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FORM 10-K

GSI TECHNOLOGY INC - GSIT

Filed: June 11, 2014 (period: March 31, 2014)

Annual report with a comprehensive overview of the company

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended March 31, 2014
or

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

For the transition period from _____ to _____
Commission File Number 001-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0398779
(IRS Employer
Identification No.)

1213 Elko Drive
Sunnyvale, California 94089
(Address of principal executive offices, zip code)
(408) 331-8800
(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
Common Stock, \$0.001 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on September 30, 2013, as reported on the Nasdaq Global Market, was approximately \$141.5 million. Shares of the registrant's common stock held by each officer and director and each person who owns 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of April 30, 2014, there were 27,451,239 shares of the registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2014 annual meeting of stockholders are incorporated by reference into Part III hereof.

GSI TECHNOLOGY, INC.
2014 FORM 10-K ANNUAL REPORT

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Forward-looking Statements

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

PART I

Item 1. *Business*

Overview

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

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

We were incorporated in California in 1995 under the name Giga Semiconductor, Inc. We changed our name to GSI Technology in December 2003 and reincorporated in Delaware in June 2004 under the name GSI Technology, Inc. Our principal executive offices are located at 1213 Elko Drive, Sunnyvale, California, 94089, and our telephone number is (408) 331-8800.

Industry Background

SRAM and LDRAM Market Overview

Virtually all types of high-performance electronic systems incorporate some form of volatile memory. An SRAM is a memory device that retains data as long as power is supplied, without requiring any further user intervention. In contrast, dynamic random access memory, or DRAM, is a memory device that requires user intervention in the form of refresh operations to retain data while power is supplied, due to the capacitive nature of its memory cell. However, a DRAM memory cell is much smaller than an SRAM memory

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cell, so several times more DRAM bits than SRAM bits can be implemented in any given unit area of silicon. The fundamentally different characteristics of SRAM and DRAM memory cells have resulted in the emergence of markedly different architectures for SRAM-based and DRAM-based memory products, and the two types of memory serve different applications. Classically, SRAM-based products have served high performance requirements while DRAM-based products have been used in cost-optimized applications. Today, SRAM- and DRAM-based products serve both performance and cost-based applications. As the volatile memory market fragments into a variety of specialized products, more meaningful distinctions between volatile memory products can be made.

There is an increasingly broad variety of volatile memory products on the market, characterized by a number of attributes, such as speed, memory capacity, or density, and power consumption. There are several different industry measures of speed:

- *latency*, which is the delay between the request for data and the delivery of such data for use and is measured in nanoseconds, or ns, or when used to describe performance of synchronous memory products may be described in terms of numbers of clock cycles required between the load of an address and the delivery of valid data;
- *random access time*, which is the minimum amount of time required between accesses to random locations within the memory array, typically measured in nanoseconds, or ns;
- *bandwidth*, which is the rate at which data can be streamed to or from a device and is measured in gigabits per second, or Gb/s;
- *clock frequency*, which is the cycle rate of a clock within a synchronous device and is measured in megahertz, or MHz;
- *transaction rate*, which is the rate at which new commands can be executed by the memory device, and is measured in billions of transactions per second, or BT/s.

Historically, SRAMs have been utilized wherever other memory technologies have been inadequate. SRAMs demonstrate lower latency and faster random access times relative to DRAMs and other types of memory technologies. Historically, the volatile memory market has had three price-performance nodes, DRAM at the low end, Fast SRAM at the high end and slow SRAM in the middle. Over the past few decades, less expensive alternatives have been introduced to address certain applications formerly using lower performance SRAMs. For example, new types of DRAM are now in the process of displacing lower performance SRAM products in applications such as cell phones. As a result, particularly in the networking memory market, a technology vacuum formed between Fast SRAMs on one end and DRAMs at the other with no high bandwidth, moderate latency, high transaction rate, moderate cost volatile memory product to fill the void. Low latency DRAMs, or LLDRAMs, are now poised to re-fill the substantial gap in the volatile memory market between commodity DRAMs that cannot meet the transaction rate requirement for many networking market applications and Fast SRAMs that cannot meet the density requirements for some networking applications. Like the Slow SRAMs that came before them, LLDRAMs have a much higher price-per-bit cost than commodity DRAMs (in order to deliver higher transaction rates) but demonstrate a significantly longer latency than Fast SRAMs. Interestingly, their value in the market seems to place them squarely in the price - performance range successfully occupied by Slow SRAMs a decade ago.

The need for increasingly greater bandwidth from commodity DRAMs and the need for higher and higher transaction rates and higher data bandwidth from Fast SRAMs continues unabated as the networking market begins to make preparations for Terabit networking in the latter half of the current decade. We believe that both Fast

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SRAM and Low Latency DRAM optimized for networking applications will play an increasingly essential role in enabling continued improvements in network performance.

As a result of the displacement of low performance SRAMs, the total market size for SRAMs is diminishing. However, due to their inherent higher latency characteristics, DRAMs cannot match the random access speed of high-performance SRAMs. Gartner Dataquest divides the SRAM market into segments based on speed. The highest performance segment is comprised of SRAMs that operate at speeds of less than 10 nanoseconds, which we refer to as "Very Fast SRAMs." Very Fast SRAMs are predominantly utilized in high-performance networking and telecommunications equipment.

Increasing Need for Networking Memory Products

Growth in data, voice and video traffic has driven the need for both greater networking bandwidth and more complex routing and switching equipment, resulting in the continued expansion of the networking and telecommunications infrastructure. The continued growth in the level of Internet usage has led to the proliferation of a wide variety of equipment throughout the networking and telecommunications infrastructure, including routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment, and a demand for new equipment with faster and higher performance. Moving data in and out of high performance volatile memory is the core task of every piece of networking equipment. The access patterns or workload of most memory arrays used in networking equipment are significantly different from those of memory devices typically used in the computer market, such as the DRAMs used for main storage in PCs. As a result, distinct classes of memory products optimized for the demands of the networking market have been emerging over the last ten years. The sharply rising demand for increasing worldwide network performance is expected to drive a continuing need for ever more specialized memory products. High-performance networking and telecommunications equipment requires a variety of memory types; both SRAM-based and DRAM-based. Some of the required memory arrays are internal to specialized processors or ASICs but many tasks require more bits than can be accommodated on a processor or ASIC, and must be provided in some form of external volatile memory. SRAM-based and DRAM-based networking memory products address this requirement. For example, in a typical router or switch, multiple networking-optimized memory devices are required to temporarily store, or buffer, data traffic and to provide rapid lookup of information in data tables. As networking equipment must increasingly support advanced traffic content such as Voice over Internet Protocol, or VoIP, video streaming and bi-directional video, demand for even higher performance networking memory is expected to continue to increase.

Demanding Requirements for Success in the Networking Memory Market

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

We believe the key success factors for a networking memory vendor are the ability to offer a broad catalog of high-performance, high-quality and high-reliability networking memory products, to continuously introduce new

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products with higher speeds, lower power and greater densities, to maintain timely availability of prior generations of products for several years after their introductions, and to provide effective logistic and technical support throughout their OEM customers' product development and manufacturing life cycles.

The GSI Solution

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

Innovative Product Performance Leadership

High Speed. Through the use of advanced architectures, design methodologies and silicon process technologies, we have developed a wide variety of high-performance networking memories. Until recently, all of our products have been SRAM-based, but with increased investment in high performance DRAM-based networking memory products we expect to increase our market share in the overall networking memory market. Our SRAM product line has evolved from BurstRAMs with an average transaction rate of about 0.125 BT/s to our latest SigmaQuad™-IIIe SRAMs with transaction rates up to 1.45 BT/s, the fastest SRAMs currently available. New versions of SigmaQuad SRAMs with even faster transaction rates are expected to be available later in 2014. Our Low Latency DRAMs currently deliver a transaction rate of 0.533 BT/s, and new versions with faster transaction rates are expected to be available later this year. Our fastest SRAMs deliver over 104 Gb/s of raw data bandwidth per device, and our LLDRAMs deliver 38 Gb/s per device. Our SRAM products can produce data at latencies of 4 to 5 ns while LLDRAM latencies are as short as 15 ns. By providing higher performance networking memory, we enable our networking and telecommunications customers to continually design and develop higher performance products that support increasingly complex traffic content.

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

Process Technology Leadership. We maintain our own process engineering capability and resources, which are located in close physical proximity to our SRAM wafer manufacturing partner, Taiwan Semiconductor Manufacturing Company, or TSMC. This enhances our ability to work closely with TSMC to develop modifications of the advanced process technologies used in the manufacturing of our Very Fast SRAMs in order to maximize product performance, optimize yields, lower manufacturing costs and improve quality. Our most advanced 72 and 144 megabit, or Mb, synchronous Very Fast SRAMs are manufactured using 65 nanometer process technology. Our initial LLDRAMs are produced using 72 nanometer DRAM process technology at Powerchip Technology Corporation, or Powerchip, in Taiwan. We are currently developing 144 megabit and 288 megabit synchronous Very Fast SRAMs using 40 nanometer process technology, which will allow us to further increase product performance, lower power consumption and reduce costs.

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

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SigmaDDR™ SRAMs, the fastest SRAMs ever to reach the open market. In addition, we are the only vendor to offer a full line of Very Fast Synchronous SRAMs that operate and interface at 1.8 to 3.3 volts, giving our OEM customers the ability to use the same product in systems of theirs that operate at any voltage within that range. Moreover, for certain Very Fast Synchronous SRAMs, we are the only vendor to offer a product that operates at 1.8 volts, which uses approximately one half to two-thirds the power of our competitors' 2.5 volt products. We intend to apply the same approaches we used to take the lead in SRAM-based networking memory to the continued development of our line of DRAM-based networking memory products.

Broad and Readily Available Product Portfolio

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

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

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

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

Master Die Methodology

Our master die methodology enables multiple product families, and variations thereof, to be manufactured from a single mask set. As a result, based upon the way available die from a wafer are metalized, wire bonded, packaged and tested, from 25 mask sets we have created over 15,000 different products. Using these mask sets, we

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produce wafers that can be further processed upon customer orders into the final specified product thereby significantly shortening the overall manufacturing time. For example, from a 72 megabit mask set, we can produce three families of 72 megabit SRAM products. Our unique methodology results in the following benefits:

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

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

Customer Responsiveness

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

Preemptive Service. Our extensive open libraries of design support tools as well as our ability to deliver the specific device required for system prototyping with very short notice enables networking and telecommunication OEMs to design and introduce differentiated products quickly as well as to reduce their development costs. Our open model libraries give designers access 24 hours a day, seven days a week to electrical and behavioral simulation models. Behavioral models are offered in both Verilog and very high speed integrated circuits hardware description language ("VHDL") format to better fit different customers' simulation environments, further streamlining the customers' development process. During fiscal 2013, we further enhanced our customer support capability by introducing RAM Port IP. Initially available for use with our Ille SRAM family of products, RAM Port IP translates simple access requests from the customer's host die logic into the command sequences and signal timing needed to get optimum performance from our SRAM products. Along with our open model libraries and support tools that we supply at no charge, RAM Port IP can save our customers months of design effort and leverage the extensive evaluation and timing already performed by our engineers to enhance their products' performance, reduce development costs and shorten time-to-market. We refer to this customer support as "Preemptive Service."

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

The GSI Strategy

Our objective is to profitably increase our market share in the high performance memory market. Our strategy includes the following key elements:

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

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

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

Collaborate with Wafer Foundries to Leverage Leading-edge Process Technologies. We will continue to rely upon advanced complementary metal oxide semiconductor, or CMOS, technologies, the most commonly used process technologies for manufacturing semiconductor devices, from TSMC for SRAM-based products and from Powerchip for DRAM-based products. We provide our technology partners with the sort of in-depth feedback for yield and performance improvement that can best come from very large array structures like those found in our products. Our most advanced products currently in production were designed using 65 nanometer process technology on 300 millimeter wafers. We intend to continue to collaborate closely with TSMC in the refinement of 40 nanometer process technology.

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

Products

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

We currently offer more than 30 families of SRAMs and two families of LLDRAMs. These basic product configurations are the basis for over 15,000 individual products that incorporate a variety of performance specifications and optional features. Our products can be found in a wide range of networking and telecommunications equipment, including multi-service access routers, universal gateways, enterprise edge routers, service provider edge routers, optical edge routers, fast Ethernet switches, multi-gigabit Ethernet switches, wireless base stations, Asymmetric Digital Subscriber Line ("ADSL") modems, wireless local area networks, Internet Protocol phones and OC192 layer 2 switches. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

Synchronous SRAM Products

Synchronous SRAMs are controlled by timing signals, referred to as clocks, which make them easier to use than older style asynchronous SRAMs with similar latency characteristics in applications requiring high bandwidth data transfers. Synchronous SRAMs that employ double data rate interface protocols can transfer data at much higher bandwidth than both single data rate and asynchronous SRAMs. Our single data rate synchronous SRAMs feature clock access times as short as 2 nanoseconds and our double data rate synchronous SRAMs have clock access times as fast as 0.45 nanoseconds. We currently supply synchronous SRAMs that can cycle at operating frequencies as high as 725 MHz.

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

Our BurstRAMs and NBT SRAMs are offered in both pipeline and flow-through modes. Flow-through SRAMs allow the shortest latency. Pipelined SRAMs break the access into discrete clock-controlled steps, allowing new access commands to be accepted while an access is already in progress. Therefore, while flow-through SRAMs offer lower latency, pipelined SRAMs offer greater data bandwidth. Our BurstRAM and NBT SRAM products incorporate a number of features that reduce our OEM customers' cost of ownership and increase their design flexibility, including a JTAG test port and our FLXDrive feature, which allows system designers to optimize signal integrity for a given application.

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

SigmaQuad and SigmaDDR Products. High-performance double data rate and quad data rate synchronous SRAMs have become the de facto standard for the networking and telecommunications industry. We offer a full line of quad data rate separate I/O SRAMs, known as our SigmaQuad family, as well as a companion line of double data rate common I/O SRAMs, known as our SigmaDDR family. SigmaQuad SRAMs feature two uni-directional (one input and one output) double data rate data ports (two data ports times double data rate transfers equals quad data rate), controlled via a single address and control port. SigmaDDR SRAMs feature a single bi-directional double data rate data port. We offer our SigmaQuad and SigmaDDR devices in multiple bus protocol versions and data burst lengths, and with various power supply and interface voltages, all under the names SigmaQuad, SigmaQuad-II, and SigmaQuad-IIIe, and their SigmaDDR equivalents. An additional variant in this family of SRAMs is the SigmaSIO DDR, which is designed to address some segments of the market currently served by dual-port SRAMs.

