrial, test equipment and medical markets for high-performance SRAMs.

Accounting principles

The consolidated financial statements and accompanying notes were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis of consolidation

The consolidated financial statements include the accounts of the Company's two wholly-owned subsidiaries, GSI Technology Holdings, Inc. and GSI Technology (BVI), Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are inherent in the preparation of the consolidated financial statements and include revenue recognition, obsolete and excess inventory, the valuation allowance on deferred tax assets, the valuation of equity instruments and stock-based compensation. Actual results could differ from those estimates.

Risk and uncertainties

The Company buys all of its wafers, an integral component of its products, from a single supplier and is also dependent on independent suppliers to assemble and test its products. During the years ended March 31, 2009, 2008 and 2007, all of the Company's wafers were supplied by Taiwan Semiconductor Manufacturing Company Limited, or TSMC. If this supplier fails to satisfy the Company's requirements on a timely basis at competitive prices, the Company could suffer manufacturing delays, a possible loss of revenues, or higher cost of revenues, any of which could adversely affect operating results.

A majority of the Company's net revenues come from sales to customers in the networking and telecommunications equipment industry. A decline in demand in this industry could have a material adverse affect on the Company's operating results and financial condition.

Because much of the manufacturing and testing of the Company's products is conducted in Taiwan, its business performance may be affected by changes in Taiwan's political, social and economic environment. For example, any political instability resulting from the relationship among the United States, Taiwan and the People's Republic of China could damage the Company's business. Moreover, the role of the Taiwanese government in the Taiwanese economy is significant. Taiwanese policies

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

toward economic liberalization, and laws and policies affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change, resulting in greater restrictions on the Company's and its suppliers' ability to do business and operate facilities in Taiwan. If any of these risks were to occur, the Company's business could be harmed.

Some of the Company's suppliers and the Company's two principal operations are located near fault lines. In the event of a major earthquake or other natural disaster near the facilities of any of these suppliers or the Company, the Company's business could be harmed.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility of the resulting receivable is reasonably assured. Under these criteria, revenue from the sale of products is generally recognized upon shipment according to the Company's shipping terms, net of accruals for estimated sales returns and allowances based on historical experience. Sales to distributors are made under agreements allowing for returns or credits. Distributors have stock rotation, price protection and ship from stock pricing adjustment rights and the Company therefore defers recognition of revenue on sales to distributors until products are resold by the distributor. The Company is unable to reasonably estimate the inventory that could be returned pursuant to the stock rotation rights. In light of possible changes to sales prices resulting from price protection and price adjustment rights granted, we are unable to reasonably estimate possible changes and the resulting sales price to the distributor is not fixed or determinable until the final sale to the end user. For sales to consignment warehouses, who purchase products from the Company for use by contract manufacturers, revenues are recognized upon delivery to the contract manufacturer.

Cash and cash equivalents

Cash and cash equivalents include cash in demand accounts and highly liquid investments purchased with an original or remaining maturity of three months or less at the date of purchase, stated at cost, which approximates their fair market value.

Short-term and long-term investments

All of the Company's short-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of "Accumulated other comprehensive income" in the Consolidated Balance Sheets. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

Restricted cash

At March 31, 2007, restricted cash consisted of certificates of deposit totaling \$1,000,000 held with a financial institution as collateral for the Company's line of credit. During the year ended March 31, 2008, the line of credit was terminated and this cash is no longer restricted.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Concentration of credit risk*

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents, short-term and long-term investments and accounts receivable. The Company places its cash primarily in checking, certificate of deposit, and money market accounts with reputable financial institutions. The Company's accounts receivable are derived primarily from revenue earned from customers located in the U.S. and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. There were no write offs in the years ended March 31, 2009, 2008 or 2007.

In fiscal 2009, 2008 and 2007, sales to the Company's top 10 customers accounted for approximately 94%, 89% and 88% of net revenues, respectively. At March 31, 2009, five customers accounted for 27%, 16%, 14%, 10% and 10% of accounts receivable, and for the year then ended, three customers accounted for 26%, 25% and 11% of net revenues. At March 31, 2008, five customers accounted for 17%, 15%, 13%, 12% and 12% of accounts receivable, and for the year then ended, two customers accounted for 29% and 28% of net revenues. At March 31, 2007, five customers accounted for 25%, 16%, 14%, 11% and 11% of accounts receivable, and for the year then ended, two customers accounted for 30% and 25% of net revenues.

Inventories

Inventories are stated at the lower of cost or market value, cost being determined on a weighted average basis. Inventory write-down allowances are established when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. These allowances, once recorded, result in a new cost basis for the related inventory. These allowances are also considered for excess inventory generally based on inventory levels in excess of 12 months of forecasted demand, as estimated by management, for each specific product. The allowance is not reversed until the inventory is sold or disposed of.

Property and equipment, net

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as presented below:

Software	3 to 5 years
Computer and other and equipment	5 years
Furniture and fixtures	7 years

Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the remaining lease term of the respective assets. Gains or losses on disposals of property and equipment are recorded within income from operations. Costs of repairs and maintenance are typically included as part of operating expenses unless they are incurred in relation to major improvements to existing property and equipment, at which time they are capitalized.

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. If the sum of the expected future cash flows (undiscounted and before interest) from the use of the assets is less than the net book value of the asset an impairment exists and the amount of the impairment loss, if any, will generally be measured as the difference between net book value of the assets and their estimated fair values. There were no impairment losses recognized during the years ended March 31, 2009, 2008 or 2007.

Research and development

Research and development expenses are related to new product designs, including, salaries, stock-based compensation, contractor fees, and allocation of corporate costs and are charged to the statement of operations as incurred.

Income taxes

The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when it is more likely than not that the deferred tax asset will not be realized.

FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under the Interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation process, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company adopted this standard in the first quarter of fiscal 2008 and the impact of the adoption of FIN 48 is disclosed in Note 5.

Shipping and handling costs

The Company records costs related to shipping and handling in cost of revenues.

Advertising expense

Advertising costs are charged to expense in the period incurred. Advertising expense was \$7,000, \$11,000 and \$8,000 for the years ended March 31, 2009, 2008, and 2007, respectively.

Foreign currency transactions

The U.S. dollar is the functional currency for all of the Company's foreign operations. Foreign currency transaction gains and losses, resulting from transactions denominated in currencies other than

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

U.S. dollars are included in the statements of operations. These gains and losses have not been material for the years ended March 31, 2009, 2008 and 2007.

Segments

The Company operates in one segment for the design, development and sale of integrated circuits.

Accounting for stock-based compensation

On April 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), using the modified prospective transition method. Under this method, the Company's stock-based compensation costs recognized during the fiscal years ended March 31, 2009, 2008 and 2007 were comprised of compensation costs for all share-based payment awards granted subsequent to April 1, 2006 and of compensation costs related to share-based payment awards that were unvested on April 1, 2006, based on their grant-date fair value estimated using the Black-Scholes option pricing model. Prior periods were not restated. As stock-based compensation expense recognized in the statement of operations for fiscal 2009, 2008 and 2007 is based on options ultimately expected to vest, it has been reduced by the amount of estimated forfeitures.

The Company chose the straight-line method of allocating compensation cost over the requisite service period of the related award under SFAS 123(R). The Company calculated the expected term based on the historical average period of time that options were outstanding as adjusted for expected changes in future exercise patterns, which, for options granted in fiscal 2009 resulted in an expected term of approximately five years. For options granted in fiscal 2008 and 2007, the Company's analysis resulted in an expected term of approximately four years. The Company based its estimate of expected volatility on the estimated volatility of similar entities whose share prices are publicly available. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected life of the options. The dividend yield is 0%, based on the fact that the Company has never paid dividends and has no present intention to pay dividends. Changes to these assumptions may have a significant impact on the results of operations.

In November 2005, the FASB issued Staff Position No. FAS 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards* ("FSP 123R-3"). The Company has elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation under SFAS 123(R). 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 stock-based compensation, and for determining the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

The impact of adoption of SFAS 123(R) was to reduce income before income taxes by \$1,216,000, net income by \$1,165,000 and basic and diluted earnings per share by \$0.19 and \$0.05, respectively, for fiscal 2007. SFAS 123(R) requires cash flows, if any, resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Adoption of FAS No. 123(R) did not have an impact on operating and financing cash flows because the Company did not have any excess tax benefits in the period of adoption.

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to the adoption of SFAS No. 123(R), the Company recognized forfeitures of unvested stock options as they occurred. Upon adoption of SFAS No. 123(R), the Company began estimating future forfeitures and recognizing the effect of such forfeitures on the grant date of the awards. SFAS No. 123(R) requires a one-time cumulative adjustment at the adoption date to record an estimate of future forfeitures on the unvested outstanding awards. Based on the Company's estimate of the impact of future forfeitures on the expense recognized for unvested options at the date of adoption, such one-time cumulative adjustment was determined to be immaterial.

Comprehensive income

Comprehensive income is defined to include all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the years ended March 31, 2009 and 2008, comprehensive income was \$9,503,000 and \$6,789,000, respectively. For the years ended March 31, 2007, net income equaled comprehensive income as there were no other components of comprehensive income.

Recent accounting pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, to be effective for interim or annual financial periods ending after June 15, 2009. This statement does not materially change the existing guidance but introduces the concept of financial statements being *available to be issued*. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company plans to adopt this standard in the first quarter of fiscal 2010.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amended previous existing guidance for determining whether impairment is other-than-temporary for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP in the first quarter of fiscal 2010 and does not expect the adoption to have a material effect on its results of operations or financial position.

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP in the first quarter of fiscal 2010 and does not expect the adoption to have a material effect on its results of operations or financial position.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amended FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company plans to adopt this FSP in the first quarter of fiscal 2010.

In March 2009, the FASB unanimously voted for the *FASB Accounting Standards Codification* (the "Codification") to be effective for interim and annual periods beginning on September 15, 2009. Other than resolving certain minor inconsistencies in current United States Generally Accepted Accounting Principles ("GAAP"), the Codification is not meant to change GAAP, but is intended to make it easier to find and research GAAP applicable to particular transactions or specific accounting issues. The Codification is a new structure which organizes existing accounting pronouncements into approximately 90 accounting topics. Once approved, the Codification will be the single source of authoritative U.S. GAAP. All guidance included in the Codification will be considered authoritative at that time, even guidance that comes from what is currently deemed to be a non-authoritative section of a standard. Once the Codification becomes effective, all non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The Company adopted this statement in the fourth quarter of fiscal 2009 and the adoption did not result in a change in any of our current accounting practices.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133* ("SFAS 161"), which expands the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 specifically requires entities to provide enhanced disclosures addressing: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this statement in the fourth quarter of fiscal 2009 and the adoption did not have any affect as the Company does not engage in any hedging activities.

