GSI TECHNOLOGY INC
Form 10-K
June 04, 2010

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# 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, 2010**

**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** | **77-0398779** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

**1213 Elko Drive**
**Sunnyvale, California 94089**
(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

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 ý No o

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 o No o

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. o

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 o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

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, 2009, as reported on the Nasdaq Global Market, was approximately $75.9 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 May 25, 2010, there were 27,731,382 shares of the registrant's common stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2010 annual meeting of stockholders are incorporated by reference into Part III hereof.

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**GSI TECHNOLOGY, INC.**

**2010 FORM 10-K ANNUAL REPORT**

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**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.*

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## 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 1213 Elko Drive, Sunnyvale, California, 94089, and our telephone number is (408) 980-8388.

**Recent Acquisition**

In August 2009, we acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation and its subsidiaries (collectively, "Sony"), as well as certain related patents and license rights to other Sony intellectual property used in connection with the acquired product line. The acquisition allowed us to increase our share of the SRAM memory device market, expand our relationships with our major customers and expand our product portfolio.

The total purchase consideration for the acquisition is expected to be approximately $6.9 million in cash, $6.4 million of which has been paid and the balance of which represents the fair value of payments that we expect to make to Sony based on the future sale of certain acquired SRAM products.

The acquisition was accounted for as a purchase, and the results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning August 29, 2010. Sales of products of the former Sony product line contributed approximately $5.4 million to our net revenues in the fiscal year ended March 31, 2010.

**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;

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*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;

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

*transaction rate,* which is the rate at which new address references can be loaded into the memory device, and is measured in gigahertz, or GHz.

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. 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.

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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 majority of our products have random access latency of 6.5 nanoseconds or less, while our newest products demonstrate a 1 GHz transaction rate and clock access times as fast as 0.15 nanoseconds with per device bandwidth as high as 90 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 72 and 144 megabit, or Mb, synchronous Very Fast SRAMs are manufactured using 65 nanometer process technology. We are currently developing 144 megabit synchronous Very Fast SRAMs using 40 nanometer process technology, which will allow us to further increase product performance, lower power consumption and reduce costs.

*Product Innovation.* We believe that we have established a position as a technology leader in the design and development of Very Fast SRAMs. We were the first supplier to introduce 72-bit-wide SRAMs as single monolithic ICs. During fiscal 2010, we further solidified our position as a technology leader by being the first vendor to ship 144 megabit monolithic SRAMs to customers and the first vendor to ship Type-IIIe SigmaQuad and SigmaDDR SRAMs, the fastest SRAMs to reach the open market. 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.

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***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 (leaded) 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.

*Superior Lifetime Availability of Products.* Unlike the market for consumer electronics, the markets in which we compete, particularly the networking and telecommunications markets, generally are characterized by system designs that remain 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 21 mask sets we have created over 10,000 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.

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*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 model 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 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

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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 these 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 high performance memory technologies targeted to address the evolving needs of the high performance memory market.

*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 in our products. Our most advanced products currently in production were designed using 65 nanometer process technology on 300 millimeter wafers. We intend to continue to collaborate closely with TSMC in the refinement of 40 nanometer process technology.

*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 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 10,000 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.

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***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 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.

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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.

**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, 2010:

| | | |
|---|---|---|
| Alcatel-Lucent | BAE Systems | Cisco Systems |
| Ericsson | Honeywell | Huawei Technologies |
| Motorola | 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 39.2%, 29.3% and 32.3% of our net revenues for fiscal 2010, 2009 and 2008, respectively. Sales to foreign and domestic distributors accounted for 50.2%, 61.1% and 63.1% of our net revenues for fiscal 2010, 2009 and 2008, respectively.

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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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Consignment warehouses: | | | |
| SMART Modular Technologies | 20.8% | 25.7% | 28.3% |
| Jabil Circuit | 10.4 | | .4 |
| Distributors: | | | |
| Avnet Logistics | 21.7 | 25.3 | 29.2 |
| Nexcomm | 9.6 | 10.6 | 7.4 |

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit and Flextronics Technology, and also purchases some products through its contract manufacturers and directly from us. Based on information provided to us by Cisco Systems' consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 35%, 26% and 28% of our net revenues in fiscal 2010, 2009 and 2008, respectively. To our knowledge, none of our other OEM customers accounted for more that 10% of our net revenues in any of these periods.

**Sales, Marketing and Technical Support**

We sell our products primarily through our worldwide network of independent sales representatives and distributors. As of March 31, 2010, 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, 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

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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 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 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.

**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 $9.1 million in fiscal 2010, $5.7 million in fiscal 2009 and $4.4 million in fiscal 2008. 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 new family of low latency DRAM products.

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We are also leveraging our advanced design capabilities to expand into other networking and telecommunications products, including a channelized OC-3 processor that incorporates over 90 embedded SRAM modules. When completed, this single chip solution will be capable of simultaneously processing multiple types of traffic at OC-3 bandwidth and, we believe, will offer power, chip count and cost advantages compared to traditional network processor solutions. 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, REC 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
- 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 ten United States patents and have several patent applications

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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.

**Employees**

As of March 31, 2010, we had 127 full-time employees, including 64 engineers, of which 39 are engaged in research and development and 36 have PhD or MS degrees, 18 employees in sales and marketing, eight employees in general and administrative capacities and 59 employees in manufacturing. Of these employees, 54 are based in our Santa Clara facility and 50 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

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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, 2010:

| Name | Age | Title |
|---|---|---|
| Lee-Lean Shu | 55 | President, Chief Executive Officer and Chairman |
| David Chapman | 54 | Vice President, Marketing |
| Didier Lasserre | 45 | Vice President, Sales |
| Douglas Schirle | 55 | Chief Financial Officer |
| Bor-Tay Wu | 58 | Vice President, Taiwan Operations |
| Ping Wu | 53 | Vice President, U.S. Operations |
| Robert Yau | 57 | 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 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

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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, 2010, we recorded net revenues of as much as $21.2 million and as little as $11.3 million and quarterly operating income of as much as $4.4 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 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.

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***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, Jabil Circuit and Flextronics Technology, its consignment warehouses, through its contract manufacturers and directly from us. Based on information provided to us by its consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 35%, 26% and 28% of our net revenues in fiscal 2010, 2009 and 2008, 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 following two quarters as they drew down their existing inventories. 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, followed by an improvement in the four quarters ended March 31, 2010.

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.

***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 six 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.

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***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 cyclicality.

***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.

***Current unfavorable economic and market conditions, domestically and internationally, may adversely affect our business, financial condition, results of operations and cash flows.***

We have significant customer sales both in the United States and internationally. We are also reliant upon U.S. and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions, including the challenging economic conditions that have prevailed and continue to prevail in the United States and worldwide. The recent turmoil in the financial markets has resulted in dramatically higher borrowing costs which have made it more difficult (in some cases, prohibitively so) for many companies to obtain credit and fund their working capital obligations. If any of our manufacturing partners, customers, distributors or suppliers experiences serious financial difficulties or ceases operations, our business could be adversely affected. In addition, the adverse impact of the credit crisis on consumers, including higher unemployment rates, is expected to adversely impact consumer spending, which will adversely impact demand for consumer products such as certain end products in which our SRAMs are embedded. As a result of the difficulty that businesses (including our customers) may have in obtaining credit and the decreased consumer spending that may result from the credit market crisis, high unemployment rates and continued global economic and market turmoil are likely to have an adverse impact on our business, financial condition, results of operations and cash flows.

***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

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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. Most significantly, we obtain wafers from a single foundry, TSMC, and most of them are packaged at ASE. 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, ASE or any of our other independent assembly and test suppliers, and instead obtain manufacturing services and products from these suppliers 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 would 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 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.

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***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 2010, 2009 and 2008, our distributor Avnet Logistics accounted for 21.7%, 25.3% and 29.2%, 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, 2010, five customers accounted for 16%, 14%, 13%, 13% and 12% 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.

***Our acquisition of companies or technologies could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results.***

In August 2009, we consummated the acquisition of substantially all of the assets related to the SRAM memory device product line of Sony Corporation. In the future, we may make additional acquisitions or investments in companies, assets or technologies that we believe are complementary or strategic. Prior to the recently completed Sony acquisition, we had not made any acquisitions or investments, and therefore our ability as an organization to make acquisitions or investments is unproven. In connection with the Sony acquisition and other acquisitions or investments we may make, we face numerous risks, including:

- difficulties in integrating operations, technologies, products and personnel;
- 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;

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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 additional acquisitions or investments, 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.

***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. 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 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.

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***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;

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.