We currently offer SigmaQuad/SigmaDDR products in four storage densities, 18 megabits, 36 megabits, 72 megabits and 144 megabits, with 288 megabit versions expected to be available later in 2014. These SRAMs are capable of speeds up to 725 MHz, and operate on main power supply voltages that range from 2.5 volts to 1.35 volts and interface voltages that range from 1.8 volts to 1.2 volts.

SigmaRAM™ Products. We offer a family of high-performance, low voltage, synchronous SigmaRAM™ SRAM products designed for use in networking and telecommunications systems. Our SigmaRAM products include the full range of common I/O SRAM functionality, including late write and double late write protocols, pipelined read cycles, burst data transfers and double data rate read and write data transfers. We currently offer SigmaRAM products with storage density of 18 megabits, speeds of up to 350 MHz and clock access times as fast as 1.7 nanoseconds that operate at 1.8 volts.

Asynchronous SRAM Products

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

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

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

Low Latency DRAM Products

Our low latency DRAM family fills an under-served market segment between commodity DRAMs and Fast SRAMs. Offering moderate density, moderate speed and moderate cost, LLD RAM technology gives system designers a middle choice when commodity DRAM performance is insufficient but Fast SRAM performance is unnecessary. LLD RAMs offer one-third the latency of commodity DRAMs and four times the density of Fast SRAMs, giving networking equipment designers another tool for solving difficult data management problems.

Our current LLD RAM portfolio includes both 288 Megabit and 576 Megabit devices that are capable of speeds of up to 533 MHz, and that operate on a 1.8 volt power supply and support both 1.8 volt and 1.5 volt interfaces. They are available in five distinct configurations including common I/O and separate I/O types and data bus widths of x36, x18 and x9. These devices serve as an alternate source for users of a popular, functionally equivalent device from a competing vendor. We expect to expand our LLD RAM portfolio later in 2014 with the introduction of 1.125 Gigabit devices capable of speeds up to 800 MHz, that operate on a 1.5 volt power supply and support 1.2 volt and 1.0 volt interfaces, and that will be available in common I/O configurations with data bus widths of x36 and x18.

Customers

Our primary sales and marketing strategy is to achieve design wins with OEM customers who are leading networking and telecommunications companies. The following is a representative list of our OEM customers that directly or indirectly purchased more than \$600,000 of our products in the fiscal year ended March 31, 2014:

Alcatel-Lucent	Ciena	Cisco Systems
Honeywell	Huawei Technologies	IBM
Motorola	Rockwell	ZTE

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

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

Direct sales to contract manufacturers and consignment warehouses accounted for 37.5%, 42.0% and 45.1% of our net revenues for fiscal 2014, 2013 and 2012, respectively. Sales to foreign and domestic distributors accounted for 50.0%, 47.6% and 45.7% of our net revenues for fiscal 2014, 2013 and 2012, respectively.

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

	Fiscal Year Ended		
	March 31,		
	2014	2013	2012
Consignment warehouses:			
SMART Modular Technologies	14.4 %	14.4 %	11.4 %
Jabil Circuit	1.4	7.5	20.0
Flextronics Technology	11.9	10.2	9.3
Distributors:			
Avnet Logistics	30.3	26.5	20.1
Nexcomm	10.2	10.8	11.2

Cisco Systems, historically our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit and Flextronics Technology, and also purchases some products through its contract manufacturers and directly from us. Based on information provided to us by Cisco Systems' consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 19%, 29% and 41% of our net revenues in fiscal 2014, 2013 and 2012, respectively. Alcatel Lucent was our largest customer in fiscal 2014. Alcatel Lucent purchases products directly from us and through contract manufacturers and distributors. Purchases by Alcatel Lucent represented approximately 19%, 12% and 9% of our net revenues in fiscal 2014, 2013 and 2012, respectively. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in any of these periods.

Sales, Marketing and Technical Support

We sell our products primarily through our worldwide network of independent sales representatives and distributors. As of March 31, 2014, we employed 18 sales and marketing personnel, and were supported by over 200 independent sales representatives. We believe that our relationship with our U.S. distributor, Avnet, puts us in a strong position to address the Very Fast SRAM and LLD RAM memory markets in the United States. We currently have regional sales offices located in Canada, China, Israel and the United States. We believe this international coverage allows us to better serve our distributors and OEM customers by providing them with coordinated support. We believe that our customers' purchasing decisions are based primarily on product performance, availability, features, quality, reliability, price, manufacturing flexibility and service. Many of our OEM customers have had long-term relationships with us based on our success in meeting these criteria.

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

Our marketing efforts are focused on increasing brand name awareness and providing solutions that address our customers' needs. Key components of our marketing efforts include maintaining an active role in industry standards committees, such as the JEDEC Solid State Technology Association (formerly the Joint Electron Device Engineering Council), or JEDEC, which is responsible for establishing detailed specifications that can be utilized in future system designs. We believe that our participation in and sponsorship of numerous proposals within these committees have increased our profile among leading manufacturers in the networking and telecommunications segment of the Very Fast SRAM market. Our marketing group also provides technical, strategic and tactical sales

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support to our direct sales personnel, sales representatives and distributors. This support includes in-depth product presentations, datasheets, application notes, simulation models, sales tools, marketing communications, marketing research, trademark administration and other support functions.

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

Manufacturing

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

Currently, all of our wafers are manufactured by TSMC and Powerchip under individually negotiated purchase orders. We do not currently have a long-term supply contract with either of these foundries, and, therefore, neither of them is obligated to manufacture products for us for any specified period, in any specified quantity or at any specified price, except as may be provided in a particular purchase order. Our future success depends in part on our ability to secure sufficient capacity at TSMC, Powerchip or other independent foundries to supply us with the wafers we require.

Our newest, leading edge SRAM products are manufactured using 40 nanometer process technology at TSMC. The majority of our current SRAM products are manufactured using 0.13 micron, 90 nanometer and 65 nanometer process technologies on 300 millimeter wafers at TSMC. Our LLD RAM production at Powerchip uses 72 nanometer technology. We currently have seven separate product families in production. On-going development programs are underway to extend, expand and/or cost reduce most our product families, including one programs targeting 40 nanometer SRAM products and a project to extend the reach of our LLD RAM product line using a more aggressive DRAM process technology.

Our master die methodology enables multiple product families, and variations thereof, to be manufactured from a single mask set. As a result, based upon the way available die from a wafer are metalized, wire bonded, packaged and tested, we can create a number of different products. The manufacturing process consists of two phases, the first of which takes approximately eight to twelve weeks and results in wafers that have the potential to yield multiple products within a given product family. After the completion of this phase, the wafers are stored pending customer orders. Once we receive orders for a particular product, we perform the second phase, consisting of final wafer processing, assembly, burn-in and test, which takes approximately six to ten weeks to complete. This two-step manufacturing process enables us to significantly shorten our product lead times, providing flexibility for customization and to increase the availability of our products.

All of our manufactured wafers are tested for electrical compliance and most are packaged at Advanced Semiconductor Engineering, or ASE, which is located in Taiwan. Our test procedures require that all of our products be subjected to accelerated burn-in and extensive functional electrical testing which is performed at our Taiwan and U.S. test facilities.

Research and Development

Research and development expenses were \$13.1 million in fiscal 2014, \$11.5 million in fiscal 2013 and \$10.6 million in fiscal 2012. Our research and development staff includes engineering professionals with extensive experience in the areas of SRAM design, DRAM design and systems level networking and telecommunications equipment design. The design process for our products is complex. As a result, we have made substantial investments in computer-aided design and engineering resources to manage our design process. Our current development focus is on the SigmaQuad SRAM family and our family of LLD RAM products.

Competition

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

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

We believe that our ability to compete successfully in the rapidly evolving markets for memory products for the networking and telecommunications markets depends on a number of factors, including:

- product performance, features, quality, reliability and price;
- manufacturing flexibility, product availability and customer service throughout the lifetime of the product;
- the timing and success of new product introductions by us, our customers and our competitors; and
- our ability to anticipate and conform to new industry standards.

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

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

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

Intellectual Property

Our ability to compete successfully depends, in part, upon our ability to protect our proprietary technology and information. We rely on a combination of patents, copyrights, trademarks, trade secret laws, non-disclosure and other contractual arrangements and technical measures to protect our intellectual property. We currently hold 19 United States patents and have in excess of a dozen patent applications pending. We do not consider our existing patents to be materially important to our business, and we cannot assure you that any patents will be issued as a result of our pending applications or that any patents issued will be valuable to our business. We believe that factors such as the technological and creative skills of our personnel and the success of our ongoing product development efforts are more important than our patent portfolio in maintaining our competitive position. We generally enter into confidentiality or license agreements with our employees, distributors, customers and potential customers and limit access to our proprietary information. Our intellectual property rights, if challenged, may not be upheld as valid, may not be adequate to prevent misappropriation of our technology or may not prevent the development of competitive products. Additionally, we may not be able to obtain patents or other intellectual property protection in the future. Furthermore, the laws of certain foreign countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products more likely in these countries.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights, which have resulted in significant and often protracted and expensive litigation. We or our foundry from time to time are notified of claims that we may be infringing patents or other intellectual property rights owned by third parties. We are currently involved in patent infringement litigation. See Item 3. Legal Proceedings. We have been subject to other intellectual property claims in the past and we may be subject to additional claims and litigation in the future. Litigation by or against us relating to allegations of patent infringement or other intellectual property matters could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation results in a determination favorable to us. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology, discontinue the use of certain processes or obtain licenses to the infringing technology. Licenses may not be offered or the terms of any offered licenses may not be acceptable to us. If we fail to obtain a license from a third party for technology used by us, we could incur substantial liabilities and be required to suspend the manufacture of products or the use by our foundry of certain processes.

Employees

As of March 31, 2014, we had 138 full-time employees, including 71 engineers, of which 42 are engaged in research and development and 40 have PhD or MS degrees, 18 employees in sales and marketing, ten employees in general and administrative capacities and 66 employees in manufacturing. Of these employees, 58 are based in our Sunnyvale facility and 60 are based in our Taiwan facility. We believe that our future success will depend in large part on our ability to attract and retain highly-skilled, engineering, managerial, sales and marketing personnel. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe that our employee relations are good.

Investor Information

You can access financial and other information in the Investor Relations section of our website at www.gsitechnology.com. We make available, on our website, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or

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furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

The charters of our Audit Committee, our Compensation Committee, and our Nominating and Governance Committee, and our code of conduct (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller, and senior financial officers) are also available at our website under "Corporate Governance." These items are also available to any stockholder who requests them by calling (408) 331-8800. The contents of our website are not incorporated by reference in this report.

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

Executive Officers

The following table sets forth certain information concerning our executive officers as of June 1, 2014:

Name	Age	Title
Lee-Lean Shu	59	President, Chief Executive Officer and Chairman
Didier Lasserre	49	Vice President, Sales
Douglas Schirle	59	Chief Financial Officer
Bor-Tay Wu	62	Vice President, Taiwan Operations
Ping Wu	57	Vice President, U.S. Operations
Robert Yau	61	Vice President, Engineering, Secretary and Director

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

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

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

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

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

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

Item 1A. Risk Factors

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

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

Our quarterly and annual revenues, expenses and operating results have varied significantly and are likely to vary in the future. For example, in the twelve fiscal quarters ended March 31, 2014, we recorded net revenues of as much as \$23.0 million and as little as \$12.8 million and quarterly operating income of as much as \$4.1 million and, in four quarters, operating losses, including the operating loss of \$3.6 million in the quarter ended March 31, 2014. 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 anticipate and conform to new industry standards.
- 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;
- fluctuations in our quarterly operating expenses due to substantial litigation-related expenses in some quarters; and

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- 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, historically 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, historically our largest OEM customer, purchases our products through its consignment warehouses and its contract manufacturers and directly from us. Based on information provided to us by its consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 19%, 29% and 41% of our net revenues in fiscal 2014, 2013 and 2012, respectively. 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. 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, 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. We incurred a loss of \$6.2 million during fiscal 2014, and in fiscal 2003 and 2004, we incurred losses of \$7.4 million and \$670,000, respectively. Although we have operated profitably during nine of the last ten 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 achieve sustained revenue growth. 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.

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.

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

The 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 intense foreign and domestic competition. Several of our competitors offer a broad array of memory products and have greater financial, technical, marketing, distribution and other resources than we have. Some of our competitors maintain their own semiconductor fabrication facilities, which may provide them with capacity, cost and technical advantages over us. We cannot assure you that we will be able to compete successfully against any of these competitors. Our ability to compete successfully in this market depends on factors both within and outside of our control, including:

- real or perceived imbalances in supply and demand of Very Fast SRAMs;
- the rate at which OEMs incorporate our products into their systems;
- the success of our customers' products;
- our ability to develop and market new products; and
- the supply and cost of wafers.

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

We are subject to pending patent infringement litigation.

In March 2011, Cypress Semiconductor Corporation, a semiconductor manufacturer, filed a lawsuit against us in the United States District Court for the District of Minnesota alleging that our products, including our SigmaDDR and SigmaQuad families of Very Fast SRAMs, infringe five patents held by Cypress. The complaint seeks unspecified damages for past infringement and a permanent injunction against future infringement. The case was stayed pending the conclusion of an investigation by the International Trade Commission (the "ITC") in response to a complaint filed by Cypress. In July 2013, following a final ITC determination favorable to us and the termination of the ITC investigation, the stay was lifted. On May 1, 2013, Cypress filed a lawsuit in the United States District Court for the Northern District of California alleging infringement by our products of five additional Cypress patents. Like the Minnesota case, the complaint in the California lawsuit sought unspecified damages for past infringement and a permanent injunction against future infringement. In August 2013, the Minnesota case was transferred to the Northern District of California and consolidated with the pending California case.

On July 22, 2011, we filed a complaint against Cypress in the United States District Court for the Northern District of California. Our complaint alleges that Cypress has conducted an unlawful combination and conspiracy to monopolize the market for certain high-performance SRAM devices, known as fast synchronous Quad Data Rate (or QDR) SRAMs and Double Data Rate (or DDR) SRAMs. The complaint alleges that the anti-competitive, collusive and conspiratorial conduct of Cypress and certain co-conspirators has violated Section 1 of the Sherman Act and also constitutes unlawful restraint of trade and unfair competition under applicable provisions of California law. The complaint seeks treble damages, in an amount to be determined at trial, a preliminary and permanent

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injunction prohibiting the continuation of the unfair and illegal business practices and recovery of GSI's attorneys' fees and costs. On July 6, 2012, the Court denied Cypress' motion to dismiss the complaint, upholding the sufficiency of the antitrust claims asserted, and discovery in the case is proceeding.

