GSI TECHNOLOGY INC
Form 10-Q
February 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2009

or

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

For the transition period from to

Commission File Number 000-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

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

2360 Owen Street
Santa Clara, California 95054

(Address of principal executive offices, zip code)

(408) 980-8388

(Registrant s telephone number, including area code)

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 x 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 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 o
Non-accelerated filer o	Smaller reporting company x

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

The number of shares of the registrant s common stock outstanding as of January 31, 2010: 27,429,109.

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GSI TECHNOLOGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2009	March 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 15,185	$ 12,597
Short-term investments	25,590	34,740
Accounts receivable, net	9,448	5,622
Inventories	15,795	10,995
Prepaid expenses and other current assets	3,754	2,442
Deferred income taxes	1,022	975
Total current assets	70,794	67,371
Property and equipment, net	12,170	5,126
Long-term investments	21,222	19,428
Other assets	2,044	748
Total assets	$ 106,230	$ 92,673
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 5,819	$ 2,908
Accrued expenses and other liabilities	3,264	1,973
Deferred revenue	3,227	2,736
Total current liabilities	12,310	7,617
Income taxes payable	487	351
Total liabilities	12,797	7,968
Commitments and contingencies (Note 6)		
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: 27,217,233 and 26,719,537 shares, respectively	27	27
Additional paid-in capital	48,369	46,202
Accumulated other comprehensive income	213	230
Retained earnings	44,824	38,246
Total stockholders equity	93,433	84,705
Total liabilities and stockholders equity	$ 106,230	$ 92,673

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands, except per share amounts)			
Net revenues	$ 17,430	$ 14,030	$ 46,314	$ 48,468
Cost of revenues	9,936	8,034	26,268	26,963
Gross profit	7,494	5,996	20,046	21,505
Operating expenses:				
Research and development	2,335	1,682	6,658	4,283
Selling, general and administrative	2,814	2,191	7,147	7,016
Total operating expenses	5,149	3,873	13,805	11,299
Income from operations	2,345	2,123	6,241	10,206
Interest income, net	189	378	715	1,128
Other income (expense), net	9	12	1,117	(64)
Income before income taxes	2,543	2,513	8,073	11,270
Provision for income taxes	532	1,026	1,495	3,185
Net income	$ 2,011	$ 1,487	$ 6,578	$ 8,085
Basic and diluted net income per share available to common stockholders:				
Basic	$ 0.07	$ 0.05	$ 0.24	$ 0.29
Diluted	$ 0.07	$ 0.05	$ 0.24	$ 0.28
Weighted average shares used in per share calculations:				
Basic	27,108	27,996	26,986	28,029
Diluted	27,696	28,613	27,538	28,751

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 6,578	$ 8,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for sales returns, doubtful accounts and other	(21)	21
Gain on bargain purchase	(1,122)	
Provision for excess and obsolete inventories	267	693
Depreciation and amortization	1,502	1,004
Stock-based compensation	1,084	986
Deferred income taxes	(47)	461
Windfall tax benefits from stock options exercised	(256)	(280)
Amortization of bond premium on investments	791	642
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(3,805)	35
Inventory	(1,365)	1,530
Prepaid expenses and other assets	(1,219)	(961)
Accounts payable	2,897	(1,582)
Accrued expenses and other liabilities	1,160	400
Deferred revenue	491	(1,223)
Net cash provided by operating activities	6,935	9,811
Cash flows from investing activities:		
Purchase of investments	(21,150)	(37,019)
Proceeds from sales and maturities of investments	27,760	25,416
Acquisition of new business	(6,368)	
Purchases of property and equipment	(5,672)	(596)
Net cash used in investing activities	(5,430)	(12,199)
Cash flows from financing activities:		
Repurchase of common stock	(58)	(2,508)
Windfall tax benefits from stock options exercised	256	280
Increase in bank overdrafts		508
Proceeds from issuance of common stock under employee stock plans	885	539
Net cash provided by (used in) financing activities	1,083	(1,181)
Net (decrease) increase in cash and cash equivalents	2,588	(3,569)
Cash and cash equivalents at beginning of the period	12,597	15,899
Cash and cash equivalents at end of the period	$ 15,185	$ 12,330
Non-cash financing activities:		
Purchases of property and equipment through accounts payable and accruals	$ 273	$ 219
Supplemental cash flow information:		
Cash paid for income taxes	$ 964	$ 2,636
Supplemental disclosure of investing activities:		
Fair value of assets acquired	$ 8,013	$

Gain on bargain purchase		(1,122)		
Unpaid purchase consideration		(523)		
Acquisition of new business, net of gain	$	6,368	$	

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

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GSI TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of GSI Technology, Inc. and its subsidiaries (GSI or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. These interim financial statements contain all adjustments (which consist of only normal, recurring adjustments) that are, in the opinion of management, necessary to state fairly the interim financial information included therein. The Company believes that the disclosures are adequate to make the information not misleading. However, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

References in this quarterly report on Form 10-Q to authoritative guidance are to The Accounting Standards Codification issued by the Financial Accounting Standards Board (FASB) in June 2009.

