

GSI TECHNOLOGY INC  
Form 10-K  
June 10, 2016  
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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, 2016

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

1213 Elko Drive

Sunnyvale, California 94089

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(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:

Title of Each Class

Common Stock, \$0.001 par value

Name of Each Exchange on which Registered

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, 2015, as reported on the Nasdaq Global Market, was approximately \$63.7 million. Shares of the registrant's common stock held by each officer and director and each person who owns 10% or more of the outstanding common stock of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of May 31, 2016, there were 21,208,548 shares of the registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2016 annual meeting of stockholders are incorporated by reference into Part III hereof.

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GSI TECHNOLOGY, INC.

2016 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

For many years we have developed and marketed high performance memory products, including "Very Fast" static random access memory, or SRAM, and low latency dynamic random access memory, or LLDRAM, 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. We sell these products to leading original equipment manufacturer, or OEM, customers including Alcatel-Lucent, Cisco Systems and Huawei Technologies. In addition, we serve the ongoing needs of the military, industrial, test and measurement equipment, automotive 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 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.

Subsequent to our acquisition of MikaMonu Group Ltd. ("MikaMonu"), discussed below, we have expanded our strategy to include the development of in-place associative computing solutions for applications in evolving new markets such as "big data" (including machine learning and deep convolutional neural networks ("CNNs")), computer vision, and cyber security.

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.

#### Recent Developments

#### Recent Acquisition

On November 23, 2015, we acquired all of the outstanding capital stock of privately held MikaMonu, a development-stage, Israel-based company that specializes in in-place associative computing for markets including

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big data, computer vision and cyber security. MikaMonu, located in Tel Aviv, held 12 United States patents and a number of pending patent applications.

With the vast amount of data currently being generated, and the increasing demand for faster processing of that data, memory bus speeds are not keeping up with processor speeds. MikaMonu's in-place associative computing technology addresses this issue by changing the concept of computing from serial data processing – where data is moved back and forth from the processor to the memory – to parallel data processing, computation and search directly in the main processing array. This new computing model has the potential to greatly expedite computation and response times in “big data” applications. Fast response times are also needed in the computer vision and cyber security markets. For example, in the automotive market, advanced driver assistance systems (ADAS) require a tremendous amount of image processing to be accomplished in real-time. MikaMonu's massively parallel computing technology is well suited to address these needs. We believe that our state-of-the-art circuit design expertise will enable the development of high quality associative processors incorporating MikaMonu's patented, in-place associative computing technology and algorithms, potentially creating a new category of computing products with substantial target markets and a large new customer base in those markets. Realization of the potential synergies of the acquisition, however, will require a substantial development effort over more than a year, with initial products not expected to be introduced until late calendar 2017.

The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. The purchase price of the acquisition has been preliminarily allocated to the intangible assets acquired, with the excess of the purchase price over the fair value of assets acquired recorded as goodwill. The results of operations of MikaMonu and the estimated fair value of the assets acquired were included in our consolidated financial statements beginning November 23, 2015.

Under the terms of the acquisition agreement, we paid the former MikaMonu shareholders initial cash consideration of approximately \$4.4 million at the closing on November 23, 2015. We will make cash payments of up to \$484,000 to the three former MikaMonu shareholders in May 2017 upon the release of cash held in escrow for potential indemnification claims. Additionally, we will make cash retention payments of up to an additional \$2.5 million to the three former MikaMonu shareholders in installments over a four-year period, conditioned on the continued employment of Dr. Avidan Akerib, MikaMonu's co-founder and chief technologist. We will also make “earnout” payments to the former MikaMonu shareholders in cash or shares of our common stock, at our discretion, during a period of up to ten years following the closing if certain product development milestones and revenue targets for products based on the MikaMonu technology are achieved. Earnout amounts of \$750,000 will be payable if certain product development milestones are achieved by December 31, 2017. Additional earnout amounts of \$2,750,000 and \$4,000,000 will be payable if certain revenue milestones are achieved by January 1, 2021 and January 1, 2022, respectively; and additional payments, up to a maximum of \$30 million, equal to 5% of net revenues from the sale of qualifying products in excess of certain thresholds, will be made quarterly through December 31, 2025.

### Settlement of Protracted Litigation with Cypress Semiconductor Corporation

On May 6, 2015, we entered into a settlement agreement with Cypress Semiconductor Corporation to resolve a lawsuit filed by Cypress in the United States District Court for the Northern District of California alleging that certain of our products infringe patents held by Cypress and a separate lawsuit pending in the same court in which we had alleged that Cypress violated federal and state antitrust laws. Reference is made to “Item 3. Legal Proceedings” for information regarding this protracted litigation that began in 2011. Under the settlement agreement:

- Each of the parties agreed to dismiss its lawsuit in consideration of the dismissal of the lawsuit brought by the other party; and



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· Each party released all claims against the other with respect to issues raised in the two lawsuits. The parties agreed that the settlement agreement was entered into to resolve disputed claims, and that each party denies any liability to the other party.

## Industry Background

### SRAM, LLDRAM and Bandwidth Engine 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 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, I/O interface 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 often measured in megabits or gigabits per second (Mb/s or Gb/s);
- clock frequency, which is the cycle rate of a clock within a synchronous device and is often measured in megahertz or gigahertz (MHz or GHz); and
- transaction rate, which is the rate at which new commands can be executed by the memory device, and is often measured in millions or billions of transactions per second (MT/s or BT/s).

Historically, SRAMs have been utilized wherever other lower price-per-bit memory technologies have been inadequate. SRAMs demonstrate lower latency and faster random access times relative to DRAMs and other types of memory technologies, but at a higher price-per-bit. Historically, the volatile memory market has had three price-performance points, DRAM at the low end, Fast SRAM at the high end, and slow SRAM in the middle. Over the past two decades, alternative memory technologies have been introduced to address certain applications that formerly used slow SRAMs. For example, new types of DRAM have displaced slow SRAM in applications such as cell phones. However, in the networking memory market a technology vacuum formed between Fast SRAMs on one end and commodity DRAMs at the other, with no high bandwidth, high transaction rate, moderate capacity,

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moderate latency, and moderate cost volatile memory product to fill the void. In the past decade, low latency DRAMs, or LLDRAMs, have been developed to fill that void. Like the slow SRAMs that came before them, LLDRAMs have a much higher price-per-bit than commodity DRAMs (in order to deliver higher transaction rates) but demonstrate slower random access times and longer latencies than Fast SRAMs.

All of these SRAM and DRAM technologies utilize traditional parallel I/O interfaces that require a significant number of pins. Recently we have partnered with another company to provide a new serial I/O (SerDes) memory device called "Bandwidth Engine" which is fabricated using embedded DRAM technology. The Bandwidth Engine has capacity comparable to LLDRAMs but offers far greater transaction rate and data bandwidth capability (greater even than Fast SRAMs) through its serial interface. It can also execute a variety of read-modify-write operations previously unavailable in any other memory device. The networking market is just beginning to take advantage of the unique and powerful capabilities of Bandwidth Engine technology.