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***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 and 2010, we incurred $678,000 and $650,000, respectively, 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 and 65 nanometer process technologies, respectively. 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 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.

***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

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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. 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.

***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;

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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. 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.

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***Our international business exposes us to additional risks.***

Products shipped to destinations outside of the United States accounted for 68.9%, 61.6% and 53.0% of our net revenues in fiscal 2010, 2009 and 2008, 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 to reduce the risk of financial exposure from fluctuations in foreign exchange rates.

***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 suppliers or our OEM customers or the demand for our products or our OEM customers' products.

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***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.

***Proposed changes in US international tax laws could cause our operating results to suffer.***

On May 4, 2009, U.S. President Barack Obama proposed significant changes to U.S. tax laws that would limit U.S. deductions for expenses related to un-repatriated foreign-source income and modify the U.S. foreign tax credit. We cannot determine whether these proposals will be enacted into law or what, if any, changes may be made to such proposals prior to their being enacted into law. If the U.S. tax laws change in a manner that increases our tax obligation, our operating results could suffer.

***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.

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

Our products are 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 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 process. On a continuous basis, we update our internal controls documentation and, where appropriate, improve our internal controls and procedures. Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting and 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 test our internal controls and, as part of that documentation and testing process, 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.

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***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;
- 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 25, 2010, our executive officers, directors and entities affiliated with them beneficially owned approximately 23% 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;

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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.

***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 44,277 square feet of space in Sunnyvale, California, which we acquired in the third quarter of fiscal 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 Sunnyvale 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 $613,000 in fiscal 2010, approximately $302,000 of which represented rent paid for our former leased headquarters facility in Santa Clara, California.

**Item 3.** ***Legal Proceedings***

None.

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

None.

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## 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, 2010** | | |
| First quarter | $ 3.95 | $ 2.33 |
| Second quarter | $ 4.47 | $ 3.55 |
| Third quarter | $ 6.00 | $ 3.22 |
| Fourth quarter | $ 5.45 | $ 4.10 |

**Holders of Common Stock**

On May 25, 2010, the closing price of our common stock on the Nasdaq Global Market was $5.64, and there were 56 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 2010 annual meeting of stockholders.

**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, 2010, we did not repurchase any shares under the repurchase program.

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**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, 2010, 2009 and 2008 and the selected consolidated balance sheet data as of March 31, 2010 and 2009 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, 2007 and 2006 and the selected consolidated balance sheet data as of March 31, 2008, 2007 and 2006 are derived from audited consolidated financial statements not included in this report.

| | Fiscal Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2010(1) | 2009(1) | 2008(1) | 2007(1) | 2006 |
| | (In thousands, except per share amounts) | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Net revenues | $ 67,558 | $ 62,108 | $ 53,170 | $ 58,159 | $ 43,141 |
| Cost of revenues | 38,342 | 35,552 | 31,847 | 36,042 | 29,229 |
| Gross profit | 29,216 | 26,556 | 21,323 | 22,117 | 13,912 |
| Operating expenses: | | | | | |
| Research and development | 9,069 | 5,737 | 4,365 | 4,951 | 5,377 |
| Selling, general and administrative | 9,534 | 9,295 | 9,464 | 6,209 | 4,797 |
| Total operating expenses | 18,603 | 15,032 | 13,829 | 11,160 | 10,174 |
| Income from operations | 10,613 | 11,524 | 7,494 | 10,957 | 3,738 |
| Interest and other income (expense), net | 1,965 | 1,363 | 1,784 | 728 | 682 |
| Income before income taxes | 12,578 | 12,887 | 9,278 | 11,685 | 4,420 |
| Provision for (benefit from) income taxes | 2,195 | 3,598 | 2,505 | 4,251 | 171 |
| Net income | $ 10,383 | $ 9,289 | $ 6,773 | $ 7,434 | $ 4,249 |
| Basic and diluted net income per share available to common stockholders: | | | | | |
| Basic | $ 0.38 | $ 0.33 | $ 0.25 | $ 1.04 | $ 0.54 |
| Diluted | $ 0.38 | $ 0.33 | $ 0.24 | $ 0.32 | $ 0.19 |
| Weighted average shares used in per share calculations: | | | | | |
| Basic | 27,105 | 27,735 | 27,537 | 6,253 | 6,148 |
| Diluted | 27,688 | 28,836 | 28,624 | 22,837 | 22,586 |

| | March 31, |
|---|---|

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| | (In thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents and short-term investments | $ 46,778 | $ 47,337 | $ 39,565 | $ 8,275 | $ 15,505 |
| Working capital | 63,047 | 59,754 | 55,070 | 32,999 | 26,453 |
| Total assets | 113,128 | 92,673 | 88,315 | 49,910 | 39,544 |
| Redeemable convertible preferred stock | | | | 9,007 | 9,007 |
| Total stockholders' equity | 98,719 | 84,705 | 77,140 | 29,732 | 20,958 |

(1)

On April 1, 2006, we adopted authoritative guidance governing share-based payments, using the modified prospective transition method. The impact of adoption of this guidance 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; $1,328,000 and $1,160,000, respectively, in fiscal 2009; and $1,479,000 and $1,296,000, respectively, in fiscal 2010.

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**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. Our revenues have been substantially impacted by the fluctuations in sales to Cisco Systems, and 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 during the second half of fiscal 2009 and into fiscal 2010, and we expect that these factors 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 quarter and are generally cancelable up to 30 days prior to scheduled delivery. Accordingly, we depend

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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 timeframes 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 39.2%, 29.3% and 32.3% of our net revenues for fiscal 2010, 2009 and 2008, respectively. Sales to foreign and domestic distributors accounted for 50.2%, 61.1% and 63.1% of our net revenues for fiscal 2010, 2009 and 2008, 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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Consignment warehouses: | | | |
| SMART Modular Technologies | 20.8% | 25.7% | 28.3% |
| Jabil Circuit | 10.4 | | .4 |
| Distributors: | | | |
| Avnet Logistics | 21.7 | 25.3 | 29.2 |
| Nexcomm | 9.6 | 10.6 | 7.2 |

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit and Flextronics Technology, 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 warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 35%, 26% and 28% of our net revenues in fiscal 2010, 2009 and 2008, 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 following two quarters as they drew down existing inventories. Purchases by Cisco Systems' consignment warehouses and contract manufacturers increased in the following four quarters ended June 30, 2008, declined again in the three quarters ended March 31, 2009 and improved in the four quarters ended March 31, 2010. 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.

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To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in fiscal 2010, 2009 or 2008.

*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 Sunnyvale, 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.

**Acquisition**

On August 28, 2009, we acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation and its subsidiaries (collectively, "Sony"). As part of the transaction, we also entered into an Intellectual Property Agreement with Sony under which we acquired certain patents and license rights to other intellectual property used in connection with the acquired product line.

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The acquisition was undertaken in order to increase our market share in the SRAM memory business, expand our relationships with our major customers and expand our product portfolio. The acquisition resulted in a bargain purchase as Sony had been incurring significant losses on an annual basis, had a minimal product offering, had only one customer and declining annual revenues at the time of the acquisition and was therefore motivated to sell the assets of its SRAM product line.

We adopted authoritative guidance for business combinations as a result of this acquisition. The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. Acquisition related costs of approximately $533,000 incurred in connection with this acquisition have been expensed in accordance with the authoritative guidance and are included in selling, general and administrative expenses in the Consolidated Statement of Operations for the year ended March 31, 2010. Contingent consideration has been recognized at the date of the acquisition and recorded at its fair value. Changes to the fair value of the contingent consideration subsequent to September 30, 2009 have been recorded in general and administrative expense and amounted to $11,000 and $94,000 in the quarters ended December 31, 2009 and March 31, 2010, respectively.

The purchase price of the acquisition has been preliminarily allocated to the net tangible and intangible assets acquired, with the excess of the fair value of assets acquired over the purchase price recorded as a bargain purchase gain.

The results of operations and estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements beginning August 29, 2009.

The total purchase consideration is expected to be approximately $6.9 million in cash, of which approximately $5.2 million was paid at the closing and $1.2 million was paid in October 2009 following a post-closing adjustment to reflect actual product inventory on hand at the closing. The purchase consideration also includes contingent consideration of $617,000, which represents the fair value of future cash payments that we expect to make based on the sale of certain acquired SRAM products over an eight quarter period commencing with the quarter ended September 30, 2009, the quarter in which we first derived revenue from shipments of such products. We estimated the contingent consideration based on probability weighted expected future cash flows, and it is included under accrued expenses and other liabilities in the Consolidated Balance Sheet at March 31, 2010.