The consolidated results of operations for the three months and nine months ended December 31, 2009 are not necessarily indicative of the results to be expected for the entire fiscal year.

Significant accounting policies

The Company s significant accounting policies are disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

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.

Comprehensive net income

The Company s comprehensive net income for the three month and nine month periods ended December 31, 2009 and 2008 was as follows:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands)			
Net income	$ 2,011	$ 1,487	$ 6,578	$ 8,085
Net unrealized gain (loss) on available-for-sale investments	(32)	476	(17)	175
Comprehensive net income	$ 1,979	$ 1,963	$ 6,561	$ 8,260

Recent accounting pronouncements

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.

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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 May 2009, the FASB issued authoritative guidance relating to subsequent events. This new guidance does not materially change the previous existing guidance, but introduces the concept of financial statements being *available to be issued.* It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company adopted this guidance starting the first quarter of fiscal 2010.

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 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 nine months ended December 31, 2009, 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 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 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 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 will apply prospectively 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 nine months ended December 31, 2009 under this guidance.

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 financial position or results of operations.

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NOTE 2 NET INCOME PER COMMON SHARE

The Company uses the treasury stock method to calculate the weighted average shares used in computing diluted net income per share. The following table sets forth the computation of basic and diluted net income per share:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands, except per share amounts)			
Net income	$ 2,011	$ 1,487	$ 6,578	$ 8,085
Denominators:				
Weighted average shares Basic	27,108	27,996	26,986	28,029
Dilutive effect of employee stock options	588	617	552	722
Weighted average shares Dilutive	27,696	28,613	27,538	28,751
Net income per common share Basic	$ 0.07	$ 0.05	$ 0.24	$ 0.29
Net income per common share Diluted	$ 0.07	$ 0.05	$ 0.24	$ 0.28

The following shares of 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:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands)			
Shares underlying options	3,918	3,166	3,609	2,818

NOTE 3 BALANCE SHEET DETAIL

	December 31, 2009	March 31, 2009
	(In thousands)	
Inventories:		
Work-in-progress	$ 6,474	$ 3,112
Finished goods	8,313	6,882
Inventory at distributors	1,008	1,001
	$ 15,795	$ 10,995

	December 31, 2009	March 31, 2009
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	$ 9,550	$ 5,745
Less: Allowances for sales returns, doubtful accounts and other	(102)	(123)
	$ 9,448	$ 5,622

	December 31, 2009	March 31, 2009
	(In thousands)	
Prepaid expenses and other current assets:		
Prepaid tooling and masks	$ 2,134	$ 1,107
Other receivables	744	796
Other prepaid expenses	876	539
	$ 3,754	$ 2,442

	December 31, 2009	March 31, 2009
	(In thousands)	
Property and equipment, net:		
Computer and other equipment	$ 12,178	$ 9,383
Software	3,946	3,536
Furniture and fixtures	235	235
Leasehold improvements	746	729
Construction in progress	5,010	
	22,115	13,883
Less: Accumulated depreciation and amortization	(9,945)	(8,757)
	$ 12,170	$ 5,126

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Depreciation and amortization expense was $713,000 and $361,000, respectively, for the three months ended December 31, 2009 and 2008 and $1,502,000 and $1,004,000, respectively, for the nine months ended December 31, 2009 and 2008. Construction in progress at December 31, 2009 included $4.6 million in costs associated with the purchase of a 44,277 square foot office building and associated grounds in Sunnyvale, California. The facility is currently undergoing renovation, and the Company currently expects to occupy it in May, 2010. The Company will use this property as its corporate headquarters. The facility will also house the Company s U.S. development and production operations.