The need for increasingly greater capacity, data bandwidth and transaction rates from the various memory technologies continues unabated as the networking market begins to make preparations for Terabit networking in the latter half of the current decade. We believe that Fast SRAM, LLDRAM and Bandwidth Engine products, 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 continuing 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 fifteen 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 embedded in 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.



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### 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 requirements and the need for lower 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 a range of 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 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 memory products. Our SRAM product line has evolved from BurstRAMs with an average transaction rate of about 0.125 BT/s to our SigmaQuad™-IVe SRAMs with transaction rates up to 2.66 BT/s and data bandwidths of up to 192 Gb/s, greater than any other SRAM commercially available today. Our current Low Latency DRAMs deliver transaction rates of up to 0.533 BT/s and data bandwidths of up to 38 Gb/s. Our Bandwidth Engine products provide transaction rates exceeding 4 BT/s and data bandwidths of up to 400 Gb/s. Our SRAM products can produce data at latencies of 4 to 5 ns while LLDRAM and Bandwidth Engine latencies are approximately 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 Fast SRAMs in order to maximize product

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performance, optimize yields, lower manufacturing costs and improve quality. Our most advanced 144 and 288 Mb synchronous Very Fast SRAMs are manufactured using 40 nanometer process technology. Our LLDRAMs are being produced using 63 nanometer DRAM process technology at Powerchip Technology Corporation, or Powerchip, in Taiwan.

**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. In 2010, we were the first supplier to introduce a Fast Synchronous SRAM capable of one billion transactions per second – SigmaQuad-IIIe – whose 1.45 BT/s capability was more than double any other SRAM commercially available at the time. In early 2015, we further solidified our position as a technology leader by being the first vendor to introduce and ship 288 megabit monolithic SRAMs. 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 that operate at any voltage within that range. Moreover, we are the only vendor to offer a Very Fast Synchronous SRAM product that operates at 1.8 volts and uses approximately one-half to two-thirds the power of our competitors' 2.5 volt products.

### Broad and Readily Available Product Portfolio

**Extensive Product Catalog.** The Very Fast SRAM market is highly fragmented in terms of product features and specifications. This is especially true of the networking segment of the fast SRAM market and is becoming true of the LLDRAM 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 LLDRAM and Bandwidth Engine product lines further expand our position in the networking market. Our product line includes a wide range of devices with varying densities, features, clock speeds, and voltages, as well as several operating temperature ranges and numerous package options in both 5/6 RoHS (lead) 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





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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 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. We currently offer our FPGA controller IP free of charge for use with our Type II+ and Type IIIe SigmaQuad and SigmaDDR Fast SRAM devices to help enable our customers to design FPGA-based systems quickly and efficiently, and reach the market with their products faster, and are also developing new FPGA controller IP for use with our next generation Type IVe SigmaQuad and SigmaDDR SRAMs, as well as for our next generation LLDRAMs. Controller IP is also available for our Bandwidth Engine products. Our open model libraries and support tools, coupled with the FPGA controller 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



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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 coupled with established strategic partnerships will continue to enable us to provide networking and telecommunications OEMs with the early access to next generation Very Fast SRAMs, Low Latency DRAMS, and Bandwidth Engine products that offer superior performance, advanced feature sets and continued high reliability, which they need 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 40 nanometer process technology on 300 millimeter wafers.

**Exploit Opportunities to Expand the Market for Our Memory Products.** While we develop our high-performance memory products specifically for the networking and telecommunications markets, they are often applicable across a wide range of industries and applications. We have experienced growth in product sales for



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military, industrial, test and measurement, and medical markets and intend to continue penetrating these and other new markets with similar needs for high-performance memory technologies.

**Develop Products for New Markets.** Following our recent acquisition of MikaMonu, we are devoting substantial efforts to the development of in-place associative computing solutions utilizing patented technology obtained in the acquisition. Products based on this cutting edge technology will address evolving new markets such as “big data” (including machine learning and deep convolutional neural networks (CNNs)), computer vision and cyber security. We intend to supplement our internal development activities by seeking additional opportunities to acquire other businesses, product lines or technologies, or enter into strategic partnerships, that would complement our current product lines, expand the breadth of our markets, enhance our technical capabilities, or otherwise provide growth opportunities.

### 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, two families of LLDRAMs, and one family of Bandwidth Engine products. 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 core routers, multi-service access routers, universal gateways, enterprise edge routers, service provider edge routers, optical edge routers, fast Ethernet switches and wireless base stations. We also sell our products to OEMs that manufacture products for military 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 for medical applications such as ultrasound and CAT scan equipment.

We have also begun developing and marketing in-place associative computing solutions, leveraging the patented technology obtained in our acquisition of MikaMonu and our 20-plus years of high-performance SRAM development experience. Our new associative computing solutions will address evolving new markets, such as “big data” (including machine learning and deep convolutional neural networks (“CNNs”)), computer vision and cyber security.

### 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. We currently supply synchronous SRAMs that can cycle at operating frequencies as high as 1,333 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



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applications. NBT SRAMs feature a single data rate bus protocol designed to minimize or eliminate wasted data transfer time slots on the bus when BurstRAMs switch from read to write operations. Both families of products can perform burst data transfers or single cycle transfers at the discretion of the user.

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

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

**SigmaQuad 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 currently 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 (coming soon) SigmaQuad-IVe, 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 five storage densities, 18 megabits, 36 megabits, 72 megabits, 144 megabits and 288 megabits. These SRAMs are capable of speeds up to 1,333 MHz and operate on main power supply voltages that range from 2.5 volts to 1.2 volts and interface voltages that range from 1.8 volts to 1.2 volts.

## 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, LLDRAM technology gives system designers a middle choice when commodity DRAM performance is insufficient but Fast SRAM performance is unnecessary. LLDRAMs 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 LLDRAM 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 plan to expand our LLDRAM portfolio later in fiscal 2017 with the introduction of 1.25 Gigabit devices capable of speeds of 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.





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Bandwidth Engine Products

The serial I/O interface and high transaction rate and data bandwidth capability of our Bandwidth Engine products, along with their ability to perform atomic read-modify-write operations, provide a level of performance well-suited for the next generation of high-speed networking systems.

The Bandwidth Engine products are 576 megabit devices that support SerDes speeds of up to 15 Gb/s per transceiver. They are capable of performing in excess of 4 billion transactions per second, can achieve sustained data bandwidth of up to 400 Gb/s (200 Gb/s input, 200 Gb/s output) and can support four different SerDes lane configurations.