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2007, the FASB issued SFAS 141(R), *Business Combinations* ("SFAS 141R"). SFAS 141R replaces SFAS 141, *Business Combinations* ("SFAS 141"). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will apply prospectively to business combinations for which the acquisition date is on or after April 1, 2009, the beginning of the Company's next fiscal year. While the Company has not yet evaluated this statement for the impact, if any, that SFAS 141R will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after March 31, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 amended Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for the Company's fiscal year beginning April 1, 2009. The Company does not expect the impact of its adoption to have any affect as it has no noncontrolling interests.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that were not previously required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have an effect on the Company's financial position or results of operations as the Company did not elect this fair value option.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS No. 157 established a framework for measuring fair value and expands disclosures about fair value measurements. The changes to previous practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13* ("FSP 157-1"). FSP 157-1 amended SFAS 157 to exclude from its scope SFAS No. 13 and other pronouncements that address fair value measurements for purposes of lease classification or measurement. The scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value (including assets and liabilities not related to leases). In February 2008, the FASB issued Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ("FSP 157-3"). FSP 157-3

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

clarifies the application of SFAS 157, 2008, in situations where the market is not active. The Company considered the guidance provided by FSP 157-3 in its determination of estimated fair values as of December 31, 2008, and determined that the impact was not material. The Company adopted the provisions of SFAS 157 effective April 1, 2008 for financial assets and liabilities measured on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company's financial position or results of operations. See Note 6 for further information regarding adoption of SFAS 157.

NOTE 2 NET INCOME PER COMMON SHARE

The Company applies the provisions of EITF Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement 128* ("EITF No. 03-6"), which established standards regarding the computation of earnings per share by companies with participating securities or multiple classes of common stock. The Company's Series A through E redeemable convertible preferred stock were participating securities due to their participation rights related to cash dividends declared by the Company.

Basic net income available to common stockholders per share is computed by dividing the net income available to common stockholders by the weighted-average common shares outstanding for the year. The net income available to common stockholders is calculated by deducting dividends allocable to the Company's redeemable convertible preferred stock from net income to determine the net income available to common stockholders.

Diluted net income available to common stockholders per share is computed giving effect to all potentially dilutive common stock, including options and common stock subject to repurchase using the treasury stock method, and all convertible securities using the if-converted method to the extent it is dilutive.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 NET INCOME PER COMMON SHARE (Continued)**

The following table sets forth the computation of basic and diluted net income attributable to common stockholders per share:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands, except per share amounts)		
Numerators:			
Net income	\$ 9,289	\$ 6,773	\$ 7,434
Net income allocated to participating redeemable convertible preferred stockholders		(5)	(901)
Net income available to common stockholders Basic	9,289	6,768	6,533
Net income allocated to participating redeemable convertible preferred stockholders		5	855
Net income available to common stockholders Diluted	\$ 9,289	\$ 6,773	\$ 7,388
Denominators:			
Weighted average shares Basic	27,735	27,537	6,253
Dilutive effect of employee stock options	650	1,004	1,584
Dilutive effect of employee stock purchase plan options	1	1	
Dilutive effect of redeemable convertible preferred shares		82	15,000
Weighted average shares Dilutive	28,386	28,624	22,837
Net income per common share Basic	\$ 0.33	\$ 0.25	\$ 1.04
Net income per common share Diluted	\$ 0.33	\$ 0.24	\$ 0.32

The following outstanding redeemable convertible preferred stock and common stock options were excluded from the computation of diluted net income per share as they had an antidilutive effect:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
Redeemable convertible preferred stock		1	120
Stock options	3,062	2,554	610
	3,062	2,555	730

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 BALANCE SHEET DETAIL**

	March 31,	
	2009	2008
	(In thousands)	
Inventories:		
Work-in-progress	\$ 3,112	\$ 5,521
Finished goods	6,882	8,549
Inventory at distributors	1,001	1,634
	\$ 10,995	\$ 15,704

	March 31,	
	2009	2008
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	\$5,745	\$7,592
Less: Allowances for sales returns, doubtful accounts and other	(123)	(116)
	\$5,622	\$7,476

	March 31,	
	2009	2008
	(In thousands)	
Prepaid expenses and other current assets:		
Prepaid tooling and masks	\$1,107	\$ 516
Other receivables	796	904
Other prepaid expenses	539	387
	\$2,442	\$ 1,807

	March 31,	
	2009	2008
	(In thousands)	
Property and equipment, net:		
Computer and other equipment	\$ 9,383	\$ 9,240
Software	3,536	3,288
Furniture and fixtures	235	234
Leasehold improvements	729	474
	13,883	13,236
Less: Accumulated depreciation and amortization	(8,757)	(7,396)

\$ 5,126 \$ 5,840

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 3 BALANCE SHEET DETAIL (Continued)**

Depreciation and amortization expense was \$1,362,000, \$1,187,000 and \$836,000 for the years ended March 31, 2009, 2008 and 2007, respectively.

	March 31,	
	2009	2008
	(In thousands)	
Other Assets:		
Non-current deferred income taxes	\$ 630	\$ 869
Deposits	118	122
	\$ 748	\$ 991

	March 31,	
	2009	2008
	(In thousands)	
Accrued expenses and other liabilities:		
Accrued compensation	\$ 784	\$ 567
Accrued professional fees	149	125
Accrued commissions	340	390
Accrued royalties	17	48
Accrued income taxes	131	2
Accrued equipment and software costs	135	109
Other accrued expenses	417	343
	\$ 1,973	\$ 1,584

NOTE 4 RELATED PARTY TRANSACTIONS

HolyStone Enterprises Co. Ltd., its subsidiaries, and its Chief Executive Officer, together held approximately 11% of the outstanding shares of the Company's common stock at March 31, 2007. Holystone's Chief Executive Officer was a director of the Company through August 28, 2007. HolyStone is no longer a related party after August 28, 2007. The Company made sales of \$2,782,000 to HolyStone Enterprises Co. Ltd. during the year ended March 31, 2007. Sales to HolyStone in fiscal 2008 from April 1, 2007 to August 28, 2007 were \$347,000.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 INCOME TAXES**