The allocation of the purchase price to acquired tangible and identifiable intangible assets was based on their estimated fair values at the date of acquisition.

Prior to the closing of the acquisition, there were no material relationships between us and Sony or any related parties or affiliates of Sony.

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**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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Net revenues | 100.0% | 100.0% | 100.0% |
| Cost of revenues | 56.8 | 57.2 | 59.9 |
| Gross profit | 43.2 | 42.8 | 40.1 |
| Operating expenses: | | | |
| Research and development | 13.4 | 9.2 | 8.2 |
| Selling, general and administrative | 14.1 | 15.0 | 17.8 |
| Total operating expenses | 27.5 | 24.2 | 26.0 |
| Income from operations | 15.7 | 18.6 | 14.1 |
| Interest and other income (expense), net | 2.9 | 2.2 | 3.4 |
| Income before income taxes | 18.6 | 20.8 | 17.5 |
| Provision for income taxes | 3.2 | 5.8 | 4.7 |
| Net income | 15.4% | 15.0% | 12.8% |

***Fiscal Year Ended March 31, 2010 Compared to Fiscal Year Ended March 31, 2009***

*Net Revenues.* Net revenues increased by 8.8% from $62.1 million in fiscal 2009 to $67.6 in fiscal 2010. Direct and indirect sales to Cisco Systems, our largest customer, increased by $7.5 million from $16.0 million in fiscal 2009 to $23.5 million in fiscal 2010. Beginning in the quarter ended December 31, 2008, purchases by Cisco Systems' consignment warehouses and contract manufacturers and our other OEM customers were adversely impacted by the worldwide credit crisis and the resulting economic impact on the end markets they serve. These declines in net revenues were offset by the continued acceptance by other customers of our SigmaQuad product line which resulted in a 102.8% increase in SigmaQuad shipments in fiscal 2010 compared to fiscal 2009, accounting for 23.0% of total shipments in fiscal 2010. In addition, net revenues in fiscal 2010 included $5.4 million from the sale to Cisco of products acquired in our August 28, 2009 acquisition of the Sony SRAM memory device product line.

*Cost of Revenues.* Cost of revenues increased by 7.8% from $35.6 million in fiscal 2009 to $38.3 million in fiscal 2010. This increase was primarily due to the increase in net revenues. Cost of revenues included stock-based compensation expense of $291,000 and $297,000, respectively, in fiscal 2010 and fiscal 2009. Fiscal 2010 cost of revenues included approximately $352,000 related to masks valued at approximately $600,000 that were acquired in the Sony acquisition and are being amortized over four quarters.

*Gross Profit.* Gross profit increased by 10.0% from $26.6 million in fiscal 2009 to $29.2 in fiscal 2010. Gross margin increased from 42.8% in fiscal 2009 to 43.2% in fiscal 2010. The increase in gross margin was primarily related to a shift in product mix to higher density, higher margin products, partially offset by a reduction in the percentage of sales of products for military applications, the adverse impact of the sale of inventories acquired from Sony and increased depreciation and amortization expense related to assets acquired from Sony.

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*Research and Development Expenses.* Research and development expenses increased 58.1% from $5.7 million in fiscal 2009 to $9.1 million in fiscal 2010. This increase was primarily due to increases in payroll related expenses of $2,155,000, prototype mask expenses of $650,000 and lesser increases in facility related expenses, stock-based compensation expense, software maintenance expense and depreciation expense, partially offset by a decrease in outside consulting expenses of $547,000. The increase in payroll expenses was related to our low latency DRAM project and various high speed SRAM projects. Research and development expenses included stock-based compensation expense of $686,000 and $436,000, respectively, in fiscal 2010 and fiscal 2009.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 2.6% from $9.3 million in fiscal 2009 to $9.5 million in fiscal 2010. This increase was primarily related to increases of $316,000 in outside accounting fees and $269,000 in payroll related expenses and a smaller increase in legal expenses, partially offset by a decrease in independent sales representative commissions of $322,000 and smaller decreases in travel expense and outside consulting expenses. Selling, general and administrative expenses in fiscal 2010 included $533,000 in legal and accounting fees and changes to the fair value of the contingent consideration related to the Sony acquisition. Stock-based compensation expense of $502,000 and $595,000 were included in selling, general and administrative expenses in fiscal 2010 and fiscal 2009, respectively.

*Interest and Other Income (Expense), Net.* Interest and other income (expense), net increased 44.2% from $1.4 million in fiscal 2009 to $2.0 million in fiscal 2010. Interest income decreased $567,000 in fiscal 2010 compared to the prior year due to lower interest rates received on our cash and short-term and long-term investments. This decrease was offset by a $1.1 million bargain purchase gain recorded in connection with the Sony acquisition. In addition, we recorded an exchange loss of $29,000 in fiscal 2010 compared to an exchange loss of $98,000 in fiscal 2009, related to our Taiwan branch operations.

*Provision for Income Taxes.* The provision for income taxes decreased from $3.6 million in fiscal 2009 to $2.2 million in fiscal 2010. This decrease was due to the decreased effective tax rate resulting from an increased percentage of net revenues in lower tax rate jurisdictions in fiscal 2010.

*Net Income.* Net income increased 11.8% from $9.3 million in fiscal 2009 to $10.4 million in fiscal 2010. 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, 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 a 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.

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*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 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 expenses 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.

**Liquidity and Capital Resources**

As of March 31, 2010, our principal sources of liquidity were cash, cash equivalents and short-term investments of $46.8 million compared to $47.3 million as of March 31, 2009.

Net cash provided by operating activities was $13.7 million for fiscal 2010 compared to $16.2 million for fiscal 2009 and $18.8 million for fiscal 2008. The primary uses of cash in fiscal 2010 were increases of $3.6 million in accounts receivable, $1.1 million in inventory and $1.0 million in prepaid expenses and other assets. The increase in accounts receivable reflects the higher level of net revenues in the fourth quarter of fiscal 2010 compared to the fourth quarter of fiscal 2009. These uses of cash were primarily offset by increases of $3.4 million in accounts payable and $2.0 million in accrued expenses and other liabilities. The increase in accounts payable reflects higher levels of wafer purchases and manufacturing related expenses as we built inventory levels in response to increase levels of shipments. 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 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

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Net cash used in investing activities was $3.8 million in fiscal 2010, $16.2 million in fiscal 2009 and $37.9 million in fiscal 2008. Investing activity in fiscal 2010 consisted primarily of the purchase of short-term and long-term investments of $28.7 million, primarily state and municipal obligations and corporate notes, our acquisition of the Sony SRAM memory device product line and purchases of property and equipment, including our new headquarters facility in Sunnyvale, California. These uses were partially offset by the sale and current maturities of short-term investments of $37.2 million. 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. 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 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.

Net cash provided by financing activities in fiscal 2010 primarily consisted of the net proceeds from the sale of common stock pursuant to our employee stock plans. 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 $31.4 million in net proceeds from our initial public offering of common stock that occurred on April 3, 2007 and $97,000 in net proceeds from the sale of common stock pursuant to option exercises, offset by $739,000 in costs related to our initial public offering.

At March 31, 2010, we had total minimum lease obligations of approximately $1,567,000 from April 1, 2010 through August 31, 2014, 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, 2010:

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Up to 1 year | 1 - 3 years | 3 - 5 years | More than 5 years | Total |
| Facilities and equipment leases | $ 469,000 | $ 642,000 | $ 456,000 | $ | $ 1,567,000 |
| Wafer and mask purchase obligations | $ 11,428,000 | | | | 11,428,000 |
| | $ 11,897,000 | $ 642,000 | $ 456,000 | $ | $ 12,995,000 |

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As of March 31, 2010, the current portion of our unrecognized tax benefits was $524,000, and the long-term portion was $838,000. The unrecognized tax benefits balance as of March 31, 2010 of $1,616,000 would affect our effective tax rate if recognized. As of March 31, 2010, $370,000 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 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 realization of intangible assets, 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 our financial results for 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, 2010 and 2009, 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

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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 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.

*Intangible Assets.* Intangible assets are amortized over their estimated useful lives, generally on a straight-line basis over five to nine years. The Company reviews identifiable amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value.

*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.

Authoritative guidance 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 this guidance, 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.

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*Stock Based Compensation.* Under authoritative guidance, stock-based compensation expense recognized in the statement of operations is based on options ultimately expected to vest, 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 in accordance with the authoritative guidance. 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 2010 and 2009 resulted in an expected term of approximately five years. For options granted in fiscal 2008, 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 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.

Authoritative guidance 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.