Customers

Our primary sales and marketing strategy is to achieve design wins with leading OEMs in the networking and telecommunications markets and the other markets we serve. 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, 2016:

|                     |               |                  |
|---------------------|---------------|------------------|
| Alcatel-Lucent      | Cisco Systems | General Dynamics |
| Huawei Technologies | IBM           | Lockheed         |
| Raytheon            | 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 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 37.6%, 33.1% and 37.5% of our net revenues for fiscal 2016, 2015 and 2014, respectively. Sales to foreign and domestic distributors accounted for 50.4%, 58.7% and 50.0% of our net revenues for fiscal 2016, 2015 and 2014, 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,         |       |        |
|  | 2016              | 2015  | 2014   |
| Contract manufacturers and consignment warehouses: |                   |       |        |
| SMART Modular Technologies                         | -                 | % 5.2 | % 14.4 |
| Flextronics Technology                             | 13.7              | 8.1   | 11.9   |
| Sanmina  | 16.4              | 12.6  | 8.5    |
| Distributors:                                      |                   |       |        |
| Avnet Logistics                                    | 28.2              | 35.2  | 30.3   |
| Nexcomm  | 13.3              | 12.3  | 10.2   |

Alcatel-Lucent was our largest customer in fiscal 2016 and 2015. Alcatel-Lucent purchases products directly from us and through contract manufacturers and distributors. Based on information provided to us by Alcatel-Lucent's contract manufacturers and our distributors, purchases by Alcatel-Lucent represented approximately 32%, 25% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. Cisco Systems, historically our largest OEM customer, purchases our products primarily through its consignment warehouses, 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 9%, 13% and 19% of our net revenues in fiscal 2016, 2015 and 2014, 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, 2016, 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 LLDRAM memory markets in the United States. We currently have regional sales offices located in Canada, China, Hong Kong, 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, first and foremost, focused on ensuring that the products we develop meet or exceed our customers' needs. Historically, those efforts have been focused on defining our high-performance SRAM and

LLDRAM product roadmaps by working closely with key customers to understand their roadmaps and to ensure that the products we develop meet their requirements (primary aspects of which include functionality, performance, electrical interfaces, power, and schedule). More recently, our marketing efforts have been expanded to include defining the new in-place associative computing products that we are developing. Our marketing group

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also provides technical, strategic and tactical sales support to our direct sales personnel, sales representatives and distributors. This support includes in-depth product presentations, datasheets, application notes, simulation models, sales tools, marketing communications, marketing research, trademark administration and other support functions. We also engage in various activities to increase brand awareness.

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 and access to our FPGA controller IP for use in their product development.

## 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 and Bandwidth Engine 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 LLDRAM production at Powerchip uses 72 nanometer and 63 nanometer process technologies. On-going development programs are underway to extend, expand and/or cost reduce most our product families.

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 four to eight 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.



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### Research and Development

Research and development expenses were \$12.1 million in fiscal 2016, \$11.9 million in fiscal 2015 and \$13.1 million in fiscal 2014. Our research and development staff includes engineering professionals with extensive experience in the areas of high-speed circuit design, including 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 our new in-place associative computing products and further enhancements to our SigmaQuad SRAM family and our family of LLDRAM 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, Micron 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 LLDRAMs, any efforts by us to introduce new products based on new technology, including the in-place associative computing products currently under development, may not be successful and, as a result, our business may suffer.

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### 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 44 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 have recently been 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, 2016, we had 142 full-time employees, including 78 engineers, of which 47 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 68 employees in manufacturing. Of these employees, 56 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](http://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, our code of conduct (including code of ethics provisions that apply to our principal executive officer, principal financial officer, controller, and senior financial officers) and our corporate governance guidelines 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](http://www.sec.gov).

## Executive Officers

The following table sets forth certain information concerning our executive officers as of June 1, 2016:

| Name            | Age | Title   |
|-----------------|-----|---|
| Lee-Lean Shu    | 61  | President, Chief Executive Officer and Chairman     |
| Didier Lasserre | 51  | Vice President, Sales                               |
| Douglas Schirle | 61  | Chief Financial Officer                             |
| Bor-Tay Wu      | 64  | Vice President, Taiwan Operations                   |
| Ping Wu         | 59  | Vice President, U.S. Operations                     |
| Robert Yau      | 63  | 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. Since October 2000, Mr. Shu has also served as 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 Corporation, 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, 2016, we recorded net revenues of as much as \$16.4 million and as little as \$12.2 million and quarterly operating income of as much as \$241,000 and, in eleven quarters, operating losses, including an 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.

Our two largest OEM customers account for a significant percentage of our net revenues. If either of these customers, or any of our other major customers, reduces the amount they purchase or stop purchasing our products, our operating results will suffer.

Alcatel-Lucent, currently our largest customer, purchases our products directly from us and through contract manufacturers and distributors. Purchases by Alcatel-Lucent represented approximately 32%, 25% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. Cisco Systems, historically our largest OEM customer, purchases our products through its consignment warehouses and contract manufacturers and directly from us. Purchases by Cisco Systems represented approximately 9%, 13% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. We expect that our operating results in any given period will continue to depend significantly on orders from our key OEM customers, particularly Alcatel-Lucent and 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 Alcatel-Lucent, 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 Alcatel-Lucent, Cisco Systems and our other key OEM customers will continue to fluctuate significantly on a quarterly basis and that such fluctuations may substantially 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 losses of \$2.2 million and \$5.0 million during fiscal 2016 and 2015, respectively. Our operating expenses over the past several years included substantial expenses related to legal proceedings which resulted in operating losses. Although these proceedings were concluded in fiscal 2016, there can be no assurance that our Very Fast SRAMs will continue to receive broad market acceptance, that our new product development initiatives will be successful or that we will be able to achieve sustained revenue growth or return to profitability.

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

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



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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. Our effort to develop new in-place associative computing products involves additional risks.

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 and LLDRAMs, 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.

In particular, we are devoting substantial efforts and resources to the development of in-place associative computing solutions utilizing patented technology obtained in our recent acquisition of MikaMonu. This new development project involves the commercialization of new, cutting-edge technology, will require a substantial effort over more than a year and will be subject to significant risks, including technical problems, delays or unanticipated costs that may be encountered in the development of the new associative computing products and risks associated with the establishment of new markets and customer relationships for the sale of such 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. We expect that the networking and telecommunications markets will continue to be highly cyclical,

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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 cyclical nature.

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.

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.

Global economic and market conditions may adversely affect our business, financial condition and results of operations.

We sell our products to end customers both in the United States and internationally. We also rely heavily on our suppliers in Asia. We are therefore susceptible to adverse domestic and international economic and market



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conditions. In recent years, turmoil in global financial markets and economic conditions has impacted credit availability, consumer spending and capital expenditures, including expenditures for networking and telecommunications equipment. Weakness in global networking and telecommunications markets, particularly in Asia, has continued to adversely impact our revenues in recent quarters. Slowness in economic growth, domestically and in our key markets, uncertainty regarding macroeconomic trends, and volatility in financial markets may continue to adversely affect our business, financial condition and results of operations over coming quarters.

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 for any other reason, 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 2016, 2015 and 2014, our distributor Avnet Logistics accounted for 28.2%, 35.2% and 30.3%, 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, 2016, four customers accounted for 26%, 25%, 13% and 11% 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 previously disclosed a material weakness in our internal control over financial reporting relating to the evaluation and calculation of our inventory reserve which management believes has been fully remediated. Should we have inadequately remediated this material weakness or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and processes, our ability to report our financial condition and results of operations accurately and on a timely basis could be adversely affected.