Income before income taxes and the income tax expense (benefit) consists of the following:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
Income before income taxes:			
U.S.	\$ 8,209	\$ 7,597	\$ 10,593
Foreign	4,678	1,681	1,092
	\$ 12,887	\$ 9,278	\$ 11,685
Current:			
U.S. federal	\$ 2,416	\$ 2,702	\$ 4,107
Foreign	35	36	66
State	554	(21)	38
	3,005	2,717	4,211
Deferred:			
U.S. federal	273	(430)	(132)
State	320	218	172
	593	(212)	40
	\$ 3,598	\$ 2,505	\$ 4,251

The income tax expense (benefit) differs from the amount of income tax determined by applying the applicable U.S. statutory income tax rate to pre-tax income as follows:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
U.S. Federal taxes at statutory rate	\$ 4,382	\$ 3,200	\$ 3,974
State taxes, net of federal benefit	684	198	197
Stock-based compensation	301	367	367
Tax credits	(12)	(16)	(123)
Foreign tax rate differential	(1,429)	(592)	(217)
Tax exempt interest	(322)	(541)	(6)
Other	(6)	(111)	59
	\$ 3,598	\$ 2,505	\$ 4,251

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INCOME TAXES (Continued)

Deferred tax assets consist of the following:

	March 31,	
	2009	2008
	(In thousands)	
Deferred tax assets:		
Deferred revenue	\$ 365	\$ 1,009
Tax credits		259
Property and equipment	275	418
Stock-based compensation	354	192
Other reserves and accruals	611	319
	\$ 1,605	\$ 2,197

The Company has no federal and state research tax credit carryforwards for income tax purposes as of March 31, 2009.

U.S. income taxes and withholding taxes have not been provided on a cumulative total of \$7.8 million of undistributed earnings for certain non-U.S. subsidiaries. The Company currently intends to reinvest these earnings in operations outside the U.S. No provision has been made for taxes that might be payable upon remittance of such earnings, nor is it practicable to determine the amount of such potential liability.

Effective April 1, 2007, the Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 utilizes a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*.

The adoption of FIN 48 did not have a material effect on the Company's consolidated results of operations or financial position. The total amount of gross unrecognized tax benefits as of the date of adoption was \$303,000 of which \$276,000, if recognized, would affect the Company's effective tax rate. The Company historically classified unrecognized tax benefits in current taxes payable. As a result of adoption of FIN 48, \$273,000 of unrecognized tax benefits were classified to long-term income taxes payable. Interest and penalties related to uncertain tax positions accrued as of the date of adoption of FIN 48 were approximately \$45,000.

There is no current portion of the Company's unrecognized tax benefits at March 31, 2008. The current portion of the Company's unrecognized tax benefits at March 31, 2009 was \$471,000. The long-term portion at March 31, 2009 and 2008 was \$351,000 and \$327,000, respectively, of which the timing of the resolution is uncertain. As of March 31, 2009, \$365,000 of unrecognized tax benefits has been recorded as a reduction to net deferred tax assets. It is possible, however, that some months or

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 INCOME TAXES (Continued)**

years may elapse before an uncertain position for which the Company has established a reserve is resolved. A reconciliation of unrecognized tax benefits is as follows:

	(In thousands)
Unrecognized tax benefits as of April 1, 2008	\$ 327
Additions based on tax positions related to current year	118
Additions based on tax positions related to prior years	682
Lapses during the current year applicable to statute of limitations	(20)
Unrecognized tax benefits, as of March 31, 2009	\$ 1,107

The unrecognized tax benefit balance as of March 31, 2009 of \$1,107,000 would affect the Company's effective tax rate if recognized.

Management believes that there are no events that are expected to occur during the next twelve months that would cause a material change in unrecognized tax benefits.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for income taxes in the Consolidated Statements of Operations. This policy did not change as a result of the implementation of FIN 48.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. Fiscal years 2004 through 2009 remain open to examination by the federal and most state tax authorities.

NOTE 6 FINANCIAL INSTRUMENTS*Fair value measurements*

The Company adopted SFAS 157 effective April 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS 157 applies to all financial assets and financial liabilities that are being measured on a recurring basis. SFAS 157 established a framework for measuring fair value and expands related disclosures. The statement requires fair value measurement to be classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. As of March 31, 2009, the Level 1 category included money market funds of \$4.6 million, which were included in cash and cash equivalents in the Consolidated Balance Sheet.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers. As of March 31, 2009, the Level 2 category included short-term investments of \$34.7 million and long term-investments of \$19.4 million, which were comprised of corporate debt securities and government and agency securities.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 FINANCIAL INSTRUMENTS (Continued)**

Level 3: Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing. As of March 31, 2009, the Company had no Level 3 financial assets measured at fair value in the Consolidated Balance Sheets.

Short-term and long-term investments

All of the Company's short-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

The following table summarizes the Company's available-for-sale investments:

	Cost	March 31, 2009		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Short-term investments				
State and municipal obligations	\$ 25,545	\$ 178	\$	\$ 25,723
Corporate notes	9,021		(4)	9,017
Total short-term investments	\$ 34,566	\$ 178	\$ (4)	\$ 34,740
Long-term investments				
State and municipal obligations	\$ 5,802	\$ 55	\$	\$ 5,857
Corporate notes	13,573		(2)	13,571
Total long-term investments	\$ 19,375	\$ 55	\$ (2)	\$ 19,428

	Cost	March 31, 2008		Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Short-term investments				
Auction rate securities	\$ 1,000	\$	\$	\$ 1,000
State and municipal obligations	21,578	88		21,666
Certificates of deposit	1,000			1,000
Total short-term investments	\$ 23,578	\$ 88	\$	\$ 23,666
Long-term investments				
Auction rate securities	\$ 1,950	\$	\$ (112)	\$ 1,838
State and municipal obligations	13,727	40		13,767

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Total long-term investments	\$15,677	\$	40	\$	(112)	\$15,605
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Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 6 FINANCIAL INSTRUMENTS (Continued)**

At March 31, 2007, restricted cash consisted of certificates of deposit totaling \$1,000,000 held with a financial institution as collateral for the Company's line of credit. On May 9, 2007, the line of credit expired and was not renewed and this cash is no longer restricted.