	December 31, 2009	March 31, 2009
	(In thousands)	
Other assets:		
Non-current deferred income taxes	$ 594	$ 630
Intangibles, net	1,330	
Deposits	120	118
	$ 2,044	$ 748

	December 31, 2009	March 31, 2009
	(In thousands)	
Accrued expenses and other liabilities:		
Accrued compensation	$ 1,076	$ 784
Accrued acquisition payments	523	
Accrued professional fees	15	149
Accrued commissions	426	340
Accrued royalties	22	17
Accrued income taxes	537	131
Accrued equipment and software costs	135	135
Other accrued expenses	530	417
	$ 3,264	$ 1,973

NOTE 4 INCOME TAXES

The current portion of the Company s unrecognized tax benefits at December 31, 2009 and March 31, 2009 was $649,000 and $471,000, respectively. The long-term portion at December 31, 2009 and March 31, 2009 was $487,000 and $351,000, respectively, of which the timing of the resolution is uncertain. As of December 31, 2009, $318,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. The unrecognized tax benefit balance as of December 31, 2009 of $1,317,000 would affect the Company s effective tax rate if recognized. 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.

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 Condensed Consolidated Statements of Operations.

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

The Company s estimated annual effective income tax rate was approximately 20.7% and 23.6% as of December 31, 2009 and 2008, respectively. The differences between the effective income tax rate and the applicable statutory U.S. income tax rate in each period were primarily due to the effects of tax credits, foreign tax rate differentials and tax free interest income, offset by stock-based compensation expense.

NOTE 5 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:

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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 December 31, 2009, the Level 1 category included money market funds of $6.6 million, which were included in cash and cash equivalents in the Condensed 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 December 31, 2009, the Level 2 category included short-term investments of $25.6 million and long term-investments of $21.2 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 December 31, 2009, the Company had no Level 3 financial assets measured at fair value in the Condensed 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 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 $6.6 million and $4.6 million at December 31, 2009 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.

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

	December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$ 17,714	$ 70	$	$ 17,784

Corporate notes		6,260		73				6,333
Certificates of deposit		1,470		3				1,473
Total short-term investments	$	25,444	$	146	$		$	25,590
Long-term investments:								
State and municipal obligations	$	6,001	$	40	$		$	6,041
Corporate notes		13,134		77				13,211
Certificates of deposit		1,960		10				1,970
Total long-term investments	$	21,095	$	127	$		$	21,222

				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

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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.

As of December 31, 2009, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was $60,000. At March 31, 2009, the deferred tax asset related to unrecognized gains and losses on short-term and long-term investments was $3,000.

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

		Cost		Fair Value
		(In thousands)		
Maturing within one year	$	25,444	$	25,590
Maturing in one to three years		21,095		21,222
	$	46,539	$	46,812

The Company classifies its short-term investments as available for sale as they are intended to be available for use in current operations.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Indemnification obligations

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

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

Product warranties

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

Legal proceedings

From time to time, the Company may be involved in litigation relating to claims arising out of its day-to-day operations. As of December 31, 2009, there was no significant litigation pending against the Company.

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NOTE 7 STOCK OPTION PLANS

As of December 31, 2009, 3,131,522 shares of common stock were available for grant under the Company s 2007 Equity Incentive Plan.

The following table summarizes the Company s stock option activities for the nine months ended December 31, 2009:

	Number of Shares Underlying Outstanding Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Options outstanding as of March 31, 2009	4,980,737		$ 3.78	
Granted	1,232,688		$ 3.78	
Exercised	(458,796)		$ 1.57	$ 914,156
Forfeited	(88,494)		$ 4.34	
Options outstanding as of December 31, 2009	5,666,135		$ 3.95	$ 4,856,597
Options exercisable as of December 31, 2009	3,107,393	4.11	$ 4.05	$ 2,855,466
Options vested and expected to vest	5,532,925	6.18	$ 3.96	$ 4,738,638

The weighted average fair value per underlying share of options granted during the three months ended December 31, 2009 and 2008 was $1.52 and $1.48, respectively, and for the nine months ended December 31, 2009 and 2008 was $1.68 and $1.59, respectively.

Options outstanding by exercise price at December 31, 2009 were as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Shares Underlying Vested and Exercisable Options	Weighted Average Exercise Price
$2.00	357,885	$ 2.00	0.27	357,885	$ 2.00
$2.10	610,741	$ 2.10	3.54	610,741	$ 2.10
$2.43 3.37	785,500	$ 2.94	8.74	179,285	$ 2.98
$3.38 3.50	588,166	$ 3.44	8.57	114,726	$ 3.50
$3.75 3.94	252,776	$ 3.78	7.07	96,404	$ 3.78
$4.00	960,028	$ 4.00	8.67	119,100	$ 4.00
$4.20 4.50	333,885	$ 4.31	7.22	127,004	$ 4.43
$5.40	620,754	$ 5.40	1.40	620,754	$ 5.40
$5.50	951,200	$ 5.50	6.88	730,094	$ 5.50
$5.75 6.70	205,200	$ 5.93	6.50	151,400	$ 5.90
	5,666,135	$ 3.95	6.25	3,107,393	$ 4.05