In connection with the completion of the quarter-end closing and review procedures for the quarter ended December 31, 2013, certain errors were identified in the evaluation and calculation of our inventory write-down for the quarter and nine month period then ended 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 these 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. 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 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 November 2015, we acquired all of the outstanding capital stock of privately held MikaMonu Group Ltd., a development-stage, Israel-based company that specializes in in-place associative computing for markets including big data, computer vision and cyber security. We also acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation in 2009. We intend to supplement our internal development activities by seeking opportunities to make additional acquisitions or investments in companies, assets or technologies that we believe are complementary or strategic. Other than the MikaMonu and Sony acquisitions, we have 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 the recently completed MikaMonu acquisition, we are subject to risks related to potential problems, delays or anticipated costs that may be encountered in the development of products based on the MikaMonu technology and the establishment of new markets and customer relationships for the potential new products. In addition, in connection with the MikaMonu acquisition and any future acquisitions or investments we may make, we face numerous other risks, including:

- difficulties in integrating operations, technologies, products and personnel;
- diversion of financial and managerial resources from existing operations;



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- 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 have recently been involved in protracted patent infringement litigation, and 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 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 in part because we have a more limited patent portfolio than many of our competitors. If a successful claim is made against us or any of our customers and a license is not made available to us on commercially reasonable terms or we are required to pay substantial damages or awards, our business, financial condition and results of operations would be materially adversely affected.

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

Our success and ability to compete depends in large part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws and non-disclosure and other contractual agreements to protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement. Monitoring unauthorized use of our intellectual property 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 have recently been 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. 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 efforts, result

in a loss of market acceptance of our products and harm our relationships with our OEM customers.

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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, including routers, switches and other networking and telecommunications products. 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.

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



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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 expand 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 the potential growth of our operations and resulting 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 60.3%, 66.2% and 69.2% of our net revenues in fiscal 2016, 2015 and 2014, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan, and we are now conducting business in Israel as a result of our recently completed acquisition of MikaMonu. 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 and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, competition, export licenses and other trade barriers;
- potential 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

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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 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 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.

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

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

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

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

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 face increasing complexity in our product design as we adjust to new and future requirements relating to the material composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union, China and California. Other countries, including at the federal and state levels in the United States, are also considering similar laws and regulations. Certain electronic products that we maintain in inventory may be rendered obsolete if they are not in compliance with such laws and regulations, which could negatively impact our ability to generate revenue from those products. Although we

cannot predict the ultimate impact of any such new laws and regulations, they will

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likely result in additional costs, or in the worst case decreased revenue, and could even require that we redesign or change how we manufacture our products. Such redesigns result in additional costs and possible delayed or lost revenue.

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, 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.

Use of a portion of our cash reserves to repurchase shares of our common stock presents potential risks and disadvantages to us and our continuing stockholders.

From November 2008 through March 2016 we repurchased and retired an aggregate of 10,340,501 shares of our common stock at a total cost of \$53.5 million, including 3,846,153 shares repurchased at a total cost of \$25 million pursuant to a modified "Dutch auction" self-tender offer that we completed in August 2014 and additional shares repurchased in the open market pursuant to our stock repurchase program. At March 31, 2016, we had outstanding authorization from our Board of Directors to purchase up to an additional \$1.5 million of our common stock from time to time under our repurchase program. In May 2016, the Board extended the repurchase program by authorizing the repurchase of up to an additional \$10 million of our common stock. Although our Board

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has determined that these repurchases are in the best interests of our stockholders, they expose us to certain risks including:

- the risks resulting from a reduction in the size of our “public float,” which is the number of shares of our common stock that are owned by non-affiliated stockholders and available for trading in the securities markets, which may reduce the volume of trading in our shares and result in reduced liquidity and, potentially, lower trading prices;
- the risk that our stock price could decline and that we would be able to repurchase shares of our common stock in the future at a lower price per share than the prices we have paid in our tender offer and repurchase program; and
- the risk that the use of a portion of our cash reserves for this purpose has reduced, or may reduce, the amount of cash that would otherwise be available to pursue potential cash acquisitions or other strategic business opportunities.

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

As of May 31, 2016, our executive officers, directors and entities affiliated with them beneficially owned approximately 35% 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
- our 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.

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### 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, Taiwan under a lease expiring in August 2017. This facility supports our manufacturing activities. We believe that both our Sunnyvale and Taiwan facilities are adequate for our needs for the foreseeable future. We also lease space in the United States in the states of Georgia and Texas and in Israel. The aggregate annual gross rent for our leased facilities was approximately \$348,000 in fiscal 2016.

### 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 sought 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 sought 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.

On July 22, 2011, we filed a complaint against Cypress in the United States District Court for the Northern District of California. Our complaint alleged that Cypress had 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 alleged that the anti-competitive,

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collusive and conspiratorial conduct of Cypress and certain co-conspirators violated Section 1 of the Sherman Act and also constituted unlawful restraint of trade and unfair competition under applicable provisions of California law. The complaint sought 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 May 6, 2015, the Company and Cypress entered into a settlement agreement to resolve the patent infringement and antitrust litigation. Under the settlement agreement:

- Each of the parties agreed to dismiss its lawsuit with prejudice in consideration of the dismissal with prejudice of the lawsuit brought by the other party; and
  - Each party released all claims against the other with respect to issues raised in the two lawsuits.
- The parties agreed that the settlement agreement was entered into to resolve disputed claims, and that each party denies any liability to the other party.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

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

## Market Information

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

| Fiscal Year Ended March 31, 2015 | High    | Low     |
|----------------------------------|---------|---------|
| First quarter                    | \$ 7.15 | \$ 5.36 |
| Second quarter                   | 6.62    | 4.91    |
| Third quarter                    | 5.50    | 4.52    |
| Fourth quarter                   | 5.90    | 4.87    |

| Fiscal Year Ended March 31, 2016 |         |         |
|----------------------------------|---------|---------|
| First quarter                    | \$ 5.88 | \$ 4.75 |
| Second quarter                   | 5.43    | 4.00    |
| Third quarter                    | 4.55    | 3.72    |
| Fourth quarter                   | 4.64    | 3.33    |

## Holders of Common Stock

On May 31, 2016, the closing price of our common stock on the Nasdaq Global Market was \$4.00, and there were 34 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 2016 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. 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 repurchases of our common stock made during the quarter ended March 31, 2016, 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, 2015         |                    |                         | \$ 4,419,935  |
| January 1 to January 31, 2016  | 166,317            | \$ 3.64                 | \$ 3,815,140  |
| February 1 to February 29, 2016  | 383,615            | \$ 3.52                 | \$ 2,465,714  |
| March 1 to March 31, 2016  | 244,123            | \$ 4.05                 | \$ 1,476,041  |
| Total shares repurchased   | 794,055            |                         |   |
| Ending approximate dollar value that may be repurchased under the program as of March 31, 2016 |                    |                         | \$ 1,476,041  |

In May 2016, the Board extended the repurchase program by authorizing the repurchase of up to an additional \$10 million of our common stock.

## 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, 2016, 2015 and 2014 and the selected consolidated balance sheet data as of March 31, 2016 and 2015 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, 2013 and 2012 and the selected consolidated balance sheet data as of March 31, 2014, 2013 and 2012 are derived from audited consolidated financial statements not included in this report.