As stock-based compensation expense recognized in the Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures in accordance with authoritative guidance. We estimate forfeitures at the time of grant and revise the original estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

**Off-Balance Sheet Arrangements**

At March 31, 2010, 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 February 2010, the Financial Accounting Standards Board (the "FASB") amended its guidance on subsequent events. The amendment states that entities that are required to file or furnish their financial statements with the SEC are no longer required to disclose the date through which the entity has evaluated subsequent events. This amendment is effective for our year ended March 31, 2010, and the implementation did not have an impact on our consolidated financial position, results of operations or cash flows as it is disclosure-only in nature.

In January 2010, the FASB issued authoritative guidance for fair value measurements. This guidance now requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and also to describe the reasons for these transfers. This authoritative guidance also requires enhanced disclosure of activity in Level 3 fair value measurements. The guidance for Level 1 and Level 2 fair value measurements is effective for our year ended March 31, 2010. The implementation did not have an impact on our consolidated financial position, results of operations or cash flows as it is disclosure-only in nature. The guidance for Level 3 fair value measurements disclosures becomes effective for our interim reporting period ending June 30, 2011, and we do not expect that this guidance will have an impact on our consolidated financial position, results of operations or cash flows as it is disclosure-only in nature and we do not have any level 3 securities as at March 31, 2010.

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In August 2009, the FASB issued authoritative guidance for measuring liabilities at fair value that reaffirms the existing definition of fair value and reintroduces the concept of entry value into the determination of fair value of liabilities. Entry value is the amount an entity would receive to enter into an identical liability. The implementation of this guidance in the quarter ended December 31, 2009 did not have any impact on our consolidated financial position, results of operations or cash flows.

In June 2009, the FASB established authorized guidance relating to accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The implementation of this guidance in the quarter ended September 30, 2009 did not have any impact on our consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued authoritative guidance for business combinations that amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance will require such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with authoritative guidance for contingencies. The guidance became effective for our business combinations for which the acquisition date is on or after April 1, 2009. We did not acquire any contingencies as part of the business combination that we completed during the year ended March 31, 2010, and the effect of this guidance on future periods will depend on the nature and significance of any business combinations we may make that are subject to this guidance.

In April 2009, the FASB issued authoritative guidance which amended previous guidance for determining whether impairment is other-than-temporary for debt securities. This guidance 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, this guidance expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. We adopted this guidance on April 1, 2009, and its adoption did not have a material effect on our consolidated results of operations or financial position.

In April 2009, the FASB issued authoritative guidance that 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. This guidance 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 guidance also requires increased disclosures. We adopted this guidance on April 1, 2009, and its adoption did not have a material effect on our consolidated results of operations or financial position.

In April 2009, the FASB issued authoritative guidance that requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. We adopted this guidance on April 1, 2009, and its adoption did not have a material effect on our consolidated results of operations or financial position.

In December 2007, the FASB issued authoritative guidance for business combinations which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its

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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. This guidance applies for us to business combinations for which the acquisition date is on or after April 1, 2009. We accounted for the business combination that we completed during the year ended March 31, 2010 under this guidance.

In December 2007, the FASB issued authoritative guidance which establishes 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. We adopted this guidance on April 1, 2009 and its adoption did not have a material effect on our consolidated results of operations or financial position.

**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 $69.3 million at March 31, 2010. These amounts were invested primarily in money market funds, state and municipal obligations, corporate notes and certificates of deposit. 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.

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**Item 8.** ***Financial Statements and Supplementary Data***

**GSI TECHNOLOGY, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of 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, 2010 and March 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010 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. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on criteria established in *Internal Control  Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in 2010). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California
June 4, 2010

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**GSI TECHNOLOGY, INC.**

**CONSOLIDATED BALANCE SHEETS**

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands, except share and per share amounts) | |
| ASSETS | | |
| Cash and cash equivalents | $ 24,658 | $ 12,597 |
| Short-term investments | 22,120 | 34,740 |
| Accounts receivable, net | 9,241 | 5,622 |
| Inventories | 15,436 | 10,995 |
| Prepaid expenses and other current assets | 3,889 | 2,442 |
| Deferred income taxes | 1,274 | 975 |
| Total current assets | 76,618 | 67,371 |
| Property and equipment, net | 12,344 | 5,126 |
| Long-term investments | 22,565 | 19,428 |
| Other assets | 1,601 | 748 |
| Total assets | $ 113,128 | $ 92,673 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | $ 6,686 | $ 2,908 |
| Accrued expenses and other liabilities | 3,569 | 1,973 |
| Deferred revenue | 3,316 | 2,736 |
| Total current liabilities | 13,571 | 7,617 |
| Income taxes payable | 838 | 351 |
| Total liabilities | 14,409 | 7,968 |
| 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: 27,575,123 and 26,719,537 shares, respectively | 28 | 27 |
| Additional paid-in capital | 49,872 | 46,202 |
| Accumulated other comprehensive income | 190 | 230 |
| Retained earnings | 48,629 | 38,246 |
| Total stockholders' equity | 98,719 | 84,705 |
| Total liabilities and stockholders' equity | $ 113,128 | $ 92,673 |

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

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**GSI TECHNOLOGY, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands, except per share amounts) | | |
| Net revenues | $ 67,558 | $ 62,108 | $ 53,170 |
| Cost of revenues | 38,342 | 35,552 | 31,847 |
| Gross profit | 29,216 | 26,556 | 21,323 |
| Operating expenses: | | | |
| Research and development | 9,069 | 5,737 | 4,365 |
| Selling, general and administrative | 9,534 | 9,295 | 9,464 |
| Total operating expenses | 18,603 | 15,032 | 13,829 |
| Income from operations | 10,613 | 11,524 | 7,494 |
| Interest income, net | 894 | 1,461 | 1,703 |
| Other income (expense), net | 1,071 | (98) | 81 |
| Income before income taxes | 12,578 | 12,887 | 9,278 |
| Provision for income taxes | 2,195 | 3,598 | 2,505 |
| Net income | $ 10,383 | $ 9,289 | $ 6,773 |
| Net income per share: | | | |
| Basic | $ 0.38 | $ 0.33 | $ 0.25 |
| Diluted | $ 0.38 | $ 0.33 | $ 0.24 |
| Weighted average shares used in per share calculations: | | | |
| Basic | 27,105 | 27,735 | 27,537 |
| Diluted | 27,688 | 28,386 | 28,624 |

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

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**GSI TECHNOLOGY, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| | (In thousands, except share amounts) | | | | | |
| 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 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 9,289 | 9,289 |
| Net unrealized gain on available-for-sale investments | | | | 214 | | 214 |
| Total comprehensive income | | | | | | 9,503 |
| Balance, March 31, 2009 | 26,719,537 | 27 | 46,202 | 230 | 38,246 | 84,705 |
| Issuance of common stock under employee stock option plans | 877,369 | 1 | 1,637 | | | 1,638 |
| Repurchase of common stock | (21,783) | | (58) | | | (58) |
| Stock-based compensation expense | | | 1,479 | | | 1,479 |
| Windfall tax benefit from stock options exercised | | | 612 | | | 612 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 10,383 | 10,383 |
| Net unrealized loss on available-for-sale investments | | | | (40) | | (40) |
| Total comprehensive income | | | | | | 10,343 |
| Balance, March 31, 2010 | 27,575,123 | $ 28 | $ 49,872 | $ 190 | $ 48,629 | $ 98,719 |