We believe that we have strong defenses against Cypress' patent infringement claims in the remaining California District Court case. We intend to continue to defend ourselves vigorously in that proceeding while vigorously continuing to prosecute our antitrust claims against Cypress. However, the litigation process is inherently uncertain, and we may not prevail. Patent litigation is particularly complex and can extend for a protracted period of time, which can substantially increase the cost of such litigation. We have incurred and expect to continue to incur substantial legal fees and expenses in connection with the Cypress patent and antitrust litigation. These expenses are likely to continue to fluctuate significantly from quarter to quarter and to be substantial in some quarters over the next one to two years. We also expect the litigation to continue to divert the efforts and attention of some of our key management and technical personnel. As a result, the litigation will be costly and time consuming. In addition, we believe that uncertainty regarding the outcome of the litigation has caused some of our customers and potential customers to reduce purchases of our products and/or seek second sources of supply, which adversely affected our revenues during the past three fiscal years.

Should the outcome of the patent litigation be adverse to us, we could be required to pay significant monetary damages to Cypress and could be enjoined from selling those of our products found to infringe Cypress's patents unless and until we are able to negotiate a license from Cypress. Any such license arrangement with Cypress would likely require the payment of royalties which would increase our cost of revenues and reduce our gross profit. If we are required to pay significant monetary damages, are enjoined from selling any of our products or are required to make substantial royalty payments pursuant to any such license arrangement, our business would be significantly harmed.

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 foundries and our independent assembly and test vendors, and successfully manage our manufacturing and subcontractor relationships. Because we do not operate our own wafer foundry or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own foundries or facilities.

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

We have significant customer sales both in the United States and internationally. We are also reliant upon U.S. and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions, including the challenging economic conditions that have prevailed and continue to prevail in the United States and worldwide. The recent turmoil in the financial markets has resulted in higher borrowing costs and tightened credit markets which have made it more difficult (in some cases, prohibitively so) for many companies to fund their working capital obligations. If any of our manufacturing partners, customers, distributors or suppliers experiences serious financial difficulties or ceases operations, our business could

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be adversely affected. The adverse impact of the credit crisis on consumers, including higher unemployment rates, is also adversely impacting consumer spending, which adversely impacts demand for consumer products, including certain end products in which our SRAMs are embedded. In addition, ongoing economic turmoil has recently had an adverse affect on capital expenditures for network equipment, particularly in Europe, which has impacted sales to some of our largest customers. The difficulty that businesses (including our customers) may have in obtaining credit, the decreased consumer spending resulting from the credit market crisis, high unemployment rates and continued global economic and market turmoil are likely to continue to have an adverse impact on our business, financial condition, results of operations and cash flows, at least over the near term.

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. Most significantly, we obtain wafers for our Very Fast SRAM products from a single foundry, TSMC, and most of them are packaged at ASE. Wafers for our LLDRAM products are obtained exclusively from Powerchip. If we are unable to obtain an adequate supply of wafers from TSMC or Powerchip 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, Powerchip, ASE or any of our other independent assembly and test suppliers, and instead obtain manufacturing services and products from these suppliers on a purchase-order basis. Our suppliers, including TSMC and Powerchip, have no obligation to supply products or services to us for any specific product, in any specific quantity, at any specific price or for any specific time period. As a result, the loss or failure to perform by any of these suppliers could adversely affect our business and operating results.

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

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

We do not have long-term supply agreements with TSMC or Powerchip, but instead obtain our wafers on a purchase order basis. In order to secure future wafer supply from TSMC or Powerchip 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.

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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.

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

A significant percentage of our sales are made to distributors and to contract manufacturers who incorporate our products into end products for OEMs. For example, in fiscal 2014, 2013 and 2012, our distributor Avnet Logistics accounted for 30.3%, 26.5% and 20.1%, 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 financial position and operating results will suffer.

At March 31, 2014, four customers accounted for 20%, 16%, 14% and 12% of our accounts receivable, respectively. If any of these customers do not pay us, our financial position and operating results will be harmed. Generally, we do not require collateral from our customers.

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We have disclosed a material weakness in our internal control over financial reporting relating to the evaluation and calculation of our inventory reserve. Our failure to remediate this material weakness or to otherwise maintain effective internal control over financial reporting and disclosure controls and processes could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis.

In connection with the completion of our third fiscal quarter-end closing and review procedures certain errors were identified in the evaluation and calculation of our inventory write-down for the quarter and nine month periods ended December 31, 2013 that were the result of a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

During our third fiscal quarter-end closing and review procedures our management determined that we had not designed and maintained effective controls over the review of supporting information to confirm the completeness and accuracy of our calculations for the write-down of excess or obsolete inventory, thereby affecting the valuation of our inventory as of December 31, 2013. Specifically, quarterly controls, including procedures for monitoring older product inventory, did not fully take into account the fact that management's prior expectations of increasing demand for our products during the balance of fiscal 2014 following the favorable ITC ruling on June 7, 2013 and the exit of a competitor from the SRAM market in December 2012 did not materialize and were not sufficiently precise to identify all potentially excess or obsolete inventory, taking into account reduced materiality thresholds following declines in our revenues and income (loss) before tax. Consequently we did not initially write down the full amount of excess or obsolete inventory, and additional adjustments were recorded to increase the inventory write-downs and to increase cost of sales by \$985,000 for the quarter and nine months ended December 31, 2013. While this control deficiency did not result in any material misstatement of our historical financial statements, it did result in adjustments identified by our auditors as part of their quarterly review process, and require corrections after our initial estimate of excess and obsolete inventory write-downs for the three month period ended December 31, 2013.

A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. Following the identification of the error in our third quarter financial statements and the material weakness that gave rise to the error, our management implemented a remediation plan which it believes fully remediated the material weakness. Should our remediation efforts prove to have been inadequate or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and procedures, we could be unable to meet our reporting obligations accurately and on a timely basis. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our common stock.

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 Sony acquisition, we had not made any such acquisitions or investments, and therefore our experience as an organization in making such acquisitions and investments is limited. In connection with future acquisitions or investments we may make, we face numerous risks, including:

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

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- 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.

Claims that we infringe third party intellectual property rights 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. We are currently involved in patent infringement litigation. See "We are subject to pending patent infringement litigation" above. We could become subject to additional claims or 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, distributors 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. We are currently involved in litigation to enforce our intellectual property rights and to protect our trade secrets. Additional litigation of this type may be necessary in the future. Any such litigation could result in substantial costs and diversion of resources. If competitors are able to use our technology without our approval or compensation, our ability to compete effectively could be harmed.

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 and Powerchip to transition successfully to smaller geometry process technologies and to more advanced manufacturing processes. We cannot assure you that TSMC or Powerchip will be able to effectively manage the transition or that we will be able to maintain our relationship with them. If we or TSMC or Powerchip experience significant delays in this transition or fail to implement these transitions, our business, financial condition and results of operations could be materially and adversely affected.

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

We continuously evaluate the benefits of migrating to smaller geometry process technologies in order to improve performance and reduce costs. Historically, these migrations to new manufacturing processes have resulted in significant initial design and development costs associated with pre-production mask sets for the manufacture of new products with smaller geometry process technologies. For example, in fiscal 2014, we incurred \$809,000 and \$648,000, respectively, in research and development expense associated with pre-production mask sets which were not later used in production as part of the transition to our new 40 nanometer SRAM process technology and 63 nanometer DRAM process technology, respectively. We will incur similar expenses in the future as we continue to transition our products to smaller geometry processes. The 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

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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 our other suppliers. For example, in the quarter ended December 31, 2005, we incurred a charge of approximately \$900,000 related to the write-off of inventory resulting from an error in the assembly process at one of our suppliers. This write-off adversely affected our operating results for fiscal 2006.

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

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

- capital spending by telecommunication and network service providers and other end-users who purchase our OEM customers' products;
- the competition our OEM customers face, particularly in the networking and telecommunications industries;
- the technical, manufacturing, sales and marketing and management capabilities of our OEM customers;
- the financial and other resources of our OEM customers; and
- the inability of our OEM customers to sell their products if they infringe third-party intellectual property rights.

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

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

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by production overcapacity, high inventory levels and accelerated erosion of average selling prices. From time to time, the semiconductor industry also has experienced periods of increased demand and production capacity constraints. Our operating results may suffer during the down portion of these cycles. Downturns in the semiconductor industry could cause our stock price to be volatile, and a prolonged decline in the industry could adversely affect our revenues. If we are unable to control our inventory levels or expenses adequately in response to reduced net sales, our results of operations would be negatively impacted.

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.

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

We are endeavoring to resume the expansion of our business, and any growth that we are successful in achieving could place a significant strain on our management systems, infrastructure and other resources. To manage such growth of our operations and increases in the number of our personnel, we will need to invest the necessary capital to continue to improve our operational, financial and management controls and our reporting systems and procedures. Our controls, systems and procedures may prove to be inadequate should we experience significant growth. 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. 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 69.2%, 68.8% and 76.5% of our net revenues in fiscal 2014, 2013 and 2012, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan. We intend to continue expanding 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 and unexpected changes in these laws;

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- 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 in which we, our customers and our suppliers are located;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- difficulties and costs of staffing and managing personnel, distributors and representatives across different geographic areas and cultures, including assuring compliance with the U. S. Foreign Corrupt Practices Act and other U. S. and foreign anti-corruption laws;
- limited protection for intellectual property rights in some countries; and
- fluctuations in freight rates and transportation disruptions.

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

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

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

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

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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.

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. Members of our senior management team have long-standing and important relationships with our key customers and suppliers. The loss of services of Lee-Lean Shu, our President and Chief Executive Officer, Robert Yau, our Vice President of Engineering, any other executive officer or other key employee could significantly delay or prevent the achievement of our development and strategic objectives. We do not have employment contracts with, nor maintain key person insurance on, any of our executive officers.

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

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

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

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

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

Some of our products are incorporated into advanced military electronics such as radar and guidance systems. Military expenditures and appropriations for such purchases rose significantly in recent years. However, as the current conflict in Afghanistan winds down, demand for our products for use in military applications may decrease, and our operating results could 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.

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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;
- the institution of legal proceedings against us or significant developments in such proceedings;
- 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;
- changes in industry estimates of 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,

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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 April 30, 2014, our executive officers, directors and entities affiliated with them beneficially owned approximately 26% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over, and may be able to effectively control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

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

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

- our stockholders have no right to remove directors without cause;
- our stockholders have no right to act by written consent;
- our stockholders have no right to call a special meeting of stockholders; and
- stockholders must comply with advance notice requirements to nominate directors or submit proposals for consideration at stockholder meetings.

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our executive offices, our principal administration, marketing and sales operations and a portion of our research and development operations are located in a 44,277 square foot facility in Sunnyvale, California, which we purchased in fiscal 2010. In addition, we occupy approximately 25,250 square feet in a facility located in Hsin Chu,

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Taiwan under a lease expiring in August 2014. This facility supports our manufacturing activities. We believe that we will be able to renew the lease of our Taiwan facility on commercially reasonable terms and that both our Sunnyvale and Taiwan facilities are adequate for our needs for the foreseeable future. We also lease space in Georgia and Texas. The aggregate annual gross rent for our leased facilities was approximately \$368,000 in fiscal 2014.

Item 3. Legal Proceedings

In March 2011, Cypress Semiconductor Corporation, a semiconductor manufacturer, filed a lawsuit against us in the United States District Court for the District of Minnesota alleging that our products, including our SigmaDDR and SigmaQuad families of Very Fast SRAMs, infringe five patents held by Cypress. The complaint seeks unspecified damages for past infringement and a permanent injunction against future infringement.

On June 10, 2011, Cypress filed a complaint against us with the United States International Trade Commission (the "ITC"). The ITC complaint, as subsequently amended, alleged infringement by GSI of three of the five patents involved in the District Court case and one additional patent and also alleged infringement by three of our distributors and 11 of our customers who allegedly incorporate our SRAMs in their products. The ITC complaint sought a limited exclusion order excluding the allegedly infringing SRAMs, and products containing them, from entry into the United States and permanent orders directing GSI and the other respondents to cease and desist from selling or distributing such products in the United States. On July 21, 2011, the ITC formally instituted an investigation in response to Cypress's complaint. On June 7, 2013, the ITC announced that the full Commission had affirmed the determination of Chief Administrative Law Judge Charles E. Bullock that GSI's SRAM devices, and products containing them, do not infringe the Cypress patents and that Cypress had failed to establish the existence of a domestic industry that practices the patents. Moreover, the Commission reversed a portion of Judge Bullock's determination with respect to the validity of the patents, finding the asserted claims of one of the patents to have been anticipated by prior art and, therefore, invalid. The Commission ordered the investigation terminated, and Cypress did not appeal the ruling.

The Minnesota District Court case had been stayed pending the conclusion of the ITC proceeding. Following the termination of the ITC proceeding, the stay was lifted. On May 1, 2013, Cypress filed an additional lawsuit in the United States District Court for the Northern District of California alleging infringement by our products of five additional Cypress patents. Like the Minnesota case, the complaint in the California lawsuit seeks unspecified damages for past infringement and a permanent injunction against future infringement. We filed answers in both cases denying liability and asserting affirmative defenses. On August 7, 2013, the parties stipulated that the claims in the Minnesota case with respect to three of the asserted patents would be dismissed without prejudice and that the claims with respect to the remaining two patents would be transferred to the Northern District of California and consolidated with the pending California case. On August 20, 2013, the Court in the California case ordered the cases consolidated. Discovery in the case is proceeding.

In connection with the pending litigation, we filed petitions with the Patent Trial and Appeal Board of the United States Patent and Trademark Office (the "PTAB") seeking *inter partes* review of certain claims of five of the seven Cypress patents that remain at issue in the California District Court litigation. On April 16, 2014, the PTAB granted our petitions with respect to two of the patents and instituted a review of the two patents. Our petitions with respect to the other three patents remain pending.

On July 22, 2011, we filed a complaint against Cypress in the United States District Court for the Northern District of California. Our complaint alleges that Cypress has conducted an unlawful combination and conspiracy to monopolize the market for certain high-performance SRAM devices, known as fast synchronous Quad Data Rate (or QDR) SRAMs and Double Data Rate (or DDR) SRAMs. The complaint alleges that the anti-competitive, collusive and conspiratorial conduct of Cypress and certain co-conspirators has violated Section 1 of the Sherman Act and

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also constitutes unlawful restraint of trade and unfair competition under applicable provisions of California law. The complaint seeks treble damages, in an amount to be determined at trial, a preliminary and permanent injunction prohibiting the continuation of the unfair and illegal business practices and recovery of GSI's attorneys' fees and costs. On July 6, 2012, the Court denied Cypress' motion to dismiss the complaint, upholding the sufficiency of the antitrust claims asserted, and discovery in the case is proceeding.