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|   | Fiscal Year Ended March 31,              |            |            |           |           |
|---|--|------------|------------|-----------|-----------|
|   | 2016                                     | 2015       | 2014       | 2013      | 2012      |
|   | (In thousands, except per share amounts) |            |            |           |           |
| Consolidated Statement of Operations Data:                                      |  |            |            |           |           |
| Net revenues  | \$ 52,736                                | \$ 53,498  | \$ 58,579  | \$ 66,014 | \$ 82,540 |
| Cost of revenues  | 25,999                                   | 28,375     | 32,469     | 37,426    | 45,891    |
| Gross profit  | 26,737                                   | 25,123     | 26,110     | 28,588    | 36,649    |
| Operating expenses:   |  |            |            |           |           |
| Research and development  | 12,095                                   | 11,917     | 13,110     | 11,472    | 10,637    |
| Selling, general and administrative   | 17,663                                   | 19,247     | 18,814     | 13,696    | 19,356    |
| Total operating expenses  | 29,758                                   | 31,164     | 31,924     | 25,168    | 29,993    |
| Income (loss) from operations   | (3,021)                                  | (6,041)    | (5,814)    | 3,420     | 6,656     |
| Interest and other income (expense), net  | 210                                      | 388        | 338        | 464       | 525       |
| Income (loss) before income taxes   | (2,811)                                  | (5,653)    | (5,476)    | 3,884     | 7,181     |
| Provision (benefit) for income taxes  | (641)                                    | (675)      | 713        | 38        | 425       |
| Net income (loss)   | \$ (2,170)                               | \$ (4,978) | \$ (6,189) | \$ 3,846  | \$ 6,756  |
| Basic and diluted net income (loss) per share available to common stockholders: |  |            |            |           |           |
| Basic   | \$ (0.10)                                | \$ (0.20)  | \$ (0.23)  | \$ 0.14   | \$ 0.24   |
| Diluted   | \$ (0.10)                                | \$ (0.20)  | \$ (0.23)  | \$ 0.14   | \$ 0.23   |
| Weighted average shares used in per share calculations:                         |  |            |            |           |           |
| Basic   | 22,593                                   | 25,029     | 27,505     | 27,124    | 28,497    |
| Diluted   | 22,593                                   | 25,029     | 27,505     | 28,077    | 29,496    |
|   | March 31,                                |            |            |           |           |
|   | 2016                                     | 2015       | 2014       | 2013      | 2012      |
|   | (In thousands)                           |            |            |           |           |
| Consolidated Balance Sheet Data:  |  |            |            |           |           |
| Cash, cash equivalents and short-term investments                               | \$ 55,112                                | \$ 58,977  | \$ 80,932  | \$ 67,259 | \$ 58,678 |
| Working capital   | 62,720                                   | 66,230     | 90,670     | 86,619    | 82,684    |
| Total assets  | 106,530                                  | 108,889    | 141,677    | 145,845   | 143,117   |
| Total stockholders' equity  | 89,869                                   | 96,396     | 128,378    | 132,183   | 128,779   |

## 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 static random access memories, or SRAMs, that operate at speeds of less than 10 nanoseconds, which we refer to as Very Fast SRAMs, and low latency dynamic random access memories, or LLDRAMs, primarily for the networking and telecommunications

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markets. We are subject to the highly cyclical nature of the semiconductor industry, which has experienced significant fluctuations, often in connection with fluctuations in demand for the products in which semiconductor devices are used. Our revenues have been substantially impacted by significant fluctuations in sales to Cisco Systems, historically our largest customer, and more recently to Alcatel-Lucent. We expect that future direct and indirect sales to these two customers 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 63% to 73% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for military 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





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revenues is derived from sales to these contract manufacturers and to consignment warehouses. In addition, a significant portion of our sales are made to foreign and domestic distributors who resell our products to OEMs, as well as their contract manufacturers. Direct sales to contract manufacturers and consignment warehouses accounted for 37.6%, 33.1% and 37.5% of our net revenues for fiscal 2016, 2015 and 2014, respectively. Sales to foreign and domestic distributors accounted for 50.4%, 58.7% and 50.0% of our net revenues for fiscal 2016, 2015 and 2014, 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,         |       |        |
|   | 2016              | 2015  | 2014   |
| Contract manufactures and consignment warehouses: |                   |       |        |
| SMART Modular Technologies                        | -                 | % 5.2 | % 14.4 |
| Flextronics Technology                            | 13.7              | 8.1   | 11.9   |
| Sanmina   | 16.4              | 12.6  | 8.5    |
| Distributors:                                     |                   |       |        |
| Avnet Logistics                                   | 28.2              | 35.2  | 30.3   |
| Nexcomm   | 13.3              | 12.3  | 10.2   |

Alcatel-Lucent was our largest customer in fiscal 2016 and 2015. Alcatel-Lucent purchases products directly from us and through contract manufacturers and distributors. Based on information provided to us by Alcatel-Lucent's contract manufacturers and our distributors, purchases by Alcatel-Lucent represented approximately 32%, 25% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. Cisco Systems, historically our largest OEM customer, purchases our products primarily through its consignment warehouses 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 9%, 13% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. Our revenues have been substantially impacted by significant fluctuations in sales to Alcatel-Lucent and Cisco Systems, and we expect that future direct and indirect sales to these two customers will continue to fluctuate substantially 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 2016, 2015 or 2014.

**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.

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**Research and Development Expenses.** Research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, the cost of developing prototypes, stock-based compensation and fees paid to consultants. We charge all research and development expenses to operations as incurred. We charge mask costs used in production to costs of revenues over a 12-month period. However, we charge costs related to pre-production mask sets, which are not used in production, to research and development expenses at the time they are incurred. These charges often arise as we transition to new process technologies and, accordingly, can cause research and development expenses to fluctuate on a quarterly basis. We believe that continued investment in research and development is critical to our long-term success, and we expect to continue to devote significant resources to product development activities. In particular, we plan to devote substantial resources to the development of in-place associative computing products based on patented technology obtained in our acquisition of MikaMonu in November 2015. 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 beginning in fiscal 2012 as a result of substantial legal expenses, principally related to our patent infringement and antitrust litigation with Cypress Semiconductor Corporation. These expenses varied significantly from quarter to quarter thereafter, depending on the relative level of activity in the Cypress litigation. In May 2015, we entered into a settlement agreement to resolve our protracted litigation with Cypress. See “Part I. Item 3. Legal Proceedings.” Although we ceased to incur legal expenses related to our litigation with Cypress after the quarter ended June 30, 2015, legal expenses associated with unrelated commercial and trade secret litigation in which we were the plaintiff continued to be significant through the quarter ended December 31, 2015, reflecting preparation for and conduct of the trial of that case which was concluded in November 2015.

## Acquisition

On November 23, 2015, we acquired all of the outstanding capital stock of privately held MikaMonu Group Ltd. (“MikaMonu”), a development-stage, Israel-based company that specializes in in-place associative computing for markets including big data, computer vision and cyber security. MikaMonu, located in Tel Aviv, held 12 United States patents and a number of pending patent applications.

The acquisition was undertaken by the Company in order to gain access to the MikaMonu patents and the potential markets, and new customer base in those markets, that can be served by new products that we plan to develop using the MikaMonu patents obtained in the acquisition.