As of March 31, 2009, the Company held no auction rate securities. As of March 31, 2008, the carrying value of the Company's two investments in auction rate securities totaled \$2.8 million. These auction rate securities were called at par in April 2008 and December 2008, respectively, and the Company received the entire par value amount. The \$1.0 million security classified as a short-term investment as of March 31, 2008 was called at par in April 2008 and the Company received the entire par value amount. The remaining auction rate security was classified as a long-term investment as of March 31, 2008 due to lack of liquidity and as it was not expected to be sold or redeemed within the next twelve months. As of March 31, 2008, the Company performed a discounted cash flow analysis based on variables that reflect the risks and nature of this security, including a sensitivity analysis on the expected time to redemption given current market conditions, and determined that a temporary impairment in value of \$112,000 existed as of March 31, 2008 that was recorded in accumulated other comprehensive income. The Company determined that no other-than-temporary impairment losses related to auction rate securities existed as of March 31, 2008.

As of March 31, 2009, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	\$ 34,566	\$ 34,740
Maturing in one to three years	19,375	19,428
Maturing in more than three years		
	\$ 53,941	\$ 54,168

NOTE 7 COMMITMENTS AND CONTINGENCIES*Operating leases*

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through August 2010. Rent expense for the years ended March 31, 2009, 2008 and 2007 was \$616,000, \$561,000 and \$525,000, respectively. The terms of the facility lease provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)**

Future minimum lease payments under noncancelable operating leases with remaining lease terms in excess of one year at March 31, 2009 are as follows:

Year Ending March 31,	Operating Leases (In thousands)
2010	\$ 607
2011	142
2012	
2013	
Thereafter	
Total	\$ 749

Royalty obligation

The Company has license agreements that require it to pay royalties on the sale of products using the licensed technology. Royalty expense for the years ended March 31, 2009, 2008 and 2007 was \$88,000, \$93,000 and \$121,000, respectively, and was included within cost of revenues.

Indemnification obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the Company, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to such matters as title to assets sold and certain intellectual property rights. In each of these circumstances, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements did not have a material effect on its business, financial condition, cash flows or results of operations. The Company believes that if it were to incur a loss in any of these matters, such loss should not have a material effect on its business, financial condition, cash flows or results of operations.

Product warranties

The Company warrants its products to be free of defects generally for a period of three years. The Company estimates its warranty costs based on historical warranty claim experience and includes such costs in cost of revenues. Warranty costs were not significant for the years ended March 31, 2009, 2008 or 2007.

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings

From time to time, the Company may be involved in litigation relating to claims arising out of day-to-day operations.

NOTE 8 REDEEMABLE CONVERTIBLE PREFERRED STOCK

On April 3, 2007, all shares of redeemable convertible preferred stock were converted into common stock immediately prior to the closing of the initial public offering of the Company's common stock.

NOTE 9 COMMON STOCK

The Company's Certificate of Incorporation, as amended, authorizes the Company to issue 150,000,000 shares of \$0.001 par value common stock. The Company's initial public offering of common stock closed on April 3, 2007. The Company issued 6,131,111 shares of common stock at an initial public offering price of \$5.50, for an aggregate offering price of \$33.7 million. Net proceeds to the Company after an underwriting discount of \$2.4 million and offering expenses of \$1.3 million were \$30.0 million.

NOTE 10 STOCK BASED COMPENSATION

In 1997, the Company adopted the 1997 Stock Plan (the "1997 Plan"). The 1997 Plan provides for the granting of stock options and stock purchase rights to employees and consultants of the Company. Options granted under the 1997 Plan may be either incentive stock options ("ISOs") or nonstatutory stock options ("NSOs"). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and consultants. The Company has reserved 8,450,000 shares of common stock for issuance under the 1997 Plan.

In February 2001, the Company adopted the 2000 Stock Option Plan (the "2000 Plan"). The 2000 Plan provides for the granting of stock options and stock purchase rights to employees, consultants and directors of the Company. Options granted under the 2000 Plan may be either ISOs or NSOs. In December 2006, the Company's board of directors authorized an additional 500,000 shares of the Company's common stock to be reserved for issuance under the 2000 Plan. As of March 31, 2008, the Company had reserved 3,500,000 shares of common stock for issuance under the 2000 Plan.

In February 2001, the Company elected to terminate the 1997 Plan. The termination of the 1997 Plan included the provisions that no further options shall be granted under the 1997 Plan. However, the outstanding options and the shares issued upon exercise of the options granted under the 1997 Plan shall continue to be governed by the terms and conditions of the 1997 Plan. All 2,748,298 shares not granted as of the adoption of the 2000 Plan were cancelled.

Options under both the 1997 and 2000 Plans may be granted for periods of up to ten years, however in the case of ISOs granted to an optionee who, at the time the option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company, the term of the option shall be 5 years from the date of grant. The exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares as determined by the board of directors on the date of grant, respectively, however the exercise price of an ISO and NSO granted to a 10% or greater stockholder shall not be less than 110% of the estimated fair value of the shares on the

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

date of grant, respectively. To date, the initial options granted to each person generally vest 25% on the first anniversary and subsequent anniversaries of the date of grant.