We believe that we have strong defenses against Cypress' infringement claims in the remaining California District Court case. We intend to continue to defend ourselves vigorously in that proceeding while vigorously continuing to prosecute our antitrust claims against Cypress. However, the litigation process is inherently uncertain, and we may not prevail. Patent litigation is particularly complex and can extend for a protracted period of time, which can substantially increase the cost of such litigation. We have incurred and expect to continue to incur substantial legal fees and expenses in connection with the Cypress patent and antitrust litigation, and we also expect the litigation to continue to divert the efforts and attention of some of our key management and technical personnel. As a result, the litigation has been, and will continue to be, costly and time consuming. In addition, we believe that uncertainty regarding the outcome of the litigation has caused some of our customers and potential customers to reduce purchases of our products and/or seek second sources of supply, which adversely affected our revenues during the past three fiscal years. We believe that the Commission's favorable final determination in the ITC proceeding has reduced this market uncertainty, although some design-in losses that we suffered during the pendency of the ITC proceeding will continue to adversely affect our revenues throughout the life cycle of the related products.

Should the outcome of the patent litigation be adverse to us, we could be required to pay significant monetary damages to Cypress and could be enjoined from selling those of our products found to infringe Cypress's patents unless and until we are able to negotiate a license from Cypress. Any such license arrangement with Cypress would likely require the payment of royalties which would increase our cost of revenues and reduce our gross profit. If we are required to pay significant monetary damages, are enjoined from selling any of our products or are required to make substantial royalty payments pursuant to any such license arrangement, our business would be significantly harmed.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

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

Market Information

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

<u>Fiscal Year Ended March 31, 2013</u>	<u>High</u>	<u>Low</u>
First quarter	\$ 4.92	\$ 4.04
Second quarter	5.49	4.40
Third quarter	6.42	4.47
Fourth quarter	6.91	6.02

<u>Fiscal Year Ended March 31, 2014</u>		
First quarter	6.85	5.53
Second quarter	7.24	5.95
Third quarter	7.40	6.25
Fourth quarter	7.25	6.36

Holders of Common Stock

On May 21, 2014, the closing price of our common stock on the Nasdaq Global Market was \$5.57, and there were 39 holders of record of our common stock. Because many of such shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial holders of our common stock represented by these record holders.

Dividend Policy

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

Securities Authorized for Issuance under Equity Compensation Plans

Please see Part III, Item 12 of this report for information regarding securities authorized for issuance under our equity compensation plans. Such information is incorporated by reference from our definitive proxy statement for our 2014 annual meeting of stockholders.

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Issuer Purchases of Equity Securities

Our Board of Directors has authorized us to repurchase, at management's discretion, shares of our common stock. On August 20, 2013, the Board increased the dollar value of shares that may be repurchased by \$10 million. 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. Below is summary of the common stock repurchases during the quarter ended March 31, 2014, all of which were made under our repurchase program.

Period	Shares Repurchased	Average Price per Share	Value of Shares That May Yet Be Repurchased Under the Program
Beginning approximate dollar value available to be repurchased as of December 31, 2013			\$ 13,355,245
January 1 to January 31, 2014	22,229	\$ 6.51	\$ 13,210,539
February 1 to February 28, 2014	29,722	\$ 6.68	\$ 13,011,990
March 1 to March 31, 2014	99	\$ 6.80	\$ 13,011,317
Total shares repurchased	<u>52,050</u>		
Ending approximate dollar value that may be repurchased under the program as of March 31, 2014			<u>\$ 13,011,317</u>

Item 6. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this report. The selected consolidated statement of operations data set forth below for the fiscal years ended March 31, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of March 31, 2014 and 2013 are derived from, and are qualified by reference to, our audited consolidated financial statements included elsewhere in this report. The selected consolidated statement of operations data set forth below for the fiscal years ended March 31, 2011 and 2010 and the selected consolidated balance sheet data as of March 31, 2012, 2011 and 2010 are derived from audited consolidated financial statements not included in this report.

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	Fiscal Year Ended March 31,				
	2014	2013	2012	2011	2010
(In thousands, except per share amounts)					
Consolidated Statement of Operations Data:					
Net revenues	\$ 58,579	\$ 66,014	\$ 82,540	\$ 97,763	\$ 67,558
Cost of revenues	32,469	37,426	45,891	53,009	38,342
Gross profit	26,110	28,588	36,649	44,754	29,216
Operating expenses:					
Research and development	13,110	11,472	10,637	10,632	9,069
Selling, general and administrative	18,814	13,696	19,356	10,722	9,534
Total operating expenses	31,924	25,168	29,993	21,354	18,603
Income (loss) from operations	(5,814)	3,420	6,656	23,400	10,613
Interest and other income (expense), net	338	464	525	461	1,965
Income (loss) before income taxes	(5,476)	3,884	7,181	23,861	12,578
Provision (benefit) for income taxes	713	38	425	4,985	2,195
Net income (loss)	\$ (6,189)	\$ 3,846	\$ 6,756	\$ 18,876	\$ 10,383
Basic and diluted net income per share available to common stockholders:					
Basic	\$ (0.23)	\$ 0.14	\$ 0.24	\$ 0.67	\$ 0.38
Diluted	\$ (0.23)	\$ 0.14	\$ 0.23	\$ 0.64	\$ 0.38
Weighted average shares used in per share calculations:					
Basic	27,505	27,124	28,497	28,013	27,105
Diluted	27,505	28,077	29,496	29,685	27,688

	March 31,				
	2014	2013	2012	2011	2010
(In thousands)					
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 80,932	\$ 67,259	\$ 58,678	\$ 51,985	\$ 46,778
Working capital	90,670	86,619	82,684	80,035	63,047
Total assets	141,677	145,845	143,117	141,917	113,128
Total stockholders' equity	128,378	132,183	128,779	124,680	98,719

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

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

Overview

We are a fabless semiconductor company that designs, develops and markets Very Fast static random access memories, or SRAMs, and low latency dynamic random access memories, or LLDRAMs, 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

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products in which semiconductor devices are used. Our revenues have been substantially impacted by significant fluctuations in sales to Cisco Systems, historically our largest customer, and we expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis. The worldwide financial crisis and the resulting economic impact on the end markets we serve have adversely impacted our financial results since the second half of fiscal 2009, and we expect that the unsettled global economic environment will continue to affect our operating results in future periods. However, with no debt, substantial liquidity and a history of positive cash flows from operations, we believe we are in a better financial position than many other companies of our size.

Revenues. Our revenues are derived primarily from sales of our Very Fast SRAM products. Sales to networking and telecommunications OEMs accounted for 73% to 79% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

As is typical in the semiconductor industry, the selling prices of our products generally decline over the life of the product. Our ability to increase net revenues, therefore, is dependent upon our ability to increase unit sales volumes of existing products and to introduce and sell new products with higher average selling prices in quantities sufficient to compensate for the anticipated declines in selling prices of our more mature products. Although we expect the average selling prices of individual products to decline over time, we believe that, over the next several quarters, our overall average selling prices will increase due to a continuing shift in product mix to a higher percentage of higher price, higher density products. Our ability to increase unit sales volumes is dependent primarily upon increases in customer demand but, particularly in periods of increasing demand, can also be affected by our ability to increase production through the availability of increased wafer fabrication capacity from TSMC and Powerchip, our wafer suppliers, 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 timeframes without significant penalty.

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

Historically, a small number of OEM customers have accounted for a substantial portion of our net revenues, and we expect that significant customer concentration will continue for the foreseeable future. Many of our OEMs use contract manufacturers to manufacture their equipment. Accordingly, a significant percentage of our net revenues is derived from sales to these contract manufacturers and to consignment warehouses. In addition, a significant portion of our sales are made to foreign and domestic distributors who resell our products to OEMs, as

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well as their contract manufacturers. Direct sales to contract manufacturers and consignment warehouses accounted for 37.5%, 42.0% and 45.1% of our net revenues for fiscal 2014, 2013 and 2012, respectively. Sales to foreign and domestic distributors accounted for 50.0%, 47.6% and 45.7% of our net revenues for fiscal 2014, 2013 and 2012, respectively. The following direct customers accounted for 10% or more of our net revenues in one or more of the following periods:

	Fiscal Year Ended		
	March 31,		
	2014	2013	2012
Consignment warehouses:			
SMART Modular Technologies	14.4 %	14.4 %	11.4 %
Jabil Circuit	1.4	7.5	20.0
Flextronics Technology	11.9	10.2	9.3
Distributors:			
Avnet Logistics	30.3	26.5	20.1
Nexcomm	10.2	10.8	11.2

Cisco Systems, historically our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit and Flextronics Technology, and also purchases some products through its contract manufacturers and directly from us. Historically, purchases by Cisco Systems have fluctuated from period to period. Based on information provided to us by Cisco Systems' consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 19%, 29% and 41% of our net revenues in fiscal 2014, 2013 and 2012, respectively. Alcatel Lucent was our largest customer in fiscal 2014. Alcatel Lucent purchases products directly from us and through contract manufacturers and distributors. Purchases by Alcatel Lucent represented approximately 19%, 12% and 9% of our net revenues in fiscal 2014, 2013 and 2012, respectively. Our revenues have been substantially impacted by significant 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 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 in fiscal 2014, 2013 or 2012.

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

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

Research and Development Expenses. Research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, the cost of developing prototypes, stock-based

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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 if we are able to grow and expand our sales force but that, to the extent our revenues increase in future periods, these expenses will generally decline as a percentage of net revenues. We also expect that, in support of any future growth that we are able to achieve, general and administrative expenses will generally increase in absolute dollars. General and administrative expenses increased significantly in fiscal 2012, primarily as a result of substantial legal expenses related to our pending patent infringement and antitrust litigation with Cypress Semiconductor Corporation. These expenses have varied significantly from quarter to quarter, depending on the relative level of activity in the Cypress litigation. They were substantially reduced during the six months ended September 30, 2012 while the issuance of the initial determination in the ITC proceeding was pending, although they increased again in the following quarters as the parties filed and responded to petitions for review of the initial determination, which was issued on October 25, 2012, activities related to our pending antitrust litigation with Cypress entered the discovery phase and activity resumed in the federal court patent litigation that had been stayed pending the conclusion of the ITC proceeding. Whatever the outcome of our pending litigation with Cypress, we expect to continue to incur additional legal expenses as we pursue our two lawsuits against Cypress and other pending litigation. These expenses are likely to continue to fluctuate significantly from quarter to quarter and to be substantial during some quarters over the next one to two years.

Results of Operations

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

	Fiscal Year Ended March 31,		
	2014	2013	2012
Net revenues	100.0 %	100.0 %	100.0 %
Cost of revenues	55.4	56.7	55.6
Gross profit	44.6	43.3	44.4
Operating expenses:			
Research and development	22.4	17.4	12.9
Selling, general and administrative	32.1	20.7	23.5
Total operating expenses	54.5	38.1	36.4
Income (loss) from operations	(9.9)	5.2	8.0
Interest and other income (expense), net	0.6	0.7	0.6
Income (loss) before income taxes	(9.3)	5.9	8.6
Provision for income taxes	1.3	0.1	0.5
Net income (loss)	(10.6)%	5.8 %	8.1 %

Fiscal Year Ended March 31, 2014 Compared to Fiscal Year Ended March 31, 2013

Net Revenues. Net revenues decreased by 11.3% from \$66.0 million in fiscal 2013 to \$58.6 million in fiscal 2014. The reduction reflected the continued slowness in the global networking and telecommunications markets and in particular, continued weak sales in Asia. Direct and indirect sales to Cisco Systems, historically our largest customer, decreased by \$8.3 million from \$19.3 million in fiscal 2013 to \$11.0 million in fiscal 2014 due to softness in the market for its switches and routers that incorporate our products. Direct and indirect sales to Alcatel-Lucent increased by \$3.1 million from \$8.1 million in fiscal 2013 to \$11.2 million fiscal 2014. We believe that our net revenues in each of these periods were also negatively impacted by uncertainty regarding the outcome of our pending patent litigation with Cypress Semiconductor. We believe that the Commission's favorable final determination in the ITC proceeding has reduced this market uncertainty, although some design-in losses that we suffered during the pendency of the ITC proceeding will continue to adversely affect our revenues throughout the life of the related products. Shipments of our SigmaQuad product line accounted for 42.2% of total shipments in fiscal 2014 compared to 36.1% of total shipments in fiscal 2013.

Cost of Revenues. Cost of revenues decreased by 13.2% from \$37.4 million in fiscal 2013 to \$32.5 million in fiscal 2014. This decrease was primarily due to the corresponding decrease in net revenues, favorable product mix and reductions in variable manufacturing costs in fiscal 2014, offset by an increase of \$1.3 million in non-cash write-downs of excess or obsolete inventory in fiscal 2014. The increased write-downs were taken to reflect the fact that management's prior expectations of increasing demand for our products following the favorable ITC ruling on June 7, 2013 and the exit of a competitor from the SRAM market in the December 2012 quarter did not materialize. Cost of revenues included stock-based compensation expense of \$386,000 and \$338,000, respectively, in fiscal 2014 and fiscal 2013.

Gross Profit. Gross profit decreased by 8.7% from \$28.6 million in fiscal 2013 to \$26.1 million in fiscal 2014. Gross margin increased from 43.3% in fiscal 2013 to 44.6% in fiscal 2014. The decrease in gross profit was primarily related to the decrease in net revenues. The change in gross margin was primarily related to changes in the mix of products and customers, the reduction in variable manufacturing expenses and the write-down of excess inventory discussed above.

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Research and Development Expenses. Research and development expenses increased 14.3% from \$11.5 million in fiscal 2013 to \$13.1 million in fiscal 2014. This increase was primarily due to an increase of \$1.5 million in expenses related to pre-production mask sets and an increase of \$338,000 in payroll related expenses, partially offset by decreases in stock-based compensation expense and facilities related expenses. Research and development expenses included stock-based compensation expense of \$970,000 and \$1,140,000, respectively, in fiscal 2014 and fiscal 2013.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 37.4% from \$13.7 million in fiscal 2013 to \$18.8 million in fiscal 2014. This increase was primarily related to an increase of \$5.6 million in legal fees related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation and other pending litigation, partially offset by decreases in independent sales representative commissions, non-legal professional fees and stock-based compensation expense. Selling, general and administrative expenses included stock-based compensation expense of \$872,000 and \$800,000, respectively, in fiscal 2014 and fiscal 2013.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased 27.2% from \$464,000 in fiscal 2013 to \$338,000 in fiscal 2014. Interest income decreased by \$68,000 due to lower interest rates received on our cash and short-term and long-term investments. In addition, we recorded a foreign currency exchange loss of \$49,000 in fiscal 2014 compared to a foreign currency exchange gain of \$9,000 in fiscal 2013. The exchange gain or loss in each period was related to our Taiwan branch operations.