The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. The purchase price of the acquisition has been preliminarily allocated to the intangible assets acquired, with the excess of the purchase price over the fair value of assets acquired recorded as goodwill. We will perform a goodwill impairment test in February of each fiscal year. The results of operations of MikaMonu and the estimated fair value of the assets acquired were included in our consolidated financial statements beginning November 23, 2015.

Under the terms of the acquisition agreement, we paid the former MikaMonu shareholders initial cash consideration of approximately \$4.4 million at the closing on November 23, 2015. We will make cash payments of up to \$484,000 to

the three former MikaMonu shareholders in May 2017 upon the release of cash held in escrow for

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potential indemnification claims. This amount is included in other assets on the Consolidated Balance Sheet at March 31, 2016.

We are also required to pay the former MikaMonu shareholders future contingent consideration consisting of retention payments and “earnout” payments, as described below.

We will make cash retention payments of up to an additional \$2.5 million to the three former MikaMonu shareholders in installments over a four-year period, conditioned on the continued employment of Dr. Avidan Akerib, MikaMonu’s co-founder and chief technologist. The retention amount of \$2.5 million has been deposited in escrow and is included in other assets on the Consolidated Balance Sheet at March 31, 2016.

We will also make “earnout” payments to the former MikaMonu shareholders in cash or shares of our common stock, at our discretion, during a period of up to ten years following the closing if certain product development milestones and revenue targets for products based on the MikaMonu technology are achieved. Earnout amounts of \$750,000 will be payable if certain product development milestones are achieved by December 31, 2017. Additional earnout amounts of \$2,750,000 and \$4,000,000 will be payable if certain revenue milestones are achieved by January 1, 2021 and January 1, 2022, respectively; and additional payments, up to a maximum of \$30 million, equal to 5% of net revenues from the sale of qualifying products in excess of certain thresholds, will be made quarterly through December 31, 2025.

The portion of the retention payment contingently payable to Dr. Akerib (approximately \$1.2 million) will be recorded as compensation expense over the period that his services are provided to us. The portion of the retention payment contingently payable to the other former MikaMonu shareholders (approximately \$1.3 million) plus the maximum amount of the potential earnout payments totals approximately \$38.8 million. We determined that the fair value of this contingent consideration liability was \$5.8 million at the acquisition date.

The fair value of the contingent consideration liability was determined as of the acquisition date using unobservable inputs. These inputs include the estimated amount and timing of future revenues, the probability of success (achievement of the various contingent events) and a risk-adjusted discount rate of approximately 14.8% used to adjust the probability-weighted cash flows to their present value. Subsequent to the acquisition date, at each reporting period, the contingent consideration liability will be re-measured at then current fair value with changes recorded in the Consolidated Statement of Operations. Changes in any of the inputs may result in significant adjustments to the recorded fair value. The amount included in other accrued expenses on the Consolidated Balance Sheet at March 31, 2016 was \$5.9 million.

Acquisition-related costs of approximately \$426,000 are included in selling, general and administrative expenses in the Consolidated Statements of Operations for the fiscal year ended March 31, 2016.

The allocation of the purchase price to acquired identifiable intangible assets and goodwill was based on their estimated fair values at the date of acquisition. The fair value allocated to patents was \$3.5 million and the fair value allocated to goodwill was \$8.0 million.

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## Results of Operations

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

|  | Fiscal Year Ended March |         |         |
|--|-------------------------|---------|---------|
|  | 2016                    | 2015    | 2014    |
| Net revenues                             | 100.0%                  | 100.0 % | 100.0 % |
| Cost of revenues                         | 49.3                    | 53.0    | 55.4    |
| Gross profit                             | 50.7                    | 47.0    | 44.6    |
| Operating expenses:                      |                         |         |         |
| Research and development                 | 22.9                    | 22.3    | 22.4    |
| Selling, general and administrative      | 33.5                    | 36.0    | 32.1    |
| Total operating expenses                 | 56.4                    | 58.3    | 54.5    |
| Loss from operations                     | (5.7)                   | (11.3)  | (9.9)   |
| Interest and other income (expense), net | 0.4                     | 0.7     | 0.6     |
| Loss before income taxes                 | (5.3)                   | (10.6)  | (9.3)   |
| Provision (benefit) for income taxes     | (1.2)                   | (1.2)   | 1.2     |
| Net loss                                 | (4.1) %                 | (9.3) % | (10.6)% |

## Fiscal Year Ended March 31, 2016 Compared to Fiscal Year Ended March 31, 2015

**Net Revenues.** Net revenues decreased by 1.4% from \$53.5 million in fiscal 2015 to \$52.7 million in fiscal 2016. The reduction reflected the continuing weakness in the global networking and telecommunications markets and, in particular, continued weakness in Asia. Direct and indirect sales to Alcatel-Lucent, currently our largest customer, increased by \$3.9 million from \$13.2 million in fiscal 2015 to \$17.1 million fiscal 2016, reflecting increased demand for its systems that incorporate our products. However, direct and indirect sales to Cisco Systems, historically our largest customer, decreased by \$2.6 million from \$7.1 million in fiscal 2015 to \$4.5 million in fiscal 2016 due to softness in the market for its switches and routers that incorporate our products. We believe that our net revenues were also negatively impacted during fiscal 2015 and the first quarter of fiscal 2016 by uncertainty regarding the outcome of our patent litigation with Cypress Semiconductor that was settled in May 2015. We believe that the Commission's favorable final determination in the ITC proceeding reduced this market uncertainty somewhat, and that the uncertainty was resolved with the settlement of the litigation. However, 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 53.5% of total shipments in fiscal 2016 compared to 41.6% of total shipments in fiscal 2015.

**Cost of Revenues.** Cost of revenues decreased by 8.4% from \$28.4 million in fiscal 2015 to \$26.0 million in fiscal 2016. This decrease was primarily due to the corresponding decrease in net revenues, favorable product mix and reductions in variable manufacturing costs in fiscal 2016. Cost of revenues included stock-based compensation expense of \$320,000 and \$401,000, respectively, in fiscal 2016 and fiscal 2015.

**Gross Profit.** Gross profit increased by 6.4% from \$25.1 million in fiscal 2015 to \$26.7 million in fiscal 2016. Gross margin increased from 47.0% in fiscal 2015 to 50.7% in fiscal 2016. The increases in gross profit and improvements in gross margin were primarily related to favorable changes in the mix of products and customers.

Research and Development Expenses. Research and development expenses increased 1.5% from \$11.9 million in fiscal 2015 to \$12.1 million in fiscal 2016. This increase was primarily due to an increase in payroll



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related expenses of \$314,000 and lesser increases in patent related legal fees and travel related expenses, partially offset by a decrease in depreciation expense of \$129,000 and lesser decreases in facilities related expenses, stock-based compensation expense and software maintenance expenses. Payroll expenses increased as a result of our acquisition of MikaMonu in November 2015 and the subsequent hiring of engineers to work on our in-place associative computing product development. Research and development expenses included stock-based compensation expense of \$858,000 and \$941,000, respectively, in fiscal 2016 and fiscal 2015.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses decreased 8.2% from \$19.2 million in fiscal 2015 to \$17.7 million in fiscal 2016. This decrease was primarily related to a \$1.5 million decrease in legal fees related to the patent infringement and antitrust litigation involving Cypress Semiconductor Corporation which was settled in May 2015 and commercial and trade secret litigation in which we were the plaintiff, the trial of which concluded in November 2015, and lesser decreases in other professional fees, stock-based compensation, facility related expenses and payroll related expenses, partially offset by an increase in independent sales representative commissions. Selling, general and administrative expenses included stock-based compensation expense of \$672,000 and \$735,000, respectively, in fiscal 2016 and fiscal 2015.