In January 2007, the Company's board of directors approved an equity incentive plan, (the "Equity Plan"), which was subsequently approved by the Company's stockholders in March 2007. A total of 3,000,000 shares of common stock were authorized and reserved for issuance under the Equity Plan. This reserve will automatically increase on April 1, 2008 and each subsequent anniversary through 2017, by an amount equal to the smaller of (a) five percent (5%) of the number of shares of stock issued and outstanding on the immediately preceding March 31, or (b) a lesser amount determined by the board of directors. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the Equity Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the Equity Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the Equity Plan. All 535,597 shares not granted under the 2000 Plan were cancelled upon adoption of the Equity Plan in March 2007 by the Company's stockholders.

Awards may be granted under the Equity Plan to the Company's employees, including officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. While the Company may grant incentive stock options only to employees, the Company may grant nonstatutory stock options, stock appreciation rights, restricted stock purchase rights or bonuses, restricted stock units, performance shares, performance units and cash-based awards or other stock-based awards to any eligible participant. Non-employee director awards will be granted only to members of the Company's board of directors who, at the time of grant, are not employees. Deferred compensation awards may be granted only to officers, directors and selected members of management or highly compensated employees.

Only members of the board of directors who are not employees at the time of grant are eligible to participate in the nonemployee director awards component of the Equity Plan. The board or the compensation committee shall set the amount and type of nonemployee director awards to be awarded on a periodic, non-discriminatory basis. Nonemployee director awards may be granted in the form of nonstatutory stock options, stock appreciation rights, restricted stock awards and restricted stock unit awards. Subject to adjustment for changes in our capital structure, no nonemployee director may be awarded, in any fiscal year, one or more nonemployee director awards for more than 2,000 shares. However, the annual limit may be increased by the following additions: (i) an additional 10,000 shares in the fiscal year in which the nonemployee director is first appointed or elected to the board, (ii) an additional 2,000 shares in any fiscal year in which the nonemployee director is serving as the chairman or lead director of the board, (iii) an additional 1,000 shares in any fiscal year for each committee of the board on which the nonemployee director is then serving other than as chairman of the committee, and (iv) an additional 2,000 shares in any fiscal year for each committee of the board on which the nonemployee director is then serving as chairman of the committee.

In the event of a change in control as described in the Equity Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the Equity Plan or substitute

Table of Contents

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or exercised or settled prior to the change in control will terminate effective as of the time of the change in control. The administrator may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all nonemployee director awards will automatically be accelerated in full. The Equity Plan also authorizes the administrator, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each vested share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

In January 2007, the board of directors approved the 2007 Employee Stock Purchase Plan (the "2007 Purchase Plan") which was subsequently approved by the Company's stockholders in March 2007. A total of 500,000 shares of the Company's common stock was authorized and reserved for sale under the 2007 Purchase Plan. In addition, the 2007 Purchase Plan provides for an automatic annual increase in the number of shares available for issuance under the plan on April 1 of each year beginning in 2008 and continuing through and including April 1, 2017 equal to the lesser of (1) one percent (1%) of our then issued and outstanding shares of common stock on the immediately preceding March 31, (2) 250,000 shares or (3) a number of shares as the board of directors may determine. Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are canceled will again become available for issuance under the 2007 Purchase Plan.

The Company's employees and employees of any parent or subsidiary corporation designated by the administrator will be eligible to participate in the 2007 Purchase Plan if they are customarily employed by us for more than 20 hours per week and more than 5 months in any calendar year. However, an employee may not be granted a right to purchase stock under the 2007 Purchase Plan if: (1) the employee immediately after such grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or of any parent or subsidiary corporation, or (2) the employee's rights to purchase stock under all of our employee stock purchase plans would accrue at a rate that exceeds \$25,000 in value for each calendar year of participation in such plans.

The 2007 Purchase Plan is designed to be implemented through a series of sequential offering periods, generally six (6) months in duration beginning on the first trading day on or after May 1 and November 1 of each year. The administrator is authorized to establish additional or alternative sequential or overlapping offering periods and offering periods having a different duration or different starting or ending dates, provided that no offering period may have a duration exceeding 27 months.

Amounts accumulated for each participant under the 2007 Purchase Plan are used to purchase shares of the Company's common stock at the end of each offering period at a price generally equal to 85% of the lower of the fair market value of our common stock at the beginning of an offering period or at the end of the offering period. Prior to commencement of an offering period, the administrator is authorized to reduce, but not increase, this purchase price discount for that offering period, or, under circumstances described in the 2007 Purchase Plan, during that offering period. The maximum number of shares a participant may purchase in any six-month offering period is the lesser of (i) that number of

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 STOCK BASED COMPENSATION (Continued)**

shares determined by multiplying (x) 1,000 shares by (y) the number of months (rounded to the nearest whole month) in the offering period and rounding to the nearest whole share or (ii) that number of whole shares determined by dividing (x) the product of \$2,083.33 and the number of months (rounded to the nearest whole month) in the offering period and rounding to the nearest whole dollar by (y) the fair market value of a share of our common stock at the beginning of the offering period. Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

In the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under the 2007 Purchase Plan. If the acquiring or successor corporation does not assume such rights and obligations, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control.