Provision for Income Taxes. The provision for income taxes increased from \$38,000 in fiscal 2013 to \$713,000 in fiscal 2014. Because we recorded a cumulative three-year loss on a U.S. tax basis for the period ended March 31, 2014, we recorded a tax provision reflecting a full valuation allowance of our \$3.7 million in deferred tax assets.

Net Income (Loss). Net income decreased from \$3.8 million in fiscal 2013 to a net loss of \$6.2 million in fiscal 2014. This decrease was primarily due to the decreased net revenues, changes in operating expenses and our income tax provision discussed above.

Fiscal Year Ended March 31, 2013 Compared to Fiscal Year Ended March 31, 2012

Net Revenues. Net revenues decreased by 20.0% from \$82.5 million in fiscal 2012 to \$66.0 million in fiscal 2013. The reduction in net revenues was due primarily to softness in orders from our top three customers, each of which does significant business in Europe, where ongoing economic turmoil has adversely affected capital spending for network equipment manufactured by our customers. Direct and indirect sales to Cisco Systems, our largest customer, decreased by \$14.1 million from \$33.4 million in fiscal 2012 to \$19.3 million in fiscal 2013. Additionally, excess inventories accumulated by our customers in fiscal 2011 and in early fiscal 2012 were drawn down in late fiscal 2012 and during the first half of fiscal 2013, adversely affecting our revenues. We believe the decline in sales to Cisco Systems was due to inventory corrections and softness in demand for their products and did not reflect a decline in our market share. We also believe that our net revenues in the third and fourth quarters of fiscal 2012 and throughout fiscal 2013 were negatively impacted by uncertainty regarding the outcome of our pending patent litigation with Cypress Semiconductor. We believe that the favorable initial determination in the ITC proceeding issued by the administrative law judge in October 2012 reduced this market uncertainty. Shipments of our SigmaQuad product line accounted for 36.1% of total shipments in fiscal 2013 compared to 34.5% of total shipments in fiscal 2012.

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Cost of Revenues. Cost of revenues decreased by 18.4% from \$45.9 million in fiscal 2012 to \$37.4 million in fiscal 2013. This decrease was primarily due to the corresponding decrease in net revenues. Cost of revenues included stock-based compensation expense of \$338,000 and \$321,000, respectively, in fiscal 2013 and fiscal 2012.

Gross Profit. Gross profit decreased by 22.0% from \$36.6 million in fiscal 2012 to \$28.6 million in fiscal 2013. Gross margin decreased from 44.4% in fiscal 2012 to 43.3% in fiscal 2013. The decrease in gross profit was primarily related to the decrease in net revenues. The decrease in gross margin was primarily related to changes in the mix of products and customers and the impact of reduced revenue on our fixed manufacturing costs.

Research and Development Expenses. Research and development expenses increased 7.8% from \$10.6 million in fiscal 2012 to \$11.5 million in fiscal 2013. This increase was primarily due to increases of \$661,000 in payroll related expenses and \$167,000 in patent related legal expenses. Research and development expenses included stock-based compensation expense of \$1,140,000 and \$1,061,000, respectively, in fiscal 2013 and fiscal 2012.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 29.2% from \$19.4 million in fiscal 2012 to \$13.7 million in fiscal 2013. This decrease was primarily related to a decrease of \$6.3 million in legal fees related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation and a decrease in independent sales representative commissions of \$183,000, partially offset by increases in payroll related expenses of \$463,000 and non-legal professional fees of \$251,000. Selling, general and administrative expenses included stock-based compensation expense of \$800,000 and \$714,000, respectively, in fiscal 2013 and fiscal 2012.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased 11.6% from \$525,000 in fiscal 2012 to \$464,000 in fiscal 2013. Interest income decreased by \$86,000 due to lower interest rates received on our cash and short-term and long-term investments. In addition, we recorded a foreign currency exchange loss of \$16,000 in fiscal 2012 compared to a foreign currency exchange gain of \$9,000 in fiscal 2013. The exchange gain or loss in each period was related to our Taiwan branch operations.

Provision for Income Taxes. The provision for income taxes decreased from \$425,000 in fiscal 2012 to \$38,000 in fiscal 2013. This decrease was due to the decreased pre-tax income and changes in the relative mix of income within operating jurisdictions in fiscal 2013.

Net Income. Net income decreased 43.1% from \$6.8 million in fiscal 2012 to \$3.8 million in fiscal 2013. This decrease was primarily due to the decreased net revenues and changes in operating expenses and gross profit discussed above.

Liquidity and Capital Resources

As of March 31, 2014, our principal sources of liquidity were cash, cash equivalents and short-term investments of \$80.9 million compared to \$67.3 million as of March 31, 2013.

Net cash provided by operating activities was \$8.4 million for fiscal 2014 compared to \$14.7 million for fiscal 2013 and \$17.0 million for fiscal 2012. The primary sources of cash in fiscal 2014 were a reduction in inventory of \$3.5 million, adjustments for non-cash stock-based compensation expense of \$2.2 million, a provision for excess and obsolete inventory of \$2.1 million and depreciation expense of \$2.0 million, partially offset by a net loss of \$6.2 million and a decrease in accrued expenses and other liabilities. We have allowed inventory levels to decrease in response to the slowdown in our business during fiscal 2013 and fiscal 2014. The primary sources of cash in fiscal 2013 were net income of \$3.8 million, a reduction in inventory of \$2.1 million and a reduction in prepaid expenses

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of \$2.5 million, offset by a decrease in accounts payable of \$1.6 million. The decrease in accounts payable in fiscal 2013 was primarily due to decreased legal expenses related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation compared to fiscal 2012. The primary sources of cash in fiscal 2012 were net income of \$6.8 million and decreases in accounts receivable of \$4.5 million and inventory of \$4.0 million, partially offset by an increase in prepaid expenses and other assets of \$2.6 million and a decrease in deferred revenue of \$2.6 million. The decrease in accounts receivable was due to the lower level of shipments in the fourth quarter of fiscal 2012 compared to the fourth quarter of fiscal 2011.

Net cash used in investing activities was \$8.2 million in fiscal 2014, \$2.5 million in fiscal 2013 and \$6.5 million in fiscal 2012. Investment activities in fiscal 2014 consisted primarily of the purchase of agency bonds, state and municipal obligations, corporate notes and certificates of deposit of \$35.9 million, substantially offset by proceeds from the sales and maturities of investments of \$28.4 million. Investment activities in fiscal 2013 consisted primarily of the purchase of state and municipal obligations, corporate notes and certificates of deposit of \$35.6 million, substantially offset by sales and maturities of investments of \$33.4 million. Investment activities in fiscal 2012 consisted primarily of the purchase of state and municipal obligations and corporate notes of \$38.1 million substantially offset by sales and maturities of investments of \$33.3 million.

Net cash provided by financing activities in fiscal 2014, fiscal 2013 and fiscal 2012 primarily consisted of the net proceeds from the sale of common stock pursuant to our employee stock plans. In addition, net cash used in financing activities in fiscal 2014, fiscal 2013 and in fiscal 2012 included the repurchase of our common stock for a total purchase price of \$2.9 million, \$3.6 million and \$6.3 million, respectively. We repurchased 435,527 shares of our common stock at an average price of \$6.61 per share in fiscal 2014.

At March 31, 2014, we had total minimum lease obligations of approximately \$253,000 from April 1, 2014 through September 30, 2016, under non-cancelable operating leases.

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

Contractual Obligations

The following table describes our contractual obligations as of March 31, 2014:

	Payments due by period				Total
	Up to 1 year	1 - 3 years	3 - 5 years	More than 5 years	
Facilities and equipment leases	\$ 155,000	\$ 98,000		\$ -	\$ 253,000
Wafer, test and mask purchase obligations	3,508,000	465,000			3,973,000
	<u>\$ 3,663,000</u>	<u>\$ 563,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,226,000</u>

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As of March 31, 2014, the current portion of our unrecognized tax benefits was \$0, and the long-term portion was \$1,462,000. The unrecognized tax benefit balance as of March 31, 2014 of \$2,386,000 would affect the Company's effective tax rate if recognized. As of March 31, 2014, \$1,042,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. As of March 31, 2014, our net deferred tax assets of \$3.7 million are subject to a full valuation allowance.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are inherent in the preparation of the consolidated financial statements and include estimates affecting revenue recognition, obsolete and excess inventory, the realization of intangible assets, the valuation allowance on deferred tax assets, the valuation of equity instruments and stock-based compensation. We believe that we consistently apply these judgments and estimates and that our financial statements and accompanying notes fairly represent our financial results for all periods presented. However, any errors in these judgments and estimates may have a material impact on our balance sheet and statement of operations. Critical accounting estimates, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding revenue recognition, the valuation of inventories, taxes and stock-based compensation.

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

The timing of recognizing revenues on product sales to distributors is dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us monthly data regarding the product, price, quantity, and end customer for their shipments as well as the quantities of our products they have in stock at month end. In determining the appropriate amount of revenue to recognize, we use this data in reconciling differences between our estimate of their inventory levels and their reported inventories and shipment activities. If distributors incorrectly report their inventories or shipment activities, it could lead to inaccurate reporting of our revenues and income.

Valuation of Inventories. Inventories are stated at the lower of cost or market value, cost being determined on a weighted average basis. Our inventory write-down allowance is established when conditions indicate that the selling price of our products could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. We consider the need to establish the allowance for excess inventory generally based on inventory levels in excess of 12 months of forecasted demand for each specific product. Inventory consists of

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finished goods at our premises or consignment warehouses, work in progress at our premises or our contract manufacturers and finished goods at distributors and takes into account any uncancellable purchase commitments. Historically, it has been difficult to forecast customer demand especially at the part-number level. Many of the orders we receive from our customers and distributors request delivery of product on relatively short notice and with lead times less than our manufacturing cycle time. In order to provide competitive delivery times to our customers, we build and stock a certain amount of inventory in anticipation of customer demand that may not materialize. Moreover, as is common in the semiconductor industry, we may allow customers to cancel orders with minimal advance notice. Thus, even product built to satisfy specific customer orders may not ultimately be required to fulfill customer demand. Nevertheless, at any point in time, some portion of our inventory is subject to the risk of being materially in excess of our projected demand. Additionally, our average selling prices could decline due to market or other conditions, which creates a risk that costs of manufacturing our inventory may not be recovered. These factors contribute to the risk that we may be required to record additional inventory write-downs in the future, which could be material. In addition, if actual market conditions are more favorable than expected, inventory previously written down may be sold to customers resulting in lower cost of sales and higher income from operations than expected in that period.

Taxes. We account for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. We make certain estimates and judgments in the calculation of tax liabilities and the determination of deferred tax assets, which arise from temporary differences between tax and financial statement recognition methods. We record a valuation allowance to reduce our deferred tax assets to the amount that management estimates is more likely than not to be realized. As of March 31, 2014, our net deferred tax assets of \$3.7 million are subject to a full valuation allowance. If, in the future we determine that we are likely to realize all or part of our net deferred tax assets, an adjustment to deferred tax assets would be added to earnings in the period such determination is made.

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

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

Stock Based Compensation. Under authoritative guidance, stock-based compensation expense recognized in the statement of operations is based on options ultimately expected to vest, reduced by the amount of estimated forfeitures. We chose the straight-line method of allocating compensation cost over the requisite service period of the related award in accordance with the authoritative guidance. We calculated the expected term based on the historical average period of time that options were outstanding as adjusted for expected changes in future exercise patterns, which, for options granted in fiscal 2014, 2013 and 2012 resulted in an expected term of approximately five years. We used historical volatility to estimate expected volatility in fiscal 2014 and 2013. We based our estimate of expected volatility in 2012 on the estimated volatility of similar entities whose share prices were publicly available. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected life of the options. The dividend yield is 0%, based on the fact that we have never paid dividends and

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

Cash flows, if any, resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows.

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

We have no stock-based compensation arrangements with non-employees except for stock options granted to our non-employee directors.

Off-Balance Sheet Arrangements

At March 31, 2014, 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 July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") on Income Taxes, to improve the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is expected to reduce diversity in practice and is expected to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective for our interim and annual periods beginning after December 15, 2013. We do not expect the implementation of this authoritative guidance to have a material impact on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity. We had cash, cash equivalents, short term investments and long-term investments totaling \$109.8 million at March 31, 2014. These amounts were invested primarily in money market funds, state and municipal obligations, corporate notes, certificates of deposit and agency bonds. 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

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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 8. Financial Statements and Supplementary Data

GSI TECHNOLOGY, INC.