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

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**GSI TECHNOLOGY, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | $ 10,383 | $ 9,289 | $ 6,773 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Allowance for sales returns, doubtful accounts and other | (22) | 7 | 8 |
| Gain on bargain purchase | (1,099) | | |
| Provision for excess and obsolete inventories | 394 | 942 | 713 |
| Depreciation and amortization | 2,196 | 1,362 | 1,187 |
| Stock-based compensation | 1,479 | 1,328 | 1,461 |
| Deferred income taxes | (299) | 591 | (211) |
| Windfall tax benefits from stock options exercised | (612) | (280) | (13) |
| Amortization of bond premium on investments | 1,000 | 876 | 340 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (3,597) | 1,847 | (1,087) |
| Inventory | (1,133) | 3,767 | 7,792 |
| Prepaid expenses and other assets | (968) | (631) | 789 |
| Accounts payable | 3,404 | (1,322) | (578) |
| Accrued expenses and other liabilities | 1,995 | 628 | 413 |
| Deferred revenue | 580 | (2,207) | 1,239 |
| Net cash provided by operating activities | 13,701 | 16,197 | 18,826 |
| Cash flows from investing activities: | | | |
| Decrease in restricted cash | | | 1,000 |
| Purchase of investments | (28,669) | (49,713) | (75,822) |
| Sales and maturities of short-term investments | 37,186 | 34,154 | 40,227 |
| Acquisition of new business | (6,327) | | |
| Purchases of property and equipment | (6,022) | (674) | (3,339) |
| Net cash used in investing activities | (3,832) | (16,233) | (37,934) |
| Cash flows from financing activities: | | | |
| Initial public offering costs paid during the year | | | (739) |
| Proceeds from initial public offering, net of underwriting discount | | | 31,361 |
| Repurchase of common stock | (58) | (4,090) | |
| Windfall tax benefits from stock options exercised | 612 | 280 | 13 |
| Proceeds from issuance of common stock under employee stock plans | 1,638 | 544 | 97 |
| Net cash provided by (used in) financing activities | 2,192 | (3,266) | 30,732 |
| Net increase (decrease) in cash and cash equivalents | 12,061 | (3,302) | 11,624 |
| Cash and cash equivalents at beginning of the year | 12,597 | 15,899 | 4,275 |
| Cash and cash equivalents at end of the year | $ 24,658 | $ 12,597 | $ 15,899 |
| Non-cash financing activities: | | | |

| | | | |
|---|---|---|---|
| Purchases of property and equipment through accounts payable and accruals | $ 746 | $ 259 | $ 285 |
| Conversion of preferred stock to common stock | $ | $ | $ 9,007 |
| Supplemental cash flow information: | | | |
| Cash paid for income taxes | $ 1,229 | $ 2,732 | $ 2,777 |
| Supplemental disclosure of investing activities: | | | |
| Fair value of assets acquired | $ 8,013 | $ | $ |
| Gain on bargain purchase | (1,099) | | |
| Unpaid purchase consideration | (587) | | |
| Acquisition of new business, net of gain | $ 6,327 | $ | $ |

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

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**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, 2010, 2009 and 2008, 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

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**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.

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**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, 2010, 2009 or 2008.

In fiscal 2010, 2009 and 2008, sales to the Company's top 10 customers accounted for approximately 94%, 94% and 89% of net revenues, respectively. At March 31, 2010, five customers accounted for 16%, 14%, 13%, 13% and 12% of accounts receivable, and for the year then ended, three customers accounted for 22%, 21% and 10% of net revenues. 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.

***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.

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**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, 2010, 2009 or 2008.

***Intangible Assets***

Intangible assets are amortized over their estimated useful lives, generally on a straight-line basis over five to nine years. The Company reviews identifiable amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value.

***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.

Authoritative guidance 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 guidance, 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 guidance in the first quarter of fiscal 2008 and the impact of the adoption of this guidance is disclosed in Note 5.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***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, $7,000 and $11,000 for the years ended March 31, 2010, 2009, and 2008, 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 U.S. dollars are included in the statements of operations. These gains and losses have not been material for the years ended March 31, 2010, 2009 and 2008.

***Segments***

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

***Accounting for stock-based compensation***

Under authoritative guidance, stock-based compensation expense recognized in the statement of operations is based on options ultimately expected to vest, 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 according to authoritative guidance. 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 2010 and 2009 resulted in an expected term of approximately five years. For options granted in fiscal 2008, 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.

The Company has elected to adopt authoritative guidance related to the alternative transition method for calculating the tax effects of stock-based compensation under authoritative guidance. 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 authoritative guidance.

Authoritative guidance 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***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, 2010, 2009 and 2008, comprehensive income was $10,343,000, $9,503,000 and $6,789.000, respectively.

***Recent accounting pronouncements***

In February 2010, the Financial Accounting Standards Board (the "FASB") amended its guidance on subsequent events. The amendment states that entities that are required to file or furnish their financial statements with the SEC are no longer required to disclose the date through which the entity has evaluated subsequent events. This amendment is effective for the Company's year ended March 31, 2010, and the implementation did not have an impact on the Company's consolidated financial position, results of operations or cash flows as it is disclosure-only in nature.

In January 2010, the FASB issued authoritative guidance for fair value measurements. This guidance now requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and also to describe the reasons for these transfers. This authoritative guidance also requires enhanced disclosure of activity in Level 3 fair value measurements. The guidance for Level 1 and Level 2 fair value measurements is effective for the Company's year ended March 31, 2010. The implementation did not have an impact on the Company's consolidated financial position, results of operations or cash flows as it is disclosure-only in nature. The guidance for Level 3 fair value measurements disclosures becomes effective for the Company's interim reporting period ending June 30, 2011, and the Company does not expect that this guidance will have an impact on its consolidated financial position, results of operations or cash flows as it is disclosure-only in nature and the Company does not have any level 3 securities as at March 31, 2010.

In August 2009, the FASB issued authoritative guidance for measuring liabilities at fair value that reaffirmed the previous definition of fair value and reintroduced the concept of entry value into the determination of fair value of liabilities. Entry value is the amount an entity would receive to enter into an identical liability. The implementation of this guidance in the quarter ended December 31, 2009 did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2009, the FASB established authoritative guidance relating to accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The implementation of this guidance in the quarter ended September 30, 2009 did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued authoritative guidance for business combinations that amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance will require such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with authoritative guidance for contingencies. The guidance became

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

effective for the Company's business combinations for which the acquisition date is on or after April 1, 2009. The Company did not acquire any contingencies as part of the business combination that it completed during the year ended March 31, 2010, and the effect of this guidance on future periods will depend on the nature and significance of any business combinations the Company may make that are subject to this guidance.

In April 2009, the FASB issued authoritative guidance which amended previous existing guidance for determining whether impairment is other-than-temporary for debt securities. This guidance 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, this guidance expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that 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. This guidance 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 guidance also requires increased disclosures. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company's consolidated financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material effect on its consolidated results of operations or financial position.

In December 2007, the FASB revised authoritative guidance for business combinations which 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. This guidance applies for the Company to business combinations for which the acquisition date is on or after April 1, 2009. The Company accounted for the business combination that it completed during the year ended March 31, 2010 under this guidance.

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**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 authoritative guidance which established 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. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company's consolidated financial position or results of operations.

**NOTE 2 NET INCOME PER COMMON SHARE**

The Company applies authoritative guidance 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.

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**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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands, except per share amounts) | | |
| Numerators: | | | |
| Net income | $ 10,383 | $ 9,289 | $ 6,773 |
| Net income allocated to participating redeemable convertible preferred stockholders | | | (5) |
| Net income available to common stockholders Basic | 10,383 | 9,289 | 6,768 |
| Net income allocated to participating redeemable convertible preferred stockholders | | | 5 |
| Net income available to common stockholders Diluted | $ 10,383 | $ 9,289 | $ 6,773 |
| Denominators: | | | |
| Weighted average shares Basic | 27,105 | 27,735 | 27,537 |
| Dilutive effect of employee stock options | 567 | 650 | 1,004 |
| Dilutive effect of employee stock purchase plan options | 16 | 1 | 1 |
| Dilutive effect of redeemable convertible preferred shares | | | 82 |
| Weighted average shares Dilutive | 27,688 | 28,386 | 28,624 |
| Net income per common share Basic | $ 0.38 | $ 0.33 | $ 0.25 |
| Net income per common share Diluted | $ 0.38 | $ 0.33 | $ 0.24 |

The following outstanding redeemable convertible preferred stock and common stock underlying outstanding stock options, determined on a weighted average basis, were excluded from the computation of diluted net income per share as they had an anti-dilutive effect:

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Redeemable convertible preferred stock | | | 1 |
| Shares underlying options | 3,633 | 3,062 | 2,554 |
| | 3,633 | 3,062 | 2,555 |

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3 BALANCE SHEET DETAIL**

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Inventories: | | |
| Work-in-progress | $ 6,889 | $ 3,112 |
| Finished goods | 7,637 | 6,882 |
| Inventory at distributors | 910 | 1,001 |
| | $ 15,436 | $ 10,995 |

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Accounts receivable, net: | | |
| Accounts receivable | $ 9,342 | $ 5,745 |
| Less: Allowances for sales returns, doubtful accounts and other | (101) | (123) |
| | $ 9,241 | $ 5,622 |

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Prepaid expenses and other current assets: | | |
| Prepaid tooling and masks | $ 2,179 | $ 1,107 |
| Other receivables | 736 | 796 |
| Other prepaid expenses | 974 | 539 |
| | $ 3,889 | $ 2,442 |

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Property and equipment, net: | | |
| Computer and other equipment | $ 12,195 | $ 9,383 |
| Software | 4,276 | 3,536 |
| Furniture and fixtures | 235 | 235 |
| Leasehold improvements | 746 | |
| Construction in progress | 5,486 | 729 |
| | 22,938 | 13,883 |

| | | |
|---|---|---|
| Less: Accumulated depreciation and amortization | (10,594) | (8,757) |
| | $ 12,344 | $ 5,126 |

Depreciation and amortization expense was $2,196,000, $1,362,000 and $1,187,000 for the years ended March 31, 2010, 2009 and 2008, respectively. Construction in progress at March 31, 2010 was

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3 BALANCE SHEET DETAIL (Continued)**

primarily comprised of costs associated with the purchase of our new headquarters building in Sunnyvale, California.