The following table summarizes stock option activities:

	Shares Available for Grant	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Balance at March 31, 2006	4,024,178	3,502,963		2.76	
Options reserved	3,500,000				
Plans terminated	(3,535,597)				
Granted	(1,204,169)	1,204,169		5.57	
Exercised		(179,125)		0.69	\$ 918,531
Forfeited	215,588	(215,588)		3.97	
Balance at March 31, 2007	3,000,000	4,312,419		3.57	
Granted	(444,216)	444,216		3.47	
Exercised		(160,800)		0.60	387,080
Forfeited	3,680	(99,415)		3.51	
Balance at March 31, 2008	2,559,464	4,496,420		3.67	
Options reserved	1,387,774				
Granted	(956,338)	956,338		3.34	
Exercised		(382,547)		1.14	822,449
Forfeited	32,488	(89,474)		4.76	
Balance at March 31, 2009	3,023,388	4,980,737		\$ 3.78	
Options vested and exercisable		3,227,544	3.84	\$ 3.68	\$ 978,211
Options vested and expected to vest		4,888,237	5.49	\$ 3.78	\$ 1,006,154

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 STOCK BASED COMPENSATION (Continued)**

The options outstanding and by exercise price at March 31, 2009 are as follows:

Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Vested and Exercisable	Weighted Average Exercise Price
\$0.15	160,004	\$ 0.15	0.35	160,004	\$ 0.15
\$2.00	569,027	\$ 2.00	1.03	569,027	\$ 2.00
\$2.10	653,391	\$ 2.10	4.18	653,391	\$ 2.10
\$2.43 - 3.37	799,750	\$ 2.93	9.49	30,640	\$ 2.60
\$3.50 - 4.00	628,402	\$ 3.80	6.22	338,866	\$ 3.76
\$4.20 - 4.70	348,360	\$ 4.32	7.73	104,564	\$ 4.44
\$5.40	656,067	\$ 5.40	2.04	656,067	\$ 5.40
\$5.50	960,536	\$ 5.50	7.56	602,385	\$ 5.50
\$5.75 - 6.00	171,200	\$ 5.78	7.15	95,600	\$ 5.80
\$6.70	34,000	\$ 6.70	7.78	17,000	\$ 6.70
	4,980,737			3,227,544	

Stock-based compensation

The Company recognized \$1,328,000, \$1,461,000 and \$1,216,000 of stock-based compensation expense for the years ended March 31, 2009, 2008 and 2007, respectively, as follows:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
Cost of revenues	\$ 297	\$ 294	\$ 227
Research and development	436	469	515
Selling, general and administrative	595	698	474
Total	\$1,328	\$1,461	\$1,216

Stock based compensation expense in the years ended March 31, 2009 and 2008 includes \$54,000 and \$8,000, respectively, related to the Company's Employee Stock Purchase Plan.

The Company recognized related income tax benefits of \$168,000, \$141,000 and \$51,000 in the years ended March 31, 2009, 2008 and 2007, respectively. Windfall tax benefits realized from exercised stock options were \$280,000, \$13,000 and \$0 during the fiscal years ended March 31, 2009, 2008 and 2007, respectively. Compensation cost capitalized within inventory at March 31, 2009 was insignificant. As of March 31, 2009, the Company's total unrecognized compensation cost was \$2.2 million, which will be recognized over the weighted average period of 1.74 years. The Company calculated the fair value

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 STOCK BASED COMPENSATION (Continued)**

of stock based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

Stock Option Plans:	Year Ended March 31,		
	2009	2008	2007
Risk-free interest rate	1.76 - 3.16%	2.54 - 4.76%	4.63 - 4.86%
Expected life (in years)	5.00	4.00	4.00
Volatility	43.5 - 48.2%	40.3 - 43.8%	56 - 71%
Dividend yield	0%	0%	0%
ESPP:			
Risk-free interest rate	0.87 - 1.89%	2.27%	
Expected life (in years)	0.5	0.28	
Volatility	48.7 - 58.0%	74.2%	
Dividend yield	0%	0%	

The weighted average fair value of options granted during the years ended March 31, 2009, 2008 and 2007 was \$1.45, \$1.32 and \$3.08, respectively.

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

The Company has adopted Statement of Financial Accounting Standards No. 131, *Disclosure about Segments of an Enterprise and Related Information*. Based on its operating management and financial reporting structure, the Company has determined that it has one reportable business segment: the design, development and sale of integrated circuits.

The following is a summary of net revenue by geographic area based on the location to which product is shipped:

	Year Ended March 31,		
	2009	2008	2007
	(In thousands)		
United States	\$23,853	\$24,960	\$29,730
China	13,242	7,841	5,885
Malaysia	11,406	9,980	10,579
Singapore	7,951	4,873	4,425
Rest of the world	5,656	5,516	7,540
	\$62,108	\$53,170	\$58,159

All sales are denominated in United States dollars.

Table of Contents**GSI TECHNOLOGY, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (Continued)**

The locations and net book value of long-lived assets are as follows:

	March 31,	
	2009	2008
	(In thousands)	
United States	\$2,503	\$3,945
Taiwan	2,623	1,895
	\$5,126	\$5,840

NOTE 12 EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution retirement plan (the "Retirement Plan"), which qualifies under Section 401(k) of the Internal Revenue Code of 1996. The Retirement Plan covers essentially all United States employees. Eligible employees may make contributions to the Retirement Plan up to 15% of their annual compensation, but no greater than the annual IRS limitation for any plan year. The Retirement Plan does not provide for Company contributions.

NOTE 13 QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009
	(In thousands, except per share amounts)			
Consolidated Statement of Operations Data:				
Net revenues	\$ 17,344	\$ 17,094	\$ 14,030	\$ 13,640
Gross profit	\$ 7,691	\$ 7,818	\$ 5,996	\$ 5,051
Net income	\$ 3,028	\$ 3,570	\$ 1,487	\$ 1,204
Net income per common share Basic	\$ 0.11	\$ 0.13	\$ 0.05	\$ 0.04
Net income per common share Diluted	\$ 0.11	\$ 0.12	\$ 0.05	\$ 0.04

	Three Months Ended			
	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008
	(In thousands, except per share amounts)			
Net revenues	\$ 11,305	\$ 12,672	\$ 13,978	\$ 15,215
Gross profit	\$ 4,419	\$ 4,588	\$ 5,545	\$ 6,771
Net income	\$ 1,054	\$ 1,249	\$ 1,658	\$ 2,812
Net income per common share Basic	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.10
Net income per common share Diluted	\$ 0.04	\$ 0.04	\$ 0.06	\$ 0.10

Table of Contents

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

None.