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a) 1 present fairly, in all material respects, the financial position of GSI Technology, Inc. and its subsidiaries at March 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

San Jose, California

June 11, 2014

GSI TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS

	March 31,	
	2014	2013
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 41,520	\$ 41,120
Short-term investments	39,412	26,139
Accounts receivable, net	8,238	10,241
Inventories	8,185	13,809
Prepaid expenses and other current assets	5,152	4,945
Deferred income taxes	-	1,224
Total current assets	102,507	97,478
Property and equipment, net	9,683	10,774
Long-term investments	28,819	35,495
Other assets	668	2,098
Total assets	<u>\$ 141,677</u>	<u>\$ 145,845</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 4,870	\$ 3,804
Accrued expenses and other liabilities	4,444	3,978
Deferred revenue	2,523	3,077
Total current liabilities	11,837	10,859
Income taxes payable	1,462	2,803
Total liabilities	13,299	13,662
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: 27,561,482 and 27,065,209 shares, respectively	28	27
Additional paid-in capital	56,399	54,004
Accumulated other comprehensive income	33	45
Retained earnings	71,918	78,107
Total stockholders' equity	128,378	132,183
Total liabilities and stockholders' equity	<u>\$ 141,677</u>	<u>\$ 145,845</u>

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

GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Net revenues	\$ 58,579	\$ 66,014	\$ 82,540
Cost of revenues	32,469	37,426	45,891
Gross profit	26,110	28,588	36,649
Operating expenses:			
Research and development	13,110	11,472	10,637
Selling, general and administrative	18,814	13,696	19,356
Total operating expenses	31,924	25,168	29,993
Income (loss) from operations	(5,814)	3,420	6,656
Interest income, net	387	455	541
Other income (expense), net	(49)	9	(16)
Income (loss) before income taxes	(5,476)	3,884	7,181
Provision for income taxes	713	38	425
Net income (loss)	\$ (6,189)	\$ 3,846	\$ 6,756
Net income (loss) per share:			
Basic	\$ (0.23)	\$ 0.14	\$ 0.24
Diluted	\$ (0.23)	\$ 0.14	\$ 0.23
Weighted average shares used in per share calculations:			
Basic	27,505	27,124	28,497
Diluted	27,505	28,077	29,496

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

GSI TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	<u>Year Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In thousands, except per share amounts)		
Net income (loss)	\$ (6,189)	\$ 3,846	\$ 6,756
Net unrealized gain (loss) on available-for-sale investments, net of tax	(12)	(43)	5
Comprehensive net income (loss)	<u>\$ (6,201)</u>	<u>\$ 3,803</u>	<u>\$ 6,761</u>

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

GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
	Balance, March 31, 2011	28,649,033	\$ 29	\$ 57,063	\$ 83	\$ 67,505
Issuance of common stock under employee stock option plans	307,007	-	1,504	-	-	1,504
Repurchase of common stock	(1,338,098)	(1)	(6,336)	-	-	(6,337)
Stock-based compensation expense	-	-	2,096	-	-	2,096
Windfall tax benefit from stock options exercised	-	-	75	-	-	75
Comprehensive income:						
Net income	-	-	-	-	6,756	6,756
Net unrealized gain on available-for-sale investments	-	-	-	5	-	5
Total comprehensive income	-	-	-	-	-	6,761
Balance, March 31, 2012	27,617,942	28	54,402	88	74,261	128,779
Issuance of common stock under employee stock option plans	258,437	-	857	-	-	857
Repurchase of common stock	(811,170)	(1)	(3,625)	-	-	(3,626)
Stock-based compensation expense	-	-	2,278	-	-	2,278
Windfall tax benefit from stock options exercised	-	-	92	-	-	92
Comprehensive income:						
Net income	-	-	-	-	3,846	3,846
Net unrealized loss on available-for-sale investments	-	-	-	(43)	-	(43)
Total comprehensive income	-	-	-	-	-	3,803
Balance, March 31, 2013	27,065,209	27	54,004	45	78,107	132,183
Issuance of common stock under employee stock option plans	932,800	1	3,080	-	-	3,081
Repurchase of common stock	(436,527)	-	(2,880)	-	-	(2,880)
Stock-based compensation expense	-	-	2,228	-	-	2,228
Reversal of windfall tax benefit from stock options exercised	-	-	(33)	-	-	(33)
Comprehensive income:						
Net income (loss)	-	-	-	-	(6,189)	(6,189)
Net unrealized loss on available-for-sale investments	-	-	-	(12)	-	(12)
Total comprehensive income (loss)	-	-	-	-	-	(6,201)
Balance, March 31, 2014	27,561,482	\$ 28	\$ 56,399	\$ 33	\$ 71,918	\$ 128,378

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

GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ (6,189)	\$ 3,846	\$ 6,756
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Allowance for sales returns, doubtful accounts and other	(5)	16	(5)
Provision for excess and obsolete inventories	2,079	777	696
Depreciation and amortization	1,981	2,375	2,611
Stock-based compensation	2,228	2,278	2,096
Deferred income taxes	1,224	(127)	632
Windfall tax benefits from stock options exercised	33	(92)	(75)
Amortization of bond premium on investments	842	1,015	1,256
Changes in assets and liabilities:			
Accounts receivable	2,008	322	4,468
Inventory	3,545	2,139	3,959
Prepaid expenses and other assets	1,046	2,523	(2,599)
Accounts payable	1,066	(1,607)	(17)
Accrued expenses and other liabilities	(857)	839	(242)
Deferred revenue	(554)	407	(2,578)
Net cash provided by operating activities	<u>8,447</u>	<u>14,711</u>	<u>16,958</u>
Cash flows from investing activities:			
Purchase of investments	(35,866)	(35,609)	(38,166)
Sales and maturities of short-term investments	28,412	33,446	33,327
Purchases of property and equipment	(761)	(385)	(1,679)
Net cash used in investing activities	<u>(8,215)</u>	<u>(2,548)</u>	<u>(6,518)</u>
Cash flows from financing activities:			
Repurchase of common stock	(2,880)	(3,626)	(6,337)
Windfall tax benefits from stock options exercised	(33)	92	75
Proceeds from issuance of common stock under employee stock plans	3,081	857	1,504
Net cash provided by (used in) financing activities	<u>168</u>	<u>(2,677)</u>	<u>(4,758)</u>
Net increase in cash and cash equivalents	400	9,486	5,682
Cash and cash equivalents at beginning of the year	41,120	31,634	25,952
Cash and cash equivalents at end of the year	<u>\$ 41,520</u>	<u>\$ 41,120</u>	<u>\$ 31,634</u>
Non-cash financing activities:			
Purchases of property and equipment through accounts payable and accruals	\$ -	\$ 51	\$ 274
Supplemental cash flow information:			
Net cash paid (received) for income taxes	\$ 2	\$ (2,253)	\$ 3,256

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

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

Accounting principles

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

Basis of consolidation

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

Use of estimates

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

Risk and uncertainties

The Company buys all of its SRAM and LDDRAM wafers, integral components of its products, from single suppliers and is also dependent on independent suppliers to assemble and test its products. During the years ended March 31, 2014, 2013 and 2012, all of the wafers used in the Company's SRAM and LDDRAM products were supplied by Taiwan Semiconductor Manufacturing Company Limited, or TSMC, and Powerchip Technology Corporation, or Powerchip, respectively. If these suppliers fail to satisfy the Company's requirements on a timely basis at competitive prices, the Company could suffer manufacturing delays, a possible loss of revenues, or higher cost of revenues, any of which could adversely affect operating results.

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

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

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

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

From time to time, the Company is involved in legal actions. The Company currently is a party to pending legal proceedings which it is defending aggressively. See Note 6 for additional information regarding this pending litigation. There are many uncertainties associated with any litigation, and the Company may not prevail. If information becomes available that causes us to determine that a loss in any of our pending litigation, or the settlement of such litigation, is probable, and we can reasonably estimate the loss associated with such events, we will record the loss in accordance with GAAP. However, the actual liability in any such litigation may be materially different from our estimates, which could require us to record additional costs.

Revenue recognition

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

Cash and cash equivalents

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

Short-term and long-term investments

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

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents, short-term and long-term investments and accounts receivable. The Company places its cash primarily in checking, certificate of deposit, and money market accounts with reputable financial institutions. The Company's accounts receivable are derived primarily from revenue earned from customers located in the U.S.

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and Asia. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectability of accounts receivable. There were no write offs of accounts receivable in the years ended March 31, 2014, 2013 or 2012.

In fiscal 2014, 2013, and 2012, sales to the Company's top 10 customers accounted for approximately 92%, 91% and 92% of net revenues, respectively. At March 31, 2014, four customers accounted for 20%, 16%, 14%, and 12% of accounts receivable, and for the year then ended, four customers accounted for 30%, 14%, 12% and 10% of net revenues. At March 31, 2013, six customers accounted for 20%, 16%, 15%, 10%, 10% and 10% of accounts receivable, and for the year then ended, four customers accounted for 27%, 14%, 11% and 10% of net revenues. At March 31, 2012, five customers accounted for 19%, 16%, 12%, 11% and 10% of accounts receivable, and for the year then ended, four customers accounted for 20%, 20%, 11% and 11% of net revenues.

Inventories

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

The Company recorded write-downs of excess and obsolete inventories of \$2.1 million, \$777,000 and \$696,000, respectively, in fiscal 2014, 2013 and 2012. The increased write-downs recorded in fiscal 2014 were taken in response to the decline in the business and the fact that management's prior expectations regarding the recoverability of certain products, which were based on estimates of increasing demand for these products in anticipation of and following the favorable ITC ruling on June 7, 2013 and the exit of a competitor from the SRAM market in the December 2012 quarter, did not materialize.

Property and equipment, net

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

Software	3 to 5 years
Computer and other equipment	5 to 10 years
Building and building improvements	10 to 25 years
Furniture and fixtures	7 years

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

Impairment of long-lived assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. If the sum of the expected future cash flows (undiscounted and before interest) from the use of the assets is less than the net book value of the asset an impairment exists and the amount of the impairment loss, if any, will generally be measured as the difference between net book value of the assets and their estimated fair values. There were no impairment losses recognized during the years ended March 31, 2014, 2013 or 2012.

Intangible Assets

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

Research and development

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

Income taxes

The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when it is more likely than not that the deferred tax asset will not be realized. Because the Company recorded a cumulative three-year loss on a U.S. tax basis for the period ended March 31, 2014, the Company recorded a tax provision reflecting a full valuation allowance of our \$3.7 million in deferred tax assets.

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

Shipping and handling costs

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

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Advertising expense

Advertising costs are charged to expense in the period incurred. Advertising expense was \$7,000, \$10,000 and \$8,000 for the years ended March 31, 2014, 2013, and 2012, respectively.

Foreign currency transactions

The U.S. dollar is the functional currency for all of the Company's foreign operations. Foreign currency transaction gains and losses, resulting from transactions denominated in currencies other than U.S. dollars are included in the statements of operations. These gains and losses were not material for the years ended March 31, 2014, 2013 or 2012.

Segments

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

Accounting for stock-based compensation

Stock-based compensation expense recognized in the statement of operations is based on options ultimately expected to vest, reduced by the amount of estimated forfeitures. The Company chose the straight-line method of allocating compensation cost over the requisite service period of the related award according to authoritative guidance. The Company calculated the expected term based on the historical average period of time that options were outstanding as adjusted for expected changes in future exercise patterns, which, for options granted in fiscal 2014, 2013 and 2012 resulted in an expected term of approximately five years. The Company used historical volatility to estimate expected volatility in fiscal 2014 and 2013. The Company based its estimate of expected volatility in fiscal 2012 on the estimated volatility of similar entities whose share prices were publicly available. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected life of the options. The dividend yield is 0%, based on the fact that the Company has never paid dividends and has no present intention to pay dividends. Changes to these assumptions may have a significant impact on the results of operations.

Authoritative guidance requires cash flows, if any, resulting from the tax benefits from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

Comprehensive income (loss)

Comprehensive income (loss) is defined to include all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the years ended March 31, 2014, 2013 and 2012, comprehensive income (loss) was \$(6,201,000), \$3,803,000 and \$6,761,000, respectively.

Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") on Income Taxes, to improve the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is expected to reduce diversity in practice and is expected to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance is effective for the Company's

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interim and annual periods beginning after December 15, 2013. The Company does not expect the implementation of this authoritative guidance to have a material impact on its financial position or results of operations.

NOTE 2—NET INCOME (LOSS) 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 (loss) per share:

	Year Ended March 31,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Net income (loss)	\$ (6,189)	\$ 3,846	\$ 6,756
Denominators:			
Weighted average shares—Basic	27,505	27,124	28,497
Dilutive effect of employee stock options	-	940	998
Dilutive effect of employee stock purchase plan options	-	13	1
Weighted average shares—Dilutive	27,505	28,077	29,496
Net income (loss) per common share—Basic	\$ (0.23)	\$ 0.14	\$ 0.24
Net income (loss) per common share—Diluted	\$ (0.23)	\$ 0.14	\$ 0.23

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 (loss) per common share as they had an anti-dilutive effect:

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
Shares underlying options	2,911	3,105	1,388

NOTE 3—BALANCE SHEET DETAIL

	March 31,	
	2014	2013
	(In thousands)	
Inventories:		
Work-in-progress	\$ 2,011	\$ 4,236
Finished goods	5,588	8,772
Inventory at distributors	586	801
	\$ 8,185	\$ 13,809

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	March 31,	
	2014	2013
(In thousands)		
Accounts receivable, net:		
Accounts receivable	\$ 8,349	\$ 10,357
Less: Allowances for sales returns, doubtful accounts and other	(111)	(116)
	<u>\$ 8,238</u>	<u>\$ 10,241</u>

	March 31,	
	2014	2013
(In thousands)		
Prepaid expenses and other current assets:		
Prepaid tooling and masks	\$ 833	\$ 1,230
Prepaid income taxes	2,598	2,037
Other receivables	596	557
Other prepaid expenses	1,125	1,121
	<u>\$ 5,152</u>	<u>\$ 4,945</u>

	March 31,	
	2014	2013
(In thousands)		
Property and equipment, net:		
Computer and other equipment	\$ 16,990	\$ 16,344
Software	4,780	4,690
Land	3,900	3,900
Building and building improvements	2,256	2,256
Furniture and fixtures	110	110
Leasehold improvements	791	767
Construction in progress	-	51
	<u>28,827</u>	<u>28,118</u>
Less: Accumulated depreciation and amortization	(19,144)	(17,344)
	<u>\$ 9,683</u>	<u>\$ 10,774</u>

Depreciation and amortization expense was \$1,801,000, \$2,375,000 and \$2,611,000 for the years ended March 31, 2014, 2013 and 2012, respectively.

	March 31,	
	2014	2013
(In thousands)		
Other assets:		
Non-current deferred income taxes	\$ 24	\$ 1,272
Intangible assets, net	564	744
Deposits	80	82
	<u>\$ 668</u>	<u>\$ 2,098</u>

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The following table summarizes the components of intangible assets and related accumulated amortization balances at March 31, 2014 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Product designs	\$ 590	\$ (386)	\$ 204
Patents	720	(367)	353
Software	80	(73)	7
Total	\$ 1,390	\$ (826)	\$ 564

Amortization of intangible assets of \$180,000 was included in cost of revenues for the year ended March 31, 2014.