Stock-based compensation

The following table summarizes stock-based compensation expense by line item in the Condensed Consolidated Statements of Operations, all relating to employee stock plans:

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
	(In thousands)			
Cost of revenues	$ 74	$ 75	$ 216	$ 220
Research and development	204	123	496	324
Selling, general and administrative	133	150	372	442
Total	$ 411	$ 348	$ 1,084	$ 986

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

The Company recognized related income tax benefits of $37,000 and $46,000, respectively, for the three months ended December 31, 2009 and 2008 and $120,000 and $119,000, respectively, for the nine months ended December 31, 2009 and 2008. Windfall tax benefits realized from exercised stock options were $77,000 and $4,000, respectively, for the three months ended December 31, 2009 and 2008 and $256,000 and $280,000, respectively, for the nine months ended December 31, 2009 and 2008. Compensation cost capitalized within inventory at December 31, 2009 was insignificant. As of December 31, 2009, the Company s total unrecognized compensation cost was $3.2 million, which will be recognized over the weighted average period of 1.77 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:

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2009	**2008**	**2009**	**2008**
Stock Option Plans:				
Risk-free interest rate	2.30%	2.18%	2.23 2.47%	2.18 3.16%
Expected life (in years)	5.00	5.00	5.00	5.00
Volatility	48.1.%	47.8%	48.1 48.6%	43.5 47.8%
Dividend yield	0%	0%	0%	0%
Employee Stock Purchase Plan:				
Risk-free interest rate	0.17	0.87%	0.17 0.29%	0.87 1.89%
Expected life (in years)	0.5	0.5	0.5	0.5
Volatility	41.4%	48.7%	41.4 52.3%	48.7 58.0%
Dividend yield	0%	0%	0%	0%

NOTE 8 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.

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

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2009	**2008**	**2009**	**2008**
	(In thousands)			
United States	$ 6,056	$ 6,045	$ 17,026	$ 19,731
China	2,865	1,905	9,027	8,080
Malaysia	5,084	2,605	10,849	9,394
Singapore	1,702	2,365	4,822	6,594
Rest of the world	1,723	1,110	4,590	4,669
	$ 17,430	$ 14,030	$ 46,314	$ 48,468

All sales are denominated in United States dollars.

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NOTE 9 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.

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 which was paid in October 2009 following a post-closing adjustment to reflect actual product inventory on hand at the closing. The consideration also includes contingent consideration of $500,000, 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 purchase consideration based on probability weighted expected future cash flows, which is included under accrued expenses and other liabilities in the Condensed Consolidated Balance Sheet at December 31, 2009. These cash flows were discounted at a rate of approximately 20%. There is no material change in the fair value of contingent consideration at December 31, 2009 compared to fair value estimated at September 30, 2009.

Acquisition-related costs

Acquisition-related costs of approximately $217,000 and $428,000, respectively, are included in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations for the three months and nine months ended December 31, 2009.

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 Condensed 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		6,891
Gain on bargain purchase	$	1,122

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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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 theincome 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 December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008

Total net revenues	$	17,430	$	16,384	$	48,086	$	54,775
Net income (loss)	$	2,182	$	(2,743)	$	118	$	(3,696)

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 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 10 SUBSEQUENT EVENTS

The Company has evaluated material subsequent events through February 12, 2010, the date these condensed consolidated financial statements were issued.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

This Quarterly Report on Form 10-Q, and in particular the following Management s Discussion and Analysis of Financial Condition and Results of Operations, 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 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.

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 SystemsOur 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 five quarters ended December 31, 2009, 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 original equipment manufacturers, or 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 Taiwan Semiconductor Manufacturing Company, or TSMC, our independent wafer foundry, 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 on obtaining and shipping orders in the same quarter to achieve our revenue objectives. In addition, the timing of product releases, purchase orders and product availability could result in significant product shipments at the end of a quarter. Failure to ship these products by the end of the quarter may adversely affect our operating results. Furthermore, our customers may delay scheduled delivery dates and/or cancel orders within specified time frames without significant penalty.

We sell our products through our direct sales force, international and domestic sales representatives and distributors. Revenues from product sales, except for sales to distributors, are generally recognized upon shipment, net of sales returns and allowances. Sales to consignment warehouses, who purchase products from us for use by contract manufacturers, are recorded upon delivery to the contract manufacturer. Sales to distributors are recorded as deferred revenues for financial reporting purposes and

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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.