**Interest and Other Income (Expense), Net.** Interest and other income (expense), net decreased 45.9% from \$388,000 in fiscal 2015 to \$210,000 in fiscal 2016. Interest income decreased by \$17,000 due to lower interest rates received on reduced balances of cash and short-term and long-term investments. A foreign currency exchange gain of \$64,000 in fiscal 2015 compared to a foreign currency exchange loss of \$97,000 in fiscal 2016. The exchange gain or loss in each period was primarily related to our Taiwan branch operations.

**Provision for Income Taxes.** The benefit for income taxes of \$675,000 in fiscal 2015 compared to a benefit of \$641,000 in fiscal 2016. Because we recorded a cumulative three-year loss on a U.S. tax basis for the year ended March 31, 2016 and the realization of our deferred tax assets is questionable, we recorded a tax provision reflecting a full valuation allowance of \$6.4 million in net deferred tax assets in fiscal 2016.

**Net Income (Loss).** Net loss decreased from \$5.0 million in fiscal 2015 to \$2.2 million in fiscal 2016. This decrease was primarily due to the changes in net revenues, gross profit and operating expenses discussed above.

#### Fiscal Year Ended March 31, 2015 Compared to Fiscal Year Ended March 31, 2014

**Net Revenues.** Net revenues decreased by 8.7% from \$58.6 million in fiscal 2014 to \$53.5 million in fiscal 2015. The reduction reflected the continuing weakness in the global networking and telecommunications markets and, in particular, continued weakness in Asia. Direct and indirect sales to Alcatel-Lucent, currently our largest customer, increased by \$2.0 million from \$11.2 million in fiscal 2014 to \$13.2 million fiscal 2015. However, direct and indirect sales to Cisco Systems, historically our largest customer, decreased by \$3.9 million from \$11.0 million in fiscal 2014 to \$7.1 million in fiscal 2015 due to softness in the market for its switches and routers that incorporate our products. We believe that our net revenues in each of these periods were also negatively impacted by uncertainty regarding the outcome of our patent litigation with Cypress Semiconductor. We believe that the Commission's favorable determination in the ITC proceeding in June 2013 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 41.6% of total shipments in fiscal 2015 compared to 42.2% of total shipments in fiscal 2014.

**Cost of Revenues.** Cost of revenues decreased by 12.6% from \$32.5 million in fiscal 2014 to \$28.4 million in fiscal 2015. This decrease was primarily due to the corresponding decrease in net revenues, favorable product mix and reductions in variable manufacturing costs in fiscal 2015, in addition to a decrease of \$1.0 million in non-cash write-downs of excess or obsolete inventory compared to fiscal 2014. A write-down of \$985,000 was taken in the

three months ended December 31, 2013 to reflect the fact that management's prior expectations of increasing demand for our products, following the favorable ITC ruling in June 2013 and the exit of a competitor from the

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SRAM market in the December 2012 quarter, did not materialize. Cost of revenues included stock-based compensation expense of \$401,000 and \$386,000, respectively, in fiscal 2015 and fiscal 2014.

**Gross Profit.** Gross profit decreased by 3.8% from \$26.1 million in fiscal 2014 to \$25.1 million in fiscal 2015. However, gross margin increased from 44.6% in fiscal 2014 to 47.0% in fiscal 2015. The decrease in gross profit was related to the corresponding decrease in net revenues, while the improvement in gross margin was due to favorable changes in the mix of products and customers and the reduction in the non-cash write-down of excess or obsolete inventory.

**Research and Development Expenses.** Research and development expenses decreased 9.1% from \$13.1 million in fiscal 2014 to \$11.9 million in fiscal 2015. This decrease was primarily due to decreases of \$1.5 million in expenses related to pre-production mask sets, a \$177,000 decrease in depreciation expense and lesser decreases in repairs and maintenance expense and patent-related expenses, partially offset by an increase of \$567,000 in payroll-related expenses. Research and development expenses included stock-based compensation expense of \$941,000 and \$970,000, respectively, in fiscal 2015 and fiscal 2014.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased 2.3% from \$18.8 million in fiscal 2014 to \$19.2 million in fiscal 2015. This increase was primarily related to increases of \$346,000 in payroll-related expenses and \$308,000 in non-legal professional fees and lesser increases in travel related expenses and legal fees related to the patent infringement and antitrust litigation involving Cypress Semiconductor Corporation and other pending litigation, partially offset by decreases in stock-based compensation expense and independent sales representative commissions. Selling, general and administrative expenses included stock-based compensation expense of \$735,000 and \$872,000, respectively, in fiscal 2015 and fiscal 2014.

**Interest and Other Income (Expense), Net.** Interest and other income (expense), net increased 14.8% from \$338,000 in fiscal 2014 to \$388,000 in fiscal 2015. Interest income decreased by \$63,000 due to lower interest rates received on reduced balances of cash and short-term and long-term investments. These decreases were more than offset by a foreign currency exchange gain of \$64,000 in fiscal 2015 compared to a foreign currency exchange loss of \$49,000 in fiscal 2014. The exchange gain or loss in each period was related to our Taiwan branch operations.

**Provision for Income Taxes.** The provision for income taxes of \$713,000 in fiscal 2014 compared to a benefit of \$675,000 in fiscal 2015. Because we recorded a cumulative three-year loss on a U.S. tax basis for the year ended March 31, 2015, we recorded a tax provision reflecting a full valuation allowance of our \$6.0 million in deferred tax assets in fiscal 2015.

**Net Income (Loss).** Net loss decreased from \$6.2 million in fiscal 2014 to \$5.0 million in fiscal 2015. This decrease was primarily due to the changes in net revenues, gross profit and operating expenses discussed above.

## Liquidity and Capital Resources

As of March 31, 2016, our principal sources of liquidity were cash, cash equivalents and short-term investments of \$55.1 million compared to \$59.0 million as of March 31, 2015. Cash, cash equivalents and short-term investments totaling \$24.5 were held in foreign locations as of March 31, 2016.

Net cash provided by operating activities was \$460,000 for fiscal 2016 compared to \$1.1 million for fiscal 2015 and \$8.7 million for fiscal 2014. The primary sources of cash in fiscal 2016 were non-cash stock-based compensation expense of \$1.9 million, depreciation and amortization expense of \$1.5 million and a provision for excess and obsolete inventory of \$1.2 million. The primary uses of cash in fiscal 2016 were a net loss of \$2.2 million, a decrease of \$2.1 million in accrued expenses and other liabilities and a decrease of \$485,000 in deferred revenue. The primary

sources of cash in fiscal 2015 were a decrease in prepaid expenses and other assets of \$2.9 million, non-cash stock-based compensation expense of \$2.1 million, depreciation and amortization expense of \$1.6

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million and a provision for excess and obsolete inventory of \$1.1 million. The primary uses of cash in fiscal 2015 were a net loss of \$5.0 million, a decrease of \$1.9 million in accounts payable and an increase of \$1.3 million in inventories. 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 allowed inventory levels to decrease in response to the slowdown in our business during fiscal 2014 and fiscal 2015.