Item 9A(T). *Controls and Procedures*

Management's Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2009, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC's rules and instructions for Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any within GSI Technology, have been detected.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance with respect to financial statement preparation. 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.

We assessed the effectiveness of our internal control over financial reporting as of March 31, 2009. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control Integrated Framework*. Based on our assessment using those criteria, our management (including our Chief Executive Officer and Chief Financial Officer) concluded that our internal control over financial reporting was effective as of March 31, 2009.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding our internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to

Table of Contents

temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

Item 9B. *Other Information*

None.

Table of Contents

PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called "incorporation by reference." We intend to file our definitive proxy statement for our 2009 annual meeting of stockholders (the "Proxy Statement") pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item with respect to executive officers is set forth in Part I of this Annual Report on Form 10-K and the remaining information required by this item is incorporated by reference from the sections entitled "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Corporate Governance" to be included in the Proxy Statement.

Item 11. *Executive Compensation*

The information required by this item is incorporated by reference from the section entitled "Executive Compensation" to be included in the Proxy Statement.

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

The information required by this item is incorporated by reference from the section entitled "Principal Stockholders and Stock Ownership by Management" to be included in the Proxy Statement.

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

The information required by this item is incorporated by reference from the section entitled "Related Person Transactions" and "Corporate Governance Director Independence" to be included in the Proxy Statement for its 2009 annual stockholders' meeting.

Item 14. *Principal Accounting Fees and Services*

The information required by this item is incorporated by reference from the section entitled "Ratification of Appointment of Independent Auditors" to be included in the Proxy Statement.

Table of Contents**PART IV****Item 15. Exhibits and Financial Statement Schedules**

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

1. Financial Statements

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>49</u>
<u>Consolidated Balance Sheets</u>	<u>50</u>
<u>Consolidated Statements of Operations</u>	<u>51</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>52</u>
<u>Consolidated Statements of Cash Flows</u>	<u>53</u>
<u>Notes to Consolidated Financial Statements</u>	<u>54</u>

2. Financial Statement Schedules**Schedule II Valuation and Qualifying Accounts**

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes herein.

3. Exhibits:

The following exhibits are filed herewith:

Exhibit Number	Name of Document
3.1	Restated Certificate of Incorporation of Registrant (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
3.2	Bylaws of Registrant (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.1	Form of Indemnification Agreement between Registrant and Registrant's directors and officers (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on January 10, 2007)
10.2*	1997 Stock Plan and form of Stock Option Agreement (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.3*	2000 Stock Option Plan and form of Stock Option Agreement (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.4*	2007 Equity Incentive Plan (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on March 12, 2007)
10.5*	2007 Employee Stock Purchase Plan and form of Subscription Agreement (Incorporated

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by reference to identically-numbered exhibit to Registrant's Registration Statement on
Form S-1 (File No. 333-139885) filed on February 16, 2007)

82

Table of Contents

Exhibit Number	Name of Document
10.6	Building Office Lease for 2360 Owen Street, Santa Clara, California 95054, as amended (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on January 10, 2007)
10.7	Building Office Lease for No. 1, 6th Floor, 30 Taiyuan Street, Chupei City, Taiwan (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.8*	Form of Notice of Grant of Stock Option (U.S. Participant) (Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.9*	Form of Notice of Grant of Stock Option (Non-U.S. Participant) (Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.10*	Form of Stock Option Agreement (U.S. Participant) (Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.11*	Form of Stock Option Agreement (Non-U.S. Participant) (Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.12*	GSI Technology, Inc. 2009 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on June 13, 2008)
10.13*	GSI Technology, Inc. 2010 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on June 8, 2009)
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Lee-Lean Shu, President, Chief Executive Officer, and Director, pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2	Certification of Douglas Schirle, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Lee-Lean Shu, President, Chief Executive Officer, and Director, pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
32.2	Certification of Douglas Schirle, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*
Compensatory plan or management contract

Table of Contents**SIGNATURES**

Pursuant to the requirements of 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.

Date: June 10, 2009

GSI TECHNOLOGY, INC.

By: /s/ DOUGLAS M. SCHIRLE

Douglas M. Schirle
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Lee-Lean Shu and Robert Yau, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u> /s/ LEE-LEAN SHU</u> Lee-Lean Shu	President, Chief Executive Officer and Chairman <i>(Principal Executive Officer)</i>	June 10, 2009
<u> /s/ DOUGLAS M. SCHIRLE</u> Douglas M. Schirle	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	June 10, 2009
<u> /s/ ROBERT YAU</u> Robert Yau	Vice President, Engineering, Secretary and Director	June 10, 2009
<u> /s/ RUEY L. LU</u> Ruey L. Lu	Director	June 10, 2009
<u> /s/ ARTHUR O. WHIPPLE</u> Arthur O. Whipple	Director	June 10, 2009
<u> /s/ HAYDN HSIEH</u> Haydn Hsieh	Director	June 10, 2009

Table of Contents**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Period	Charges to Cost and Expenses	Deductions	Balance at End of Period
	(In thousands)			
Year ended March 31, 2009				
Allowance for sales returns, doubtful accounts and other	\$ 116	\$ 244	\$ 237	\$ 123
Year ended March 31, 2008				
Allowance for sales returns, doubtful accounts and other	\$ 108	\$ 249	\$ 241	\$ 116
Year ended March 31, 2007				
Allowance for sales returns, doubtful accounts and other	\$ 213	\$ 101	\$ 206	\$ 108