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit Sdn Bhd and Flextronics Technology, and also purchases some products through its contract manufacturers and directly from us. Historically, purchases by Cisco Systems have fluctuated significantly from period to period. Based on information provided to us by Cisco Systems consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 26%, 28% and 30% of our net revenues in fiscal 2009, 2008 and 2007, respectively. 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 three quarters ended December 31, 2009. We expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis and that such fluctuations may significantly affect our operating results in future periods. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues during any of these periods.

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 of 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, our independent wafer foundry, and to our independent assembly and test houses. Cost of revenues also includes expenses related to supply chain management, quality assurance, and final product testing and documentation control activities conducted at our headquarters in Santa Clara, California and our branch operations in Taiwan.

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

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

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

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.

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.

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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 $217,00 and $428,000, respectively, 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 Condensed Consolidated Statement of Operations for the three months and nine months ended December 31, 2009. 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 will be recorded in our earnings. There is no material change in the fair value of contingent consideration at December 31, 2009 compared to fair value estimated at September 30, 2009.

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 condensed 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 was paid in October 2009 following a post-closing adjustment to reflect actual product inventory on hand at the closing. The consideration also includes contingent consideration of $500,000, 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 purchase consideration based on probability weighted expected future cash flows, which is included under accrued expenses and other liabilities in the Condensed Consolidated Balance Sheet at December 31, 2009.

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.

Results of Operations

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

	Three Months Ended December 31,		**Nine Months Ended December 31,**	
	2009	**2008**	**2009**	**2008**
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	57.0	57.3	56.7	55.6
Gross profit	43.0	42.7	43.3	44.4
Operating expenses:				

Research and development	13.4	12.0	14.4	8.8
Selling, general and administrative	16.1	15.6	15.4	14.5
Total operating expenses	29.5	27.6	29.8	23.3
Income from operations	13.5	15.1	13.5	21.1
Interest and other income (expense), net	1.1	2.8	4.0	2.2
Income before income taxes	14.6	17.9	17.5	23.3
Provision for income taxes	3.1	7.3	3.3	6.6
Net income	11.5%	10.6%	14.2%	16.7%

Net Revenues. Net revenues increased by 24.2% from $14.0 million in the three months ended December 31, 2008 to $17.4 million in the three months ended December 31, 2009. Net revenues decreased by 4.4% from $48.5 million in the nine months ended December 31, 2008 to $46.3 million in the nine months ended December 31, 2009. Direct and indirect sales to Cisco Systems, our largest customer, increased by $3.1 million from $3.6 million in the three months ended December 31, 2008 to $6.7 million in the three months ended December 31, 2009 and by $1.2 million from $13.5 million in the nine months ended December 31, 2008 to $14.7 million in the nine months ended December 31, 2009. 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 partially offset by the continued acceptance of our SigmaQuad product line which resulted in a 62.5% increase in SigmaQuad shipments in the nine months ended December 31, 2009 compared to the nine months ended December 31, 2008, accounting for

18.0% of total shipments in the nine months ended December 31, 2009. In addition, net revenues in the three months and nine months ended December 31, 2009 included $1.9 million and $2.2 million, respectively, 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 23.6% from $8.0 million in the three months ended December 31, 2008 to $9.9 million in the three months ended December 31, 2009 and decreased by 2.6% from $27.0 million in the nine months ended December 31, 2008 to $26.3 million in the nine months ended December 31, 2009. These fluctuations were due to the corresponding changes in net revenues. Cost of revenues included stock-based compensation expense of $74,000 and $75,000, respectively, for the three months ended December 31, 2009 and 2008 and $216,000 and $220,000, respectively, for the nine months ended December 31, 2009 and 2008. Third-quarter 2010 cost of revenues reflects approximately $150,000 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 25.0% from $6.0 million in the three months ended December 31, 2008 to $7.5 million in the three months ended December 31, 2009 and decreased by 6.8% from $21.5 million in the nine months ended December 31, 2008 to $20.0 million in the nine months ended December 31, 2009. Gross margin increased from 42.7% in the three months ended December 31, 2008 to 43.0% in the three months ended December 31, 2009 and decreased from 44.4% in the nine months ended December 31, 2008 to 43.3% in the nine months ended December 30, 2009. The changes in gross profit were primarily related to the increases and decreases in net revenues for the respective periods. The decrease in gross margin for the nine month period ended December 31, 2009 was primarily due to changes in customer mix which included a reduction in the percentage of sales for military applications, the impact of the sale of inventories acquired from Sony and the impact of increased depreciation and amortization expense related to assets acquired from Sony.