Net cash provided by investing activities was \$935,000 in fiscal 2016 compared \$23.2 million in fiscal 2015 and net cash used in investing activities of \$8.2 million in fiscal 2014. Investment activities in fiscal 2016 consisted primarily of the maturity of corporate notes, state and municipal obligations and certificates of deposit of \$23.6 million, partially offset by the purchase of investments of \$14.1 million, our acquisition of MikaMonu for \$4.4 million, restricted cash of \$3.0 million related to amounts held in escrow related to the acquisition and the purchase of property and equipment for \$1.2 million. Investment activities in fiscal 2015 consisted primarily of the sale and maturity of corporate notes and certificates of deposits of \$39.7 million, partially offset by the purchase of investments of \$16.0 million. 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.

Cash used in financing activities in fiscal 2016, fiscal 2015 and in fiscal 2014 included the repurchase of our common stock for a total purchase price of \$7.0 million, \$30.0 million and \$2.9 million, respectively. We repurchased 1,611,969 shares of our common stock at an average price of \$4.36 per share in fiscal 2016. Cash provided by financing activities in fiscal 2016, fiscal 2015 and fiscal 2014 primarily consisted of the net proceeds from the sale of common stock pursuant to our employee stock plans.

At March 31, 2016, we had total minimum lease obligations of approximately \$447,000 from April 1, 2016 through February 28, 2018, 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, 2016:

| Payments due by period |             |             |      |  | Total<br>than |
|------------------------|-------------|-------------|------|--|---------------|
| Up to 1 year           | 1 - 3 years | 3 - 5 years | More |  |               |

|   |              |            |            |       |              |
|---|--------------|------------|------------|-------|--------------|
|   |              |            |            | 5     |              |
|   |              |            |            | years |              |
| Facilities and equipment leases           | \$ 304,000   | 143,000    | \$ -       | \$ -  | \$ 447,000   |
| Wafer, test and mask purchase obligations | 2,147,000    | 847,000    | 101,000    | -     | 3,095,000    |
|   | \$ 2,451,000 | \$ 990,000 | \$ 101,000 | \$ -  | \$ 3,542,000 |

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As of March 31, 2016, the current portion of our unrecognized tax benefits was \$0, and the long-term portion was \$116,000. We do not expect to make federal income tax payments in the next twelve months, and we are not able to make a reasonably reliable estimate of the timing of such payments due to uncertainties in the timing of tax credit outcomes.

In connection with the acquisition of MikaMonu on November 23, 2015, we are required to make contingent consideration payments to the former MikaMonu shareholders conditioned upon the retention of MikaMonu's key employee and the achievement of certain product development milestones and revenue targets for products based on the MikaMonu technology. As of March 31, 2016, the accrual for potential payment of contingent consideration was \$5.9 million.

## Critical Accounting Policies and Estimates

The preparation of our consolidated 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 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.





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**Valuation of Inventories.** Inventories are stated at the lower of cost or market value, cost being determined on a weighted average basis. Our inventory write-down allowance is established when conditions indicate that the selling price of our products could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. We consider the need to establish the allowance for excess inventory generally based on inventory levels in excess of 12 months of forecasted demand for each specific product. Inventory consists of finished goods at our premises or consignment warehouses, work in progress at our premises or our contract manufacturers and finished goods at distributors 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, 2016, our net deferred tax assets of \$6.4 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 2016, 2015 and 2014, resulted in an expected term of approximately



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five years. We used our historical volatility to estimate expected volatility in fiscal 2016, 2015 and 2014. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected life of the options. The dividend yield is 0%, based on the fact that we have never paid dividends and have no present intention to pay dividends. Determining some of these assumptions requires significant judgment and changes to these assumptions could result in a significant change to the calculation of stock-based compensation in future periods.

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 forfeitures. 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.

Contingent Consideration. The fair value of the contingent consideration liability potentially payable in connection with our acquisition of MikaMonu was initially determined as of the acquisition date using unobservable inputs. These inputs include the estimated amount and timing of future cash flows, the probability of success (achievement of the various contingent events) and a risk-adjusted discount rate to adjust the probability-weighted cash flows to their present value. Subsequent to the acquisition date, at each reporting period, the contingent consideration liability will be re-measured at its then current fair value with changes recorded in the Consolidated Statements of Operations. Changes in any of the inputs may result in material adjustments to the recorded fair value.

### Valuation of Goodwill.

Goodwill represents the difference between the purchase price and the estimated fair value of the identifiable assets acquired and liabilities assumed in a business combination. We test for goodwill impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired. We have one reporting unit. We assess goodwill for impairment on an annual basis on the last day of February in the fourth quarter of our fiscal year.

As of March 31, 2016, we had a goodwill balance of \$8.0 million. The goodwill resulted from the acquisition of MikaMonu in fiscal 2016.

Our market capitalization declined in fiscal 2016. A significant decline in a company's stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below their carrying value. Significant judgment has been applied to determine whether stock price declines are a short-term swing or a long-term trend. We believe that the decline in our stock price will not be sustained.

We utilized a two-step quantitative analysis to complete our annual impairment test during the fourth quarter of fiscal 2016 and concluded that there was no impairment, as the fair value of our sole reporting unit exceeded its carrying value. We determined that the second step of the impairment test was not necessary. We believe that the fair value established during the fiscal 2016 annual goodwill impairment testing was reasonable, and no triggering event has

taken place subsequent to the fiscal 2016 annual assessment. However, a sustained decline in our stock price could constitute a triggering event that would require assessment for potential goodwill impairment in fiscal 2017.

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### Off-Balance Sheet Arrangements

At March 31, 2016, 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 March 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update for the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This accounting standard update will be effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. We are currently evaluating the methods and impact of adopting the new accounting standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents a change of previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. We are currently evaluating the impact the pronouncement will have on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued an accounting standard update which requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The accounting standard update also updates certain presentation and disclosure requirements. This accounting standard update will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The update is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. Implementation of this guidance in the quarter ended March 31, 2016 did not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued a new accounting standard that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment including the impact on prior periods be recognized in the reporting period in which the adjustment is identified along with additional disclosures. The new guidance will be effective for us beginning in the first quarter of fiscal 2017. The new guidance is required to be adopted prospectively with early adoption permitted for financial statements that have not yet been made available for issuance. The new guidance is not expected to have a material impact on the Company’s consolidated financial statements.



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In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". This standard update intends to simplify the subsequent measurement of inventory, excluding inventory accounted for under the last-in, first-out or the retail inventory methods. The update replaces the current lower of cost or market test with a lower of cost and net realizable value test. Under the current guidance, market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The update is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

In August 2014, the FASB issued new guidance related to our responsibility to evaluate whether there is substantial doubt about our ability to continue ongoing business