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Other Assets: | | |
| Non-current deferred income taxes | $ 196 | $ 630 |
| Intangibles, net | 1,285 | |
| Deposits | 120 | 118 |
| | $ 1,601 | $ 748 |

The following table summarizes the components of intangible assets and related accumulated amortization balances at March 31, 2010 (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Intangible assets: | | | |
| Product designs | $ 590 | $ (49) | $ 541 |
| Patents | 720 | (47) | 673 |
| Software | 80 | (9) | 71 |
| Total | $ 1,390 | $ (105) | $ 1,285 |

The following table presents details of the amortization of intangible assets included in the cost of revenue and operating expenses categories for the year ended March 31, 2010 (in thousands):

| | |
|---|---|
| Cost of revenue | $ 78 |
| Operating expenses: | |
| Selling, general and administrative | 27 |

As of March 31, 2010, the estimated future amortization expense of intangible assets in the table above is as follows, (in thousands):

| Fiscal Year Ending | Estimated Amortization |
|---|---|
| 2011 | $ 180 |
| 2012 | 180 |
| 2013 | 180 |
| 2014 | 180 |
| 2015 | 171 |
| Thereafter | 394 |
| Total | $ 1,285 |

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3 BALANCE SHEET DETAIL (Continued)**

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Accrued expenses and other liabilities: | | |
| Accrued compensation | $ 1,298 | $ 784 |
| Accrued acquisition payments | 587 | |
| Accrued professional fees | 12 | 149 |
| Accrued commissions | 406 | 340 |
| Accrued royalties | 31 | 17 |
| Accrued income taxes | 498 | 131 |
| Accrued equipment and software costs | 248 | 135 |
| Other accrued expenses | 489 | 417 |
| | $ 3,569 | $ 1,973 |

**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. Sales to HolyStone in fiscal 2008 from April 1, 2007 to August 28, 2007 were $347,000.

**NOTE 5 INCOME TAXES**

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

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Income before income taxes: | | | |
| U.S | $ 6,595 | $ 8,209 | $ 7,597 |
| Foreign | 5,983 | 4,678 | 1,681 |
| | $ 12,578 | $ 12,887 | $ 9,278 |
| Current: | | | |
| U.S. federal | $ 2,162 | $ 2,416 | $ 2,702 |
| Foreign | 11 | 35 | 36 |
| State | 466 | 554 | (21) |
| | 2,639 | 3,005 | 2,717 |
| Deferred: | | | |
| U.S. federal | (223) | 273 | (430) |
| State | (221) | 320 | 218 |

| | | | |
|---|---|---|---|
| | (444) | 593 | (212) |
| | $ 2,195 | $ 3,598 | $ 2,505 |

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5 INCOME TAXES (Continued)**

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, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| U.S. Federal taxes at statutory rate | $ 4,278 | $ 4,382 | $ 3,200 |
| State taxes, net of federal benefit | 127 | 684 | 198 |
| Stock-based compensation | 319 | 301 | 367 |
| Tax credits | (340) | (12) | (16) |
| Foreign tax rate differential | (1,701) | (1,429) | (592) |
| Tax exempt interest | (136) | (322) | (541) |
| Gain on bargain purchase | (374) | | |
| Other | 22 | (6) | (111) |
| | $ 2,195 | $ 3,598 | $ 2,505 |

Deferred tax assets and deferred tax liabilities consist of the following:

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| Deferred tax assets: | | |
| Deferred revenue | $ 597 | $ 365 |
| Tax credits | 72 | |
| Property and equipment | 78 | 275 |
| Stock-based compensation | 547 | 354 |
| Other reserves and accruals | 706 | 611 |
| Total deferred tax assets | $ 2,000 | $ 1,605 |
| Deferred tax liabilities: | | |
| Property and equipment | $ (460) | $ |
| Unrecognized gains | (71) | |
| Total deferred tax liabilities | $ (531) | $ |
| Net deferred tax assets | $ 1,469 | $ 1,605 |

The Company had no federal research tax credit carryforwards for income tax purposes as of March 31, 2010. The Company had state research tax credit carryforwards for income tax purposes of $161,000 as of March 31, 2010.

U.S. income taxes and withholding taxes have not been provided on a cumulative total of $13.8 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 5 INCOME TAXES (Continued)**

Effective April 1, 2007, the Company adopted authoritative guidance related to accounting for uncertainty in income taxes. This guidance utilizes a two-step approach to recognizing and measuring uncertain tax positions. The adoption of this authoritative guidance 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 this authoritative guidance, $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 this guidance were approximately $45,000.

The current portion of the Company's unrecognized tax benefits at March 31, 2010 and 2009 was $524,000 and $471,000, respectively. The long-term portion at March 31, 2010 and 2009 was $838,000 and $351,000, respectively, of which the timing of the resolution is uncertain. As of March 31, 2010, $370,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. It is possible, however, that some months or 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:

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Unrecognized tax benefits, beginning of period | $ 1,107 | $327 | $ 273 |
| Additions based on tax positions related to current year | 422 | 118 | 114 |
| Additions based on tax positions related to prior years | 230 | 682 | |
| Settlements during the period | | | (28) |
| Lapses during the current year applicable to statute of limitations | (143) | (20) | (32) |
| Unrecognized tax benefits, end of period | $ 1,616 | $1,107 | $ 327 |

The unrecognized tax benefit balance as of March 31, 2010 of $1,616,000 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 authoritative guidance.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. Fiscal years 2004 through 2010 remain open to examination by the federal and most state tax authorities.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6 FINANCIAL INSTRUMENTS**

***Fair value measurements***

Effective April 1, 2008, the first day of the Company's 2009 fiscal year, the Company adopted authoritative guidance issued in December 2007 for fair value measurements for financial assets and liabilities measured on a recurring basis. The guidance applies to all financial assets and financial liabilities that are being measured on a recurring basis, established a framework for measuring fair value and expanded related disclosures. The guidance 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, 2010, the Level 1 category included money market funds of $8.9 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, 2010, the Level 2 category included short-term investments of $22.1 million and long term-investments of $22.6 million, which were comprised of certificates of deposit, corporate debt securities and government and agency securities.

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, 2010, the Company had no Level 3 financial assets measured at fair value in the Consolidated Balance Sheets.

Effective April 1, 2009, the Company adopted the newly issued authoritative guidance for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption did not have a material impact on the Company's consolidated financial position or results of operations.

***Short-term and long-term investments***

All of the Company's short-term and long-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 Condensed Consolidated Balance Sheets. The Company had money market funds of $8.9 million and $4.6 million at March 31, 2010 and March 31, 2009, respectively, included in cash and cash equivalents in the Condensed Consolidated Balance Sheet. 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6 FINANCIAL INSTRUMENTS (Continued)**

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

| | March 31, 2010 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In thousands) | | | |
| Short-term investments: | | | | |
| State and municipal obligations | $ 10,706 | $ 61 | $ | $ 10,767 |
| Corporate notes | 9,774 | 107 | | 9,881 |
| Certificates of deposit | 1,470 | 2 | | 1,472 |
| Total short-term investments | $ 21,950 | $ 170 | $ | $ 22,120 |
| Long-term investments: | | | | |
| State and municipal obligations | $ 9,917 | $ 14 | $ | $ 9,931 |
| Corporate notes | 9,107 | 65 | | 9,172 |
| Certificates of deposit | 3,450 | 12 | | 3,462 |
| Total long-term investments | $ 22,474 | $ 91 | $ | $ 22,565 |

| | March 31, 2009 | | | |
|---|---|---|---|---|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (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 |

The Company's investment portfolio consists of both corporate and governmental securities that have a maximum maturity of three years. All unrealized losses are due to changes in interest rates and bond yields. The Company has the ability to realize the full value of all these investments upon maturity.