As of March 31, 2014, the estimated future amortization expense of intangible assets in the table above is as follows (in thousands):

<u>Year Ending March 31,</u>	
2015	\$ 171
2016	164
2017	115
2018	80
2019	34
Thereafter	-
Total	\$ 564

	March 31,	
	2014	2013
(In thousands)		
Accrued expenses and other liabilities:		
Accrued compensation	\$ 2,330	\$ 2,181
Accrued professional fees	824	560
Accrued commissions	307	353
Accrued royalties	23	28
Accrued equipment and software costs	-	51
Other accrued expenses	960	805
	\$ 4,444	\$ 3,978

NOTE 4—INCOME TAXES

Income (loss) before income taxes and income tax expense consist of the following:

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
Income (loss) before income taxes:			
U.S.	\$ (6,388)	\$ 137	\$ (438)
Foreign	912	3,747	7,619
	<u>\$ (5,476)</u>	<u>\$ 3,884</u>	<u>\$ 7,181</u>
Current income tax expense (benefit):			
U.S. federal	\$ (1,782)	\$ 914	\$ (108)
Foreign	113	26	(123)
State	(82)	(134)	91
	<u>(1,751)</u>	<u>806</u>	<u>(140)</u>
Deferred income tax expense (benefit):			
U.S. federal	1,892	(529)	643
State	572	(239)	(78)
	<u>2,464</u>	<u>(768)</u>	<u>565</u>
Provision for income tax	<u>\$ 713</u>	<u>\$ 38</u>	<u>\$ 425</u>

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

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
U.S. Federal taxes at statutory rate	\$ (1,862)	\$ 1,321	\$ 2,440
State taxes, net of federal benefit	490	(276)	(48)
Stock-based compensation	392	601	502
Tax credits	(338)	(454)	(238)
Foreign tax rate differential	(650)	(1,099)	(2,167)
Tax exempt interest	(29)	(30)	(48)
Other	(72)	(25)	(16)
	<u>(2,069)</u>	<u>38</u>	<u>425</u>
Valuation allowance	2,782	-	-
	<u>\$ 713</u>	<u>\$ 38</u>	<u>\$ 425</u>

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

	March 31,	
	2014	2013
(In thousands)		
Deferred tax assets:		
Deferred revenue	\$ 202	\$ 268
Tax credits	1,154	397
Net operating losses	141	-
Stock-based compensation	1,247	1,126
Other reserves and accruals	1,020	965
Total deferred tax assets	<u>\$ 3,764</u>	<u>\$ 2,756</u>
Deferred tax liabilities:		
Property and equipment	\$ (58)	\$ (245)
Unrecognized gains	(11)	(15)
Total deferred tax liabilities	<u>\$ (69)</u>	<u>\$ (260)</u>
Gross deferred tax assets	\$ 3,695	\$ 2,496
Valuation allowance	(3,695)	-
Net deferred tax assets	<u>\$ -</u>	<u>\$ 2,496</u>

U.S. income taxes and withholding taxes have not been provided on a cumulative total of \$38.2 million of undistributed earnings for certain non-U.S. subsidiaries. The Company currently intends to reinvest these earnings in operations outside the United States. No provision has been made for taxes that might be payable upon remittance of such earnings, nor is it practicable to determine the amount of such potential liability.

The current portion of the Company's unrecognized tax benefits at March 31, 2014 and 2013 was \$0 and \$0, respectively. The long-term portion at March 31, 2014 and 2013 was \$1,462,000 and \$2,803,000, respectively, of which the timing of the resolution is uncertain. As of March 31, 2014, \$1,042,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. As of March 31, 2014, our net deferred tax assets of \$3.7 million are subject to a full valuation allowance. It is possible, however, that some months or years may elapse before an uncertain position for which the Company has established a reserve is resolved. A reconciliation of unrecognized tax benefits is as follows:

	Year Ended March 31,		
	2014	2013	2012
(In thousands)			
Unrecognized tax benefits, beginning of period	\$ 2,760	\$ 3,109	\$ 2,312
Additions based on tax positions related to current year	250	429	649
Additions based on tax positions related to prior years	13	85	252
Settlements during the current year	-	(231)	-
Lapses during the current year applicable to statutes of limitations	(637)	(632)	(104)
Unrecognized tax benefits, end of period	<u>\$ 2,386</u>	<u>\$ 2,760</u>	<u>\$ 3,109</u>

The unrecognized tax benefit balance as of March 31, 2014 of \$2,386,000 would affect the Company's effective tax rate if recognized.

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Management believes that it is reasonably possible that within the next twelve months the Company could have a reduction in uncertain tax benefits of up to \$775,000, including interest and penalties, as a result of the lapse of statute of limitations.

The Company's policy is to include interest and penalties related to unrecognized tax benefits within the provision for income taxes in the Consolidated Statements of Operations.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. In fiscal 2014, the Company established a full valuation allowance of \$3.7 million for deferred tax assets that are not expected to be utilized in future years. Fiscal years 2010 through 2014 remain open to examination by the federal tax authorities and fiscal years 2007 through 2014 remain open to examination by California.

NOTE 5—FINANCIAL INSTRUMENTS

Fair value measurements

Authoritative accounting guidance for fair value measurements provides a framework for measuring fair value and related disclosure. The guidance applies to all financial assets and financial liabilities that are measured on a recurring basis. The guidance requires fair value measurement to be classified and disclosed in one of the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. As of March 31, 2014, the Level 1 category included money market funds of \$3.9 million, which were included in cash and cash equivalents in the Consolidated Balance Sheet.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers. As of March 31, 2014, the Level 2 category included short-term investments of \$39.4 million and long term-investments of \$28.8 million, which were primarily comprised of certificates of deposit, corporate debt securities and government and agency securities.

Level 3: Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing. As of March 31, 2014, the Company had no Level 3 financial assets measured at fair value in the Consolidated Balance Sheet.

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 Consolidated Balance Sheets. The Company had money market funds of \$3.9 million and \$10.4 million at March 31, 2014 and March 31, 2013, respectively, included in cash and cash equivalents in the Consolidated Balance Sheet. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

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

March 31, 2014				
Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
(In thousands)				
Short-term investments:				
State and municipal obligations	\$ 8,336	\$ 4	\$ -	\$ 8,340
Corporate notes	5,023	12	-	5,035
Agency bonds	3,523	2	-	3,525
Certificates of deposit	14,997	6	-	15,003
Other	7,507	2	-	7,509
Total short-term investments	\$ 39,386	\$ 26	\$ -	\$ 39,412
Long-term investments:				
State and municipal obligations	\$ 8,227	\$ 10	\$ -	\$ 8,237
Corporate notes	6,392	16	-	6,408
Certificates of deposit	10,500	-	(2)	10,498
Agency bonds	2,011	-	(5)	2,006
Other	1,670	-	-	1,670
Total long-term investments	\$ 28,800	\$ 26	\$ (7)	\$ 28,819

March 31, 2013				
Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
(In thousands)				
Short-term investments:				
State and municipal obligations	\$ 10,564	\$ 17	\$ -	\$ 10,581
Corporate notes	6,052	14	-	6,066
Certificates of deposit	9,480	12	-	9,492
Total short-term investments	\$ 26,096	\$ 43	\$ -	\$ 26,139
Long-term investments:				
State and municipal obligations	\$ 11,992	\$ 3	\$ -	\$ 11,995
Corporate notes	8,436	14	-	8,450
Certificates of deposit	9,008	18	-	9,026
Other	6,042	-	(18)	6,024
Total long-term investments	\$ 35,478	\$ 35	\$ (18)	\$ 35,495

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

At March 31, 2014, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was \$11,000. At March 31, 2013, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was \$14,000.

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As of March 31, 2014, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	\$ 39,386	\$ 39,412
Maturing in one to three years	28,800	28,819
Maturing in more than three years	-	-
	<u>\$ 68,186</u>	<u>\$ 68,231</u>

NOTE 6—COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through August 2014. Rent expense for the years ended March 31, 2014, 2013 and 2012 was \$368,000, \$373,000 and \$371,000, respectively. The terms of the facility leases provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Future minimum lease payments under noncancelable operating leases with remaining lease terms in excess of one year at March 31, 2014 are as follows:

<u>Fiscal Year Ending March 31,</u>	<u>Operating Leases</u>
	(In thousands)
2015	\$ 155
2016	65
2017	33
2018	-
2019	-
Thereafter	-
Total	<u>\$ 253</u>

Royalty obligations

The Company has license agreements that require it to pay royalties on the sale of products using the licensed technology. Royalty expense for the years ended March 31, 2014, 2013 and 2012 was \$59,000, \$65,000 and \$61,000, respectively, and was included within cost of revenues.

Indemnification obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the Company, under which the Company customarily agrees to hold the other party harmless against losses

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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 have not had a material effect on its business, financial condition, cash flows or results of operations. The Company believes that if it were to incur a loss in any of these matters, such loss should not have a material effect on its business, financial condition, cash flows or results of operations.

Product warranties

The Company warrants its products to be free of defects generally for a period of three years. The Company estimates its warranty costs based on historical warranty claim experience and includes such costs in cost of revenues. Warranty costs were not significant for the years ended March 31, 2014, 2013 or 2012.

Legal proceedings

In March 2011, Cypress Semiconductor Corporation, a semiconductor manufacturer, filed a lawsuit against the Company in the United States District Court for the District of Minnesota alleging that the Company's products, including its SigmaDDR and SigmaQuad families of Very Fast SRAMs, infringe five patents held by Cypress. The complaint seeks unspecified damages for past infringement and a permanent injunction against future infringement.

On June 10, 2011, Cypress filed a complaint against the Company with the United States International Trade Commission (the "ITC"). The ITC complaint, as subsequently amended, alleged infringement by the Company of three of the five patents involved in the District Court case and one additional patent and also alleged infringement by three of the Company's distributors and 11 of its customers who allegedly incorporate the Company's SRAMs in their products. The ITC complaint sought a limited exclusion order excluding the allegedly infringing SRAMs, and products containing them, from entry into the United States and permanent orders directing the Company and the other respondents to cease and desist from selling or distributing such products in the United States. On July 21, 2011, the ITC formally instituted an investigation in response to Cypress's complaint. On June 7, 2013, the ITC announced that the full Commission had affirmed the determination of Chief Administrative Judge Charles E. Bullock that GSI's SRAM devices, and products containing them, do not infringe the Cypress patents and that Cypress had failed to establish existence of a domestic industry that practices the patents. Moreover, the Commission reversed a portion of Judge Bullock's determination with respect to the validity of the patents, finding the asserted claims of one of the patents to have been anticipated by prior art and, therefore, invalid. The Commission ordered the investigation terminated, and Cypress did not appeal the ruling.

The Minnesota District Court case had been stayed pending the conclusion of the ITC proceeding. Following the termination of the ITC investigation, the stay was lifted. On May 1, 2013, Cypress filed an additional lawsuit in the United States District Court for the Northern District of California alleging infringement by our products of five additional Cypress patents. Like the Minnesota case, the complaint in the California lawsuit seeks unspecified damages for past infringement and a permanent injunction against future infringement. The Company filed answers in both cases denying liability and asserting affirmative defenses. On August 7, 2013, the parties stipulated that the claims in the Minnesota case with respect to three of the asserted patents would be dismissed without prejudice and that the claims with respect to the remaining two patents would be transferred to the Northern District of California.

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and consolidated with the pending California case. On August 20, 2013, the Court in the California case ordered the cases consolidated. Discovery in the case is proceeding.

The Company believes that it has strong defenses against Cypress' patent infringement claims and intends to continue to defend itself vigorously. However, the litigation process is inherently uncertain, and the Company may not prevail. Patent litigation is particularly complex and can extend for a protracted period of time, which can substantially increase the cost of such litigation. The Company has not recorded any loss contingency during fiscal 2012, fiscal 2013 or fiscal 2014 in connection with these legal proceedings as the Company cannot predict their outcome and cannot estimate the likelihood or potential dollar amount of any adverse results. However, an unfavorable outcome in these proceedings could have a material adverse impact on the Company's financial position, results of operations or cash flows for the period in which the outcome occurs and in future periods.

NOTE 7—COMMON STOCK

The Company's Certificate of Incorporation, as amended, authorizes the Company to issue 150,000,000 shares of \$0.001 par value common stock.

The Company's Board of Directors has authorized the repurchase, at management's discretion, of shares its common stock. On August 20, 2013, the Board increased the dollar value of shares that may be repurchased by \$10 million. Under the repurchase program, the Company 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. Through March 31, 2014, the Company has repurchased a total of 4,066,757 shares at an average cost of \$4.18 per share for a total cost of \$17.0 million.

NOTE 8—STOCK-BASED COMPENSATION

The 2000 Stock Option Plan

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

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

The 2007 Equity Incentive Plan

In January 2007, the Company's board of directors approved the 2007 Equity Incentive Plan, (the "Equity Plan"), which was subsequently approved by the Company's stockholders in March 2007. A total of 3,000,000 shares of common stock were authorized and reserved for issuance under the Equity Plan. This reserve automatically increases on April 1 of each year through 2017 by an amount equal to the smaller of (a) five percent of the number

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of shares of common stock issued and outstanding on the immediately preceding March 31, or (b) a lesser amount determined by the board of directors. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the Equity Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in the Company's capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the Equity Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the Equity Plan.

To enable compensation provided in connection with certain types of awards intended to qualify as "performance-based" within the meaning of Section 162(m) of the Internal Revenue Code, the Equity Plan establishes limits on the maximum aggregate number of shares or dollar value for which awards may be granted to an employee in any fiscal year, as follows:

- No more than 300,000 shares subject to stock options and stock appreciation rights.
- No more than 100,000 shares subject to restricted stock and restricted stock unit awards.
- For each full fiscal year of the Company contained in the performance period of the award, no more than 50,000 shares subject to performance share awards and other stock-based awards or more than \$500,000 subject to performance unit awards and other cash-based awards.

In addition, to comply with applicable tax rules, the Equity Plan also limits the number of shares that may be issued upon the exercise of ISOs granted under the Equity Plan to 3,000,000, cumulatively increased on April 1 of each subsequent year through 2017, by an amount equal to the smallest of (a) five percent of the number of shares of common stock issued and outstanding on the immediately preceding March 31, (b) 1,500,000 shares, or (c) a lesser amount determined by the board of directors.

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

Awards may be granted under the Equity Plan to the Company's employees, including officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. To date, options granted to non-officer employees generally vest 25% on the first anniversary and subsequent anniversaries of the date of grant, while grants to officers vest in full four years after the anniversary date of the officer's employment that is closest to the date of grant. While the Company may grant ISOs only to employees, the Company may grant NSOs, stock appreciation rights, restricted stock purchase rights or bonuses, restricted stock units, performance shares, performance units and cash-based awards or other stock-based awards to any eligible participant. Non-employee director awards may be granted only to members of the Company's board of directors who, at the time of grant, are not employees. Deferred compensation awards may be granted only to officers, directors and selected members of management or highly compensated employees.

Only members of the board of directors who are not employees at the time of grant are eligible to participate in the nonemployee director awards component of the Equity Plan. The board or the compensation committee shall set the amount and type of nonemployee director awards to be awarded on a periodic, non-discriminatory basis. Nonemployee director awards may be granted in the form of NSOs, stock appreciation rights, restricted stock awards and restricted stock unit awards. Subject to adjustment for changes in the Company's capital structure, no nonemployee director may be awarded, in any fiscal year, one or more nonemployee director awards for more than

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2,000 shares. However, the annual limit may be increased by the following additions: (i) an additional 10,000 shares in the fiscal year in which the nonemployee director is first appointed or elected to the board, (ii) an additional 2,000 shares in any fiscal year in which the nonemployee director is serving as the chairman or lead director of the board, (iii) an additional 1,000 shares in any fiscal year for each committee of the board on which the nonemployee director is then serving other than as chairman of the committee, and (iv) an additional 2,000 shares in any fiscal year for each committee of the board on which the nonemployee director is then serving as chairman of the committee.