Research and Development Expenses. Research and development expenses increased 38.8% from $1.7 million in the three months ended December 31, 2008 to $2.3 million in the three months ended December 31, 2009. This increase was primarily due to increases in payroll related expenses of $604,000 and lesser increases in facility related expenses, software maintenance expenses, stock-based compensation expense and depreciation expense, partially offset by a decrease in outside consulting expenses of $344,000. Research and development expenses included stock-based compensation expense of $204,000 and $123,000 for the three months ended December 31, 2009 and 2008, respectively. Research and development expenses increased 55.5% from $4.3 million in the nine months ended December 31, 2008 to $6.7 million in the nine months ended December 31, 2009. This increase was primarily due to increases in payroll related expenses of $1,334,000, prototype mask expenses of $650,000 and lesser increases in facility related expenses, stock-based compensation expense and software maintenance expense, partially offset by a decrease in outside consulting expenses of $548,000. Research and development expenses included stock-based compensation expense of $496,000 and $324,000 for the nine months ended December 31, 2009 and 2008, respectively. The increases in payroll expenses were related to our low latency DRAM project and various high speed SRAM projects.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 28.4% from $2.2 million in the three months ended December 31, 2008 to $2.8 million in the three months ended December 31, 2009. This increase was primarily due to increases in outside accounting fees of $315,000 and lesser increases in independent sales representative commissions and payroll related expenses. Selling, general and administrative expenses included stock-based compensation expense of $133,000 and $150,000 for the three months ended December 31, 2009 and 2008, respectively. Selling, general and administrative expenses increased 1.9% from $7.0 million in the nine months ended December 31, 2008 to $7.1 million in the nine months ended December 31, 2009. This increase was primarily related to increases of $333,000 in outside accounting fees, payroll related expenses of $115,000 and legal expenses of $113,000, partially offset by a decrease in independent sales representative commissions of $320,000. Selling, general and administrative expenses included stock-based compensation expense of $372,000 and $442,000 for the nine months ended December 31, 2009 and 2008, respectively. Selling, general and administrative expenses in the three months and nine months ended December 31, 2009 included legal and accounting fees of $211,000 and $428,000, respectively, related to our acquisition of Sony s SRAM memory device product line.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased 49.2%, from $390,000 in the three months ended December 31, 2008 to $198,000 in the three months ended December 31, 2009 and increased 72.4% from $1.1 million in the nine months ended December 31, 2008 to $1.8 million in the nine months ended December 31, 2009. Interest income decreased in the three months and nine months ended December 31, 2009 compared to the comparable periods in the prior year due to lower interest rates received on our cash, short-term and long-term investments. These decreases were offset by a $1.1 million bargain purchase gain resulting from our acquisition of the Sony SRAM memory device product line in the nine months ended December 31, 2009. In addition, we experienced an exchange gain of $12,000 in the three months ended December 31, 2008 compared to an exchange gain of $5,000 in the three months ended December 31, 2009 and an exchange loss of $65,000 in the nine months ended December 31, 2008 compared to an exchange loss of $8,000 for the nine months ended December 31, 2009, all related to our Taiwan branch operations.

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Provision for Income Taxes. The provision for income taxes decreased from $1.0 million in the three months ended December 31, 2008 to $500,000 in the three months ended December 31, 2009 and from $3.2 million in the nine months ended December 31, 2008 to $1.5 million in the nine months ended December 31, 2009. These decreases were due to the changes in pre-tax income in the three and nine month periods and the decreased effective tax rate resulting from increased net revenues in lower tax rate jurisdictions in each period.

Net Income. Net income increased 43.0% from $1.5 million in the three months ended December 31, 2008 to $2.0 million in the three months ended December 31, 2009 and decreased 17.2% from $8.1 million in the nine months ended December 31, 2008 to $6.8 million in the nine months ended December 31, 2009. These decreases were primarily due to the changes in net revenues, gross margin, operating expenses and gross profit discussed above.

Liquidity and Capital Resources

As of December 31, 2009, our principal sources of liquidity were cash, cash equivalents and short-term investments of $40.8 million compared to $47.3 million as of March 31, 2009.

Net cash provided by operating activities was $7.0 million for the nine months ended December 31, 2009 compared to $9.8 million for the nine months ended December 31, 2008. The primary sources of cash in the current nine month period were net income of $6.6 million, an increase in accounts payable of $2.9 million and depreciation and amortization of $1.5 million, partially offset by an increase in accounts receivable of $3.8 million, a bargain purchase gain on our acquisition of the Sony SRAM memory device product line, an increase in inventory of $1.4 million and an increase in prepaids and other assets or $1.2 million. Inventory and accounts payable both increased as a result of actions taken to increase inventory levels to enable us to better respond to current and forecasted customer requirements.