At March 31, 2010, the deferred tax liability related to unrecognized gains and losses on short-term investments was $71,000. At March 31, 2010, the deferred tax asset related to unrecognized gains and losses on short-term and long-term investments was $3,000.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 6 FINANCIAL INSTRUMENTS (Continued)**

As of March 31, 2010, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

| | Cost | Fair Value |
|---|---|---|
| | (In thousands) | |
| Maturing within one year | $ 21,950 | $ 22,120 |
| Maturing in one to three years | 22,474 | 22,565 |
| Maturing in more than three years | | |
| | $ 44,424 | $ 44,685 |

**NOTE 7 COMMITMENTS AND CONTINGENCIES**

***Operating leases***

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through August 2014. Rent expense for the years ended March 31, 2010, 2009 and 2008 was $613,000, $616,000 and $561,000, 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.

Future minimum lease payments under noncancelable operating leases with remaining lease terms in excess of one year at March 31, 2010 are as follows:

| Year Ending March 31, | Operating Leases |
|---|---|
| | (In thousands) |
| 2011 | $ 469 |
| 2012 | 321 |
| 2013 | 321 |
| 2014 | 321 |
| 2015 | 135 |
| Thereafter | |
| Total | $ 1,567 |

***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, 2010, 2009 and 2008 was $71,000, $88,000 and $93,000, 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

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)**

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, 2010, 2009 or 2008.

***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.

**NOTE 10 STOCK BASED COMPENSATION**

In 1997, the Company adopted the 1997 Stock Plan (the "1997 Plan"). The 1997 Plan provided for the granting of stock options and stock purchase rights to employees and consultants of the Company. Options granted under the 1997 Plan could be either incentive stock options ("ISOs") or nonstatutory stock options ("NSOs"). ISOs could be granted only to Company employees (including officers and directors who are also employees). NSOs could be granted to Company employees and consultants. The Company 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 provided for the granting of stock options and stock purchase rights to employees, consultants and

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCK BASED COMPENSATION (Continued)**

directors of the Company. Options granted under the 2000 Plan could 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.

Upon the adoption of the 2000 Plan in February 2001, the 1997 Plan was terminated. No further options were granted under the 1997 Plan, and the 2,748,298 shares that remained reserved for grants under the 1997 Plan were cancelled. Outstanding options and shares issued upon exercise of options granted under the 1997 Plan continue to be governed by the terms and conditions of the 1997 Plan.

Options under both the 1997 and 2000 Plans could 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 was granted, owned stock representing more than 10% of the voting power of all classes of stock of the Company, the term of the option is five 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 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 the 2007 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 automatically increases on April 1, of each year through 2017 by an amount equal to the smaller of (a) five percent of the number of shares of common 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 the Company's 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.

Upon the adoption of the Equity Plan in March 2007, the 2000 Plan was terminated, no further options were granted under the 2000 Plan, the 535,597 shares that remained reserved for grant under the 2000 Plan were cancelled, and all subsequent grants of stock options were made pursuant to the Equity Plan.

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 ISOs only to employees, the Company may grant NSOs, 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 may 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCK BASED COMPENSATION (Continued)**

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 NSOs, stock appreciation rights, restricted stock awards and restricted stock unit awards. Subject to adjustment for changes in the Company's 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 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 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

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCK BASED COMPENSATION (Continued)**

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 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCK BASED COMPENSATION (Continued)**

The following table summarizes stock option activities:

| | Shares Available for Grant | Number of Shares Underlying Options Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Intrinsic Value |
|---|---|---|---|---|---|
| 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 reserved | 1,335,977 | | | | |
| Granted | (1,352,338) | 1,352,338 | | 3.84 | |
| Exercised | | (816,686) | | 1.80 | 1,866,429 |
| Forfeited | 20,595 | (112,244) | | 4.26 | |
| Balance at March 31, 2010 | 3,027,622 | 5,404,145 | | $ 4.08 | |
| Options vested and exercisable | | 2,885,383 | 4.38 | $ 4.36 | $ 2,239,685 |
| Options vested and expected to vest | | 5,280,235 | 6.37 | $ 4.09 | $ 4,511,121 |

The options outstanding and by exercise price at March 31, 2010 are as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Number Vested and Exercisable | Weighted Average Exercise Price |
| $2.00 | 38,070 | $ 2.00 | 0.13 | 38,070 | $ 2.00 |
| $2.10 | 598,341 | $ 2.10 | 3.29 | 598,341 | $ 2.10 |
| $2.43 - 3.37 | 765,775 | $ 2.95 | 8.49 | 171,560 | $ 3.00 |
| $3.38 - 3.50 | 582,666 | $ 3.44 | 8.34 | 117,617 | $ 3.49 |
| $3.75 - 3.94 | 237,576 | $ 3.78 | 7.24 | 81,254 | $ 3.78 |
| $4.00 | 960,028 | $ 4.00 | 8.42 | 119,100 | $ 4.00 |
| $4.20 - 4.50 | 452,035 | $ 4.35 | 7.71 | 140,166 | $ 4.42 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $5.40 | 620,754 | $ | 5.40 | 1.15 | 620,754 | $ | 5.40 |
| $5.50 | 951,200 | $ | 5.50 | 6.63 | 839,621 | $ | 5.50 |
| $5.75 - 6.70 | 197,700 | $ | 5.90 | 5.49 | 158,900 | $ | 5.93 |
| | 5,404,145 | | | | 2,885,383 | | |

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 10 STOCK BASED COMPENSATION (Continued)**

***Stock-based compensation***

The Company recognized $1,479,000, $1,328,000 and $1,461,000 of stock-based compensation expense for the years ended March 31, 2010, 2009 and 2008, respectively, as follows:

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| Cost of revenues | $ 291 | $ 297 | $ 294 |
| Research and development | 686 | 436 | 469 |
| Selling, general and administrative | 502 | 595 | 698 |
| Total | $ 1,479 | $ 1,328 | $ 1,461 |

Stock based compensation expense in the years ended March 31, 2010 and 2009 includes $71,000 and $54,000, respectively, related to the Company's Employee Stock Purchase Plan.

The Company recognized related income tax benefits of $183,000, $168,000 and $141,000 in the years ended March 31, 2010, 2009 and 2008, respectively. Windfall tax benefits realized from exercised stock options were $612,000, $280,000 and $13,000 during the fiscal years ended March 31, 2010, 2009 and 2008, respectively. Compensation cost capitalized within inventory at March 31, 2010 was insignificant. As of March 31, 2010, the Company's total unrecognized compensation cost was $3.0 million, which will be recognized over the weighted average period of 1.67 years. The Company calculated the fair value of stock based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

| | Year Ended March 31, | | |
|---|---|---|---|
| **Stock Option Plans:** | **2010** | **2009** | **2008** |
| Risk-free interest rate | 2.23 - 2.47% | 1.76 - 3.16% | 2.54 - 4.76% |
| Expected life (in years) | 5.00 | 5.00 | 4.00 |
| Volatility | 48.1 - 48.6% | 43.5 - 48.2% | 40.3 - 43.8% |
| Dividend yield | 0% | 0% | 0% |
| **Employee Stock Purchase Plan:** | | | |
| Risk-free interest rate | 0.17 - 0.29% | 0.87 - 1.89% | 2.27% |
| Expected life (in years) | 0.5 | 0.5 | 0.28 |
| Volatility | 41.4 - 52.3% | 48.7 - 58.0% | 74.2% |
| Dividend yield | 0% | 0% | 0% |

The weighted average fair value of options granted during the years ended March 31, 2010, 2009 and 2008 was $1.70, $1.45 and $1.32, respectively.

**NOTE 11 SEGMENT AND GEOGRAPHIC 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.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (Continued)**

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

| | Year Ended March 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | (In thousands) | | |
| United States | $ 20,998 | $ 23,853 | $ 24,960 |
| China | 15,373 | 13,242 | 7,841 |
| Malaysia | 18,160 | 11,406 | 9,980 |
| Singapore | 7,934 | 7,951 | 4,873 |
| Rest of the world | 5,093 | 5,656 | 5,516 |
| | $ 67,558 | $ 62,108 | $ 53,170 |

All sales are denominated in United States dollars.

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

| | March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (In thousands) | |
| United States | $ 9,219 | $ 2,503 |
| Taiwan | 3,125 | 2,623 |
| | $ 12,344 | $ 5,126 |

**NOTE 12 ACQUISITION**

On August 28, 2009, the Company acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation and its subsidiaries, including Sony Electronics Inc. (collectively, "Sony"). As part of the transaction, the Company also entered into an Intellectual Property Agreement with Sony under which it acquired certain patents and license rights to other intellectual property used in connection with the acquired product line.