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

The 2007 Employee Stock Purchase Plan

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

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

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

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Amounts accumulated for each participant under the 2007 Purchase Plan are used to purchase shares of the Company's common stock at the end of each offering period at a price generally equal to 85% of the lower of the fair market value of our common stock at the beginning of an offering period or at the end of the offering period. Prior to commencement of an offering period, the administrator is authorized to reduce, but not increase, this purchase price discount for that offering period, or, under circumstances described in the 2007 Purchase Plan, during that offering period. The maximum number of shares a participant may purchase in any six-month offering period is the lesser of (i) that number of shares determined by multiplying (x) 1,000 shares by (y) the number of months (rounded to the nearest whole month) in the offering period and rounding to the nearest whole share or (ii) that number of whole shares determined by dividing (x) the product of \$2,083.33 and the number of months (rounded to the nearest whole month) in the offering period and rounding to the nearest whole dollar by (y) the fair market value of a share of our common stock at the beginning of the offering period. Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

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

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The following table summarizes stock option activities:

	Shares Available for Grant	Number of Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Balance at March 31, 2011	3,736,035	5,065,478		\$ 4.46	
Options reserved	1,432,452	-		-	
Granted	(854,423)	854,423		5.81	
Exercised	-	(225,789)		4.87	\$ 403,038
Forfeited	47,400	(67,964)		5.53	
Balance at March 31, 2012	4,361,464	5,626,148		4.46	
Options reserved	1,380,897	-		-	
Granted	(914,963)	914,963		5.04	
Exercised	-	(123,732)		3.02	351,120
Forfeited	40,060	(81,060)		4.74	
Balance at March 31, 2013	4,867,458	6,336,319		4.64	
Options reserved	1,353,260	-		-	
Granted	(784,303)	784,303		6.45	
Exercised	-	(816,957)		3.10	2,629,982
Forfeited	149,085	(159,685)		6.04	
Balance at March 31, 2014	5,585,500	6,143,980		\$ 5.13	
Options vested and exercisable		3,911,466	4.68	\$ 4.65	\$ 8,987,352
Options vested and expected to vest		6,082,908	5.96	\$ 5.12	\$ 11,151,549

The options outstanding and by exercise price at March 31, 2014 are as follows:

Exercise Price	Number of Shares Underlying Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Vested and Exercisable	Weighted Average Exercise Price
\$ 2.43 - 3.38	628,219	\$ 3.02	4.55	628,219	\$ 3.02
\$ 3.43 - 3.94	492,391	\$ 3.55	5.03	492,391	\$ 3.55
\$ 4.00	669,303	\$ 4.00	5.17	669,303	\$ 4.00
\$ 4.17 - 4.50	633,245	\$ 4.26	5.60	384,517	\$ 4.32
\$ 4.81 - 4.92	508,635	\$ 4.87	7.94	137,365	\$ 4.88
\$ 5.50	801,433	\$ 5.50	2.63	801,433	\$ 5.50
\$ 5.59 - 5.76	621,480	\$ 5.70	7.30	222,171	\$ 5.71
\$ 6.00 - 6.54	799,858	\$ 6.32	7.16	355,131	\$ 6.18
\$ 6.61 - 6.86	668,103	\$ 6.77	8.89	62,452	\$ 6.82
\$ 7.00 - 9.20	321,313	\$ 7.78	6.52	158,484	\$ 7.87
	6,143,980	\$ 5.13	5.99	3,911,466	

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Stock-based compensation

The Company recognized \$2,228,000, \$2,278,000 and \$2,096,000 of stock-based compensation expense for the years ended March 31, 2014, 2013 and 2012, respectively, as follows:

	Year Ending March 31,		
	2014	2013	2012
	(In thousands)		
Cost of revenues	\$ 386	\$ 338	\$ 321
Research and development	970	1,140	1,061
Selling, general and administrative	872	800	714
Total	<u>\$ 2,228</u>	<u>\$ 2,278</u>	<u>\$ 2,096</u>

Stock-based compensation expense in the years ended March 31, 2014, 2013 and 2012 included \$152,000, \$145,000 and \$156,000, respectively, related to the Company's Employee Stock Purchase Plan.

In 2014, no tax benefit was recognized due to a full valuation allowance. The Company recognized related income tax benefits of \$221,000 and \$210,000 in the years ended March 31, 2013 and 2012, respectively. The reversal of previously recognized windfall tax benefits realized from exercised stock options was \$33,000 in fiscal 2014. Windfall tax benefits realized from exercised stock options were \$92,000 and \$75,000 during the fiscal years ended March 31, 2013 and 2012, respectively. Compensation cost capitalized within inventory at March 31, 2014 was insignificant. As of March 31, 2014, the Company's total unrecognized compensation cost was \$3.7 million, which will be recognized over the weighted average period of 2.03 years. The Company calculated the fair value of stock based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
Stock Option Plans:			
Risk-free interest rate	0.91 - 1.61 %	0.69 - 0.82 %	0.90 - 1.89 %
Expected life (in years)	5.00	5.00	5.00
Volatility	45.5 - 48.4 %	48.8 - 52.9 %	50.8 - 53.8 %
Dividend yield	-%	-%	-%
Employee Stock Purchase Plan:			
Risk-free interest rate	0.07 - 0.09 %	0.14 - 0.15 %	0.05 - 0.07 %
Expected life (in years)	0.50	0.50	0.50
Volatility	30.4 - 32.8 %	23.4 - 47.3 %	43.9 - 52.1 %
Dividend yield	-%	-%	-%

The weighted average fair value of options granted during the years ended March 31, 2014, 2013 and 2012 was \$2.73, \$2.22 and \$2.66, respectively.

NOTE 9—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:

	Year Ended March 31,		
	2014	2013	2012
	(In thousands)		
United States	\$ 18,021	\$ 20,588	\$ 19,434
China	13,294	14,000	17,974
Malaysia	9,827	16,352	27,048
Singapore	5,979	7,141	10,971
Rest of the world	11,458	7,933	7,113
	<u>\$ 58,579</u>	<u>\$ 66,014</u>	<u>\$ 82,540</u>

All sales are denominated in United States dollars.

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

	March 31,	
	2014	2013
	(In thousands)	
United States	\$ 7,332	\$ 8,214
Taiwan	2,351	2,560
	<u>\$ 9,683</u>	<u>\$ 10,774</u>

NOTE 10—EMPLOYEE BENEFIT PLAN

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

NOTE 11—QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014
(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:				
Net revenues	\$ 16,412	\$ 15,542	\$ 13,778	\$ 12,847
Gross profit	\$ 7,466	\$ 7,402	\$ 5,368	\$ 5,874
Net income (loss)	\$ (441)	\$ 386	\$ (734)	\$ (5,400)
Net income (loss) per common share—Basic	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ (0.20)
Net income (loss) per common share—Diluted	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ (0.20)

	Three Months Ended			
	June 30, 2012	September 30, 2012	December 31, 2012	March 31, 2013
(In thousands, except per share amounts)				
Consolidated Statement of Operations Data:				
Net revenues	\$ 16,783	\$ 16,010	\$ 17,514	\$ 15,707
Gross profit	\$ 6,765	\$ 7,204	\$ 7,344	\$ 7,275
Net income	\$ 920	\$ 1,132	\$ 844	\$ 950
Net income per common share—Basic	\$ 0.03	\$ 0.04	\$ 0.03	\$ 0.04
Net income per common share—Diluted	\$ 0.03	\$ 0.04	\$ 0.03	\$ 0.03

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

Not applicable.

Item 9A. Controls and Procedures**Management's Evaluation of Disclosure Controls and Procedures**

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of March 31, 2014, our Chief Executive Officer and Chief Financial Officer, have 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 the reports we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, 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.

Remediation of Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. In connection with the completion of our closing and review procedures for the third fiscal quarter ended December 31, 2013, and the preparation of our quarterly report

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on Form 10-Q for the quarter, certain errors were identified in the evaluation and calculation of our inventory write-downs that we determined were the result of a material weakness that existed as of December 31, 2013.

Following the identification of the error in our third quarter financial statements and the material weakness that gave rise to the error, our management implemented a remediation plan to address the material weakness. Remediation efforts taken by management focused on ensuring that all relevant information is considered in evaluating whether inventory should be written down and increasing the precision of our controls to fully take into account lower levels of materiality following the decline in our revenues and income (loss) before tax. Our management believes that these improvements in controls have fully remediated the material weakness.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those controls determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

The changes in our internal control over financial reporting that occurred during the three months ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting related to the remediation of the material weakness identified at the end of the previous quarter and are described above under the heading "Remediation of Material Weakness in Internal Control over Financial Reporting."

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of March 31, 2014. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework (1992)*. Based on our assessment using those criteria, our management (including our Chief Executive Officer and Chief Financial Officer) concluded that our internal control over financial reporting was effective as of March 31, 2014.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 51 of this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

PART III

The SEC allows us to include information required in this report by referring to other documents or reports we have already filed or will soon be filing. This is called "incorporation by reference." We intend to file our definitive proxy statement for our 2014 annual meeting of stockholders (the "Proxy Statement") pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

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

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

Item 11. *Executive Compensation*

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

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

The information required by this item is incorporated by reference from the sections entitled "Principal Stockholders and Stock Ownership by Management" and "Executive Compensation – Equity Compensation Plan Information" to be included in the Proxy Statement.

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

The information required by this item is incorporated by reference from the section entitled "Related Person Transactions" and "Corporate Governance—Director Independence" to be included in the Proxy Statement.

Item 14. *Principal Accountant Fees and Services*

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements

	Page
Report of Independent Registered Public Accounting Firm	51
Consolidated Balance Sheets As of March 31, 2014 and 2013	52
Consolidated Statements of Operations For the Three Years Ended March 31, 2014, 2013 and 2012	53
Consolidated Statements of Comprehensive Income For the Three Years Ended March 31, 2014, 2013 and 2012	54
Consolidated Statements of Stockholders' Equity For the Three Years Ended March 31, 2014, 2013 and 2012	55
Consolidated Statements of Cash Flows For the Three Years Ended March 31, 2014, 2013 and 2012	56
Notes to Consolidated Financial Statements	57

2. Financial Statement Schedules

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

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3. Exhibits:

The following exhibits are filed herewith:

Exhibit Number	Name of Document
3.1	Restated Certificate of Incorporation of Registrant (Incorporated by reference to Exhibit 3.3 to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
3.2	Bylaws of Registrant (Incorporated by reference to Exhibit 3.4 to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.1	Form of Indemnity Agreement between Registrant and Registrant's directors and officers (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on January 10, 2007)
10.2	(1) 1997 Stock Plan and form of Stock Option Agreement (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.3	(1) 2000 Stock Option Plan and form of Stock Option Agreement (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.4	(1) 2007 Equity Incentive Plan, as amended (Incorporated by reference to Appendix A to Registrant's definitive Proxy Statement filed on July 21, 2011)
10.5	(1) 2007 Employee Stock Purchase Plan and form of Subscription Agreement (Incorporated by reference to identically-numbered exhibit to Registrant's Registration Statement on Form S-1 (File No. 333-139885) filed on February 16, 2007)
10.6	(1) Form of Notice of Grant of Stock Option (U.S. Participant) (Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.7	(1) Form of Notice of Grant of Stock Option (Non-U.S. Participant) (Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.8	(1) Form of Stock Option Agreement (U.S. Participant) (Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.9	(1) Form of Stock Option Agreement (Non-U.S. Participant) (Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K filed on June 4, 2007)
10.10	Intellectual Property Agreement dated August 28, 2009 between GSI Technology, Inc. and Sony Electronics Inc. (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed on November 16, 2009)
10.11	(1) GSI Technology, Inc. 2011 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on April 5, 2010)
10.12	(1) GSI Technology, Inc. 2012 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 10, 2011)
10.13	Factory Lease Agreement for No. 1, 6th Floor, 30 Tai-Yuan Street, Chu-Pei City, Taiwan dated August 9, 2012 (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on September 11, 2012)
10.14	(2) Master Purchase Agreement dated August 31, 2011 between Registrant and Cisco Systems, Inc. (Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q filed on November 4, 2011)
10.15	(2) Master Purchase Agreement dated August 31, 2011 between Registrant and Cisco Systems International B.V. (Incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q filed on November 4, 2011)
10.16	(1) GSI Technology, Inc. 2013 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 8, 2012)
10.17	(1) GSI Technology, Inc. 2014 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on June 3, 2013)

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10.18	(1)	GSI Technology, Inc. 2015 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on May 30, 2014)
21.1		List of Subsidiaries
23.1		Consent of Independent Registered Public Accounting Firm
24.1		Power of Attorney (Incorporated by reference to the signature page of this Annual Report on Form 10-K)
31.1		Certification of Lee-Lean Shu, President 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
101.INS		XBRL Instance Document
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		XBRL Taxonomy Extension Label Linkbase Document
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Compensatory plan or management contract.
 - (2) This exhibit has been filed separately with the Commission pursuant to an application for confidential treatment which has been granted by the Commission. The confidential portions of this exhibit have been omitted and marked by asterisks.

GSI TECHNOLOGY, INC. SUBSIDIARIES

GSI Technology Holdings, Inc., a Cayman Islands company

GSI Technology (BVI), Inc., a British Virgin Islands company

GSI Technology Taiwan, Inc., a Republic of China company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-144140) of GSI Technology, Inc. of our report dated June 11, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
June 11, 2014

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lee-Lean Shu, certify that:

1. I have reviewed this annual report on Form 10-K of GSI Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 11, 2014

/s/ LEE-LEAN SHU

Lee-Lean Shu
President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Douglas M. Schirle, certify that:

1. I have reviewed this annual report on Form 10-K of GSI Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 11, 2014

/s/ DOUGLAS M. SCHIRLE

Douglas M. Schirle
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of GSI Technology, Inc. (the "Company") on Form 10-K for the year ending March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lee-Lean Shu, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 11, 2014

/s/ LEE-LEAN SHU

Lee-Lean Shu
President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of GSI Technology, Inc. (the "Company") on Form 10-K for the year ending March 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas M. Schirle, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 11, 2014

/s/ DOUGLAS M. SCHIRLE

Douglas M. Schirle
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request.