Net cash used in investing activities was $5.4 million in the nine month period ended December 31, 2009. Investment activities consisted primarily of the purchase of state and municipal obligations and corporate notes, our acquisition of the Sony SRAM memory device product line and purchases of property and equipment. These uses were offset by sales and maturities of investments of $27.8 million. Net cash used in investing activities was $12.2 million in the nine month period ended December 31, 2008. Investment activities consisted primarily of the purchase of state and municipal obligations and corporate notes in the amount $37.0 million and the purchase of test equipment and software in the amount of $596,000. These uses were offset by sales and maturities of investments of $25.4 million.

Net cash provided by financing activities in the nine months ended December 31, 2009 and December 31, 2008 primarily consisted of the net proceeds from the sale of common stock pursuant to our employee stock plans offset by repurchases of our common stock.

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 December 31, 2009:

	Payments due by period				
	Up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Facilities leases	$ 376,000	$ 638,000	$ 531,000	$	$ 1,545,000
Wafer and mask purchase obligations	6,845,000				6,845,000
	$ 7,221,000	$ 638,000	$ 531,000	$	$ 8,390,000

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As of December 31, 2009, the current portion of our unrecognized tax benefits was $649,000, and the long-term portion was $487,000. The unrecognized tax benefits balance as of December 31, 2009 of $1,317,000 would affect our effective tax rate if recognized. As of December 31, 2009, $318,000 of unrecognized tax benefits have been recorded as a reduction to net deferred tax assets.

We have an obligation to pay contingent consideration estimated at $500,000, which represents the fair value of future cash payments that we expect to make based on the sale of certain acquired SRAM products acquired from Sony 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.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

In August 2009, the Financial Accounting Standards Board (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 May 2009, the FASB issued authoritative guidance related to subsequent events. This new guidance does not materially change the existing guidance, but introduces the concept of financial statements being *available to be issued.* It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. We adopted this guidance starting the first quarter of fiscal 2010.

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 business combination that we completed during the nine months ended December 31, 2009, 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 results of operations or financial position.

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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 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 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 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 will apply prospectively 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 nine months ended December 31, 2009 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 results of operations or financial position.

Item 3. ***Quantitative and Qualitative Disclosure 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 gains and 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 $62.0 million at December 31, 2009. 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.

Item 4T. ***Controls and Procedures***

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 Exchange Act as of December 31, 2009, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC s rules and instructions for Form 10-Q.

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 December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

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 condensed consolidated financial statements and related notes. The risk factors described below do not contain any material changes from those previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

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 eleven fiscal quarters ended December 31, 2009, we recorded net revenues of as much as $17.4 million and as little as $11.3 million and quarterly operating income of as much as $4.1 million and as little as $1.1 million. We therefore believe that period-to-period comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock price. In future periods, we may not have any revenue growth, or our revenues could decline. Furthermore, if our operating expenses exceed our expectations, our financial performance could be adversely affected. Factors that may affect periodic operating results in the future include:

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

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

- changes in our customers inventory management practices;

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

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

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

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

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

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

Cisco Systems, our largest OEM customer, purchases our products through SMART Modular Technologies, Jabil Circuit Sdn Bhd and Flextronics Technology, its consignment warehouses, through its contract manufacturers and directly from us. Based on information provided to us by consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 32%, 26%, 28% and 30% of our net revenues in the nine months ended December 31, 2009 and in fiscal 2009, 2008 and 2007, respectively. In the quarter ended March 31, 2007, Cisco Systems implemented a lean manufacturing program under which it reduced the levels of inventory carried by it and by its contract manufacturers. The transition to this new program resulted in reductions in purchases of our products by Cisco Systems contract manufacturers during the 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 three quarters ended December 31, 2009.

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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 five fiscal years, there can be no assurance that our Very Fast SRAMs will continue to receive broad market acceptance or that we will be able to sustain revenue growth or profitability. Our failure to do so may result in additional losses in the future. In addition, we expect our operating expenses to increase as we expand our business. If our revenues do not grow to offset these expected increased expenses, our business will suffer.