The acquisition was undertaken by the Company in order to increase its market share in the SRAM memory business, expand its relationships with its major customers and expand its product portfolio. The acquisition resulted in a bargain purchase as Sony had been incurring significant losses on an annual basis, had a minimal product offering, had only one customer and declining annual revenues at the time of the acquisition and was therefore motivated to sell the assets of its SRAM product line.

The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. The purchase price of the acquisition has been preliminarily allocated to the net tangible and intangible assets acquired, with the excess of the fair value of assets acquired over the purchase price recorded as a bargain purchase gain.

The results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company's condensed consolidated financial statements beginning August 29, 2009.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12 ACQUISITION (Continued)**

***Consideration***

The total purchase consideration is expected to be approximately $6.9 million in cash, of which approximately $5.2 million was paid at the closing and $1.2 million was paid in October 2009 following a post-closing adjustment to reflect actual product inventory on hand at the closing. The purchase consideration also includes contingent consideration of $617,000, which represents the fair value of future cash payments expected to be made by the Company based on the sale of certain acquired SRAM products over an eight quarter period commencing with the September 2009 quarter, the quarter in which the Company first derived revenue from shipments of such products. The Company estimated the contingent consideration based on probability weighted expected future cash flows, and it is included under accrued expenses and other liabilities in the Consolidated Balance Sheet at March 31, 2010. These cash flows were discounted at a rate of approximately 20%. There is no material change in the fair value of contingent consideration at March 31, 2010 compared to fair value estimated at September 30, 2009.

***Acquisition-related costs***

Acquisition-related costs of approximately $533,000 are included in selling, general and administrative expenses in the Consolidated Statement of Operations for the year ended March 31, 2010.

***Purchase price allocation***

The allocation of the purchase price to acquired tangible and identifiable intangible assets was based on their estimated fair values at the date of acquisition.

The fair value allocated to each of the major classes of tangible and identifiable intangible assets of Sony's SRAM memory device product line acquired on August 28, 2009 and the bargain purchase gain recorded under other income (expense), net in the Consolidated Statements of Operations was computed as follows (in thousands):

| | |
|---|---|
| Inventory | $ 3,702 |
| Tooling and masks | 604 |
| Property and equipment | 2,800 |
| Intangible assets | 1,390 |
| Deferred tax liability resulting from acquisition | (483) |
| Net tangible and intangible assets | 8,013 |
| Purchase price | 6,914 |
| Gain on bargain purchase | $ 1,099 |

The deferred tax liability associated with the estimated fair value adjustments of tangible and intangible assets acquired is recorded at an estimated weighted average statutory tax rate in the jurisdictions where the fair value adjustments may occur.

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12 ACQUISITION (Continued)**

***Identifiable intangible assets***

The following table sets forth the components of the identifiable intangible assets acquired in the purchase of Sony's SRAM memory device product line, which are being amortized over their estimated useful lives, with a maximum amortization period of nine years, on a straight-line basis:

| | Fair Value (in thousands) | Useful Life (in years) |
|---|---|---|
| Patents | $ 720 | 9.0 |
| Designs | 590 | 7.0 |
| Software | 80 | 5.0 |
| Total acquired identifiable intangible assets | $ 1,390 | |

In accordance with authoritative guidance for fair value measurements, the Company allocated the purchase price using established valuation techniques.

*Inventories* The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory less costs to complete and reasonable selling margin.

*Property, plant and equipment* The basis used for the Company's analysis was the fair value in continued use, which is considered to be the price expressed in terms of money which a willing and informed buyer would pay, contemplating continued use as part of a going concern of the assets in place for the purpose for which they were designed, engineered, installed, fabricated and erected.

*Intangible assets* The fair value of patents and designs were determined using the income approach, which discounted expected future cash flows to present value. The cash flows were discounted at a rate of approximately 20%. The fair value of software was determined using the cost saving approach.

Prior to the closing of the acquisition, there were no material relationships between GSI and Sony or any related parties or affiliates of Sony.

The following table summarizes total net revenues and net income (loss) of the combined entity had the acquisition of Sony's SRAM memory device product line occurred on April 1, 2009 and 2008, respectively (in thousands):

| | Three Months Ended March 31, | | Year Ended March 31, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Total net revenues | $ 21,244 | $ 15,630 | $ 69,330 | $ 70,405 |
| Net income (loss) | $ 3,888 | $ (6,665) | $ 4,114 | $ (10,132) |

The combined results in the table above have been prepared for comparative purposes only and include acquisition related adjustments for, among other items, amortization of identifiable intangible assets, conforming depreciation policies of Sony to GSI's, to reflect the bargain purchase gain and related tax impact and to reflect the step up in basis of acquired work-in-progress and finished goods inventories. Since the acquisition date, the results of the former Sony SRAM memory device operations

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**GSI TECHNOLOGY, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 12 ACQUISITION (Continued)**

have been included in the Company's consolidated financial statements. The combined results do not purport to be indicative of the results of operations which would have resulted had the acquisition been effected at the beginning of the applicable periods noted above, or the future results of operations of the combined entity.

**NOTE 13 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 14 QUARTERLY FINANCIAL DATA (Unaudited)**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2009 | Sept. 30, 2009 | Dec. 31, 2009 | March 31, 2010 |
| | (In thousands, except per share amounts) | | | |
| Consolidated Statement of Operations Data: | | | | |
| Net revenues | $ 14,208 | $ 14,676 | $ 17,430 | $ 21,244 |
| Gross profit | $ 6,043 | $ 6,509 | $ 7,494 | $ 9,170 |
| Net income | $ 2,121 | $ 2,446 | $ 2,011 | $ 3,805 |
| Net income per common share Basic | $ 0.08 | $ 0.09 | $ 0.07 | $ 0.14 |
| Net income per common share Diluted | $ 0.08 | $ 0.09 | $ 0.07 | $ 0.14 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2008 | Sept. 30, 2008 | Dec. 31, 2008 | March 31, 2009 |
| | (In thousands, except per share amounts) | | | |
| 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 |

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

Not applicable.

**Item 9A.** ***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, 2010, 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, 2010 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, 2010. 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, 2010.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on our internal control over financial reporting as of March 31, 2010. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting, appears on page 47 of this Annual Report on Form 10-K.

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**Item 9B.** ***Other Information***

Not applicable.

**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 2010 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.

**Item 14.** ***Principal Accountant 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.

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## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(a)

The following documents are filed as part of this Form:

**1.**

***Financial Statements***



**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 by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007) |
| 10.6 | 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) |

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| Exhibit Number | Name of Document |
|---|---|
| 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** | Asset Purchase Agreement dated August 28, 2009 between GSI Technology, Inc and Sony Electronics Inc. (Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed on November 16, 2009) |
| 10.14 | Intellectual Property Agreement dated August 28, 2009 between GSI Technology, Inc. and Sony Electronics Inc. (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed on November 16, 2009) |
| 10.15 | Agreement of Purchase and Sale dated September 15, 2009 between GSI Technology, Inc. and James S. Lindley and Sally K. Lindsey, Trustees of the Lindsey Family Trust dated May 25, 2004 and Khalil Jenab and Tiffany Renee Jenab, Trustees of the Jenab Family 1997 Trust dated December 11, 1997 (Incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q filed on November 16, 2009) |
| 10.16* | 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) |
| 10.17* | GSI Technology, Inc. 2011 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on April 5, 2010) |
| 21.1 | List of Subsidiaries |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 24.1 | Power of Attorney (Incorporated by reference to the signature page of this Annual Report on Form 10-K) |
| 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

**

This exhibit has been filed separately with the Commission pursuant to an application for confidential treatment. The confidential portion of this exhibit has been omitted and marked by asterisks.

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**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 4, 2010

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 |
|---|---|---|
| /s/ LEE-LEAN SHU<br>Lee-Lean Shu | President, Chief Executive Officer and Chairman<br>*(Principal Executive Officer)* | June 4, 2010 |
| /s/ DOUGLAS M. SCHIRLE<br>Douglas M. Schirle | Chief Financial Officer<br>*(Principal Financial and Accounting Officer)* | June 4, 2010 |
| /s/ ROBERT YAU<br>Robert Yau | Vice President, Engineering, Secretary and Director | June 4, 2010 |
| Ruey L. Lu | Director | |
| Arthur O. Whipple | Director | |
| /s/ HAYDN HSIEH<br>Haydn Hsieh | Director | June 4, 2010 |

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**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, 2010 | | | | |
| Allowance for sales returns, doubtful accounts and other | $ 123 | $ 29 | $ 51 | $ 101 |
| 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 |