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

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

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

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

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 the nine months ended December 31, 2009 and in fiscal 2009, 2008 and 2007, our distributor

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Avnet Logistics accounted for 19.7%, 25.3%, 29.2% and 24.7%, respectively, of our net revenues. Avnet Logistics and our other existing distributors may choose to devote greater resources to marketing and supporting the products of other companies. Since we sell through multiple channels and distribution networks, we may have to resolve potential conflicts between these channels. For example, these conflicts may result from the different discount levels offered by multiple channel distributors to their customers or, potentially, from our direct sales force targeting the same equipment manufacturer accounts as our indirect channel distributors. These conflicts may harm our business or reputation.

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

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

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

At December 31, 2009, four customers accounted for 20%, 13%, 12% and 11% 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;
- 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.

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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.

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;

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- 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 integrated chips in the networking and telecommunications markets has the potential to reduce future demand for Very Fast SRAM products. There can be no assurance that we will be able to compete successfully in the future. Our failure to compete successfully in these or other areas could harm our business.

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

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

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

We continuously evaluate the benefits of migrating to smaller geometry process technologies in order to improve performance and reduce costs. Historically, these migrations to new manufacturing processes have resulted in significant initial design and development costs associated with pre-production mask sets for the manufacture of new products with smaller geometry process technologies. For example, in the quarter ended September 30, 2009, we incurred $650,000 in research and development expense associated with pre-production mask sets, which will not later be used in production as part of the transition to our new 65 nanometer process technology. We will incur similar expenses in the future as we continue to transition our products to smaller geometry processes. The transition costs inherent in the transition to new manufacturing process technologies will adversely affect our operating results and our gross margin.

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

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

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

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

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

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

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

- contracts that commit us to purchase specified quantities of wafers over extended periods;
- investments in and joint ventures with the foundries; or
- non-refundable deposits with or prepayments or loans to foundries in exchange for capacity commitments.

We may not be able to make any of these arrangements in a timely fashion or at all, and these arrangements, if any, may not be on terms favorable to us. Moreover, even if we are able to secure independent foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

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

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

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

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

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

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

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- the technical, manufacturing, sales and marketing and management capabilities of our OEM customers;
- the financial and other resources of our OEM customers; and
- the inability of our OEM customers to sell their products if they infringe third-party intellectual property rights.

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

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

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

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

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

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

- our products may become obsolete upon the introduction of alternative technologies;
- we may incur substantial costs if we need to modify our products to respond to these alternative technologies;
- we may not have sufficient resources to develop or acquire new technologies or to introduce new products capable of competing with future technologies;
- new products that we develop may not successfully integrate with our end-users products into which they are incorporated;
- we may be unable to develop new products that incorporate emerging industry standards;
- we may be unable to develop or acquire the rights to use the intellectual property necessary to implement new technologies; and
- when introducing new or enhanced products, we may be unable to manage effectively the transition from older products.

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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.

Our international business exposes us to additional risks.

Products shipped to destinations outside of the United States accounted for 63.2%, 61.6%, 53.0% and 48.9% of our net revenues in the nine months ended December 31, 2009 and in fiscal 2009, 2008 and 2007, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan. We intend to expand our international business in the future. Conducting business outside of the United States subjects us to additional risks and challenges, including:

- heightened price sensitivity from customers in emerging markets;
- compliance with a wide variety of foreign laws and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, competition, export licenses and other trade barriers;
- political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- difficulties in staffing and managing personnel, distributors and representatives;
- limited protection for intellectual property rights in some countries; and
- fluctuations in freight rates and transportation disruptions.

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- actual or anticipated declines in operating results;
- changes in financial estimates or recommendations by securities analysts;
- announcements by us or our competitors of financial results, new products, significant technological innovations, contracts, acquisitions, strategic relationships, joint ventures, capital commitments or other events;
- rapid changes in industry estimates in demand for Very Fast SRAM products;
- 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 December 31, 2009, our executive officers, directors and entities affiliated with them beneficially owned approximately 24% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over, and may be able to effectively control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

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

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

- our stockholders have no right to remove directors without cause;

- our stockholders have no right to act by written consent;

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

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

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

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 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Stock Repurchase Program

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 December 31, 2009, we did not repurchase any shares.

Item 6. *Exhibits*

Exhibit Number	Name of Document
31.1	Certification of Lee-Lean Shu, President and Chief Executive Officer, 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 and Chief Executive Officer, 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.

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SIGNATURES

Pursuant to the requirements 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: February 12, 2010

GSI Technology, Inc.

By:	/s/ LEE-LEAN SHU Lee-Lean Shu *President, Chief Executive Officer and Chairman*
By:	/s/ DOUGLAS M. SCHIRLE Douglas M. Schirle *Chief Financial Officer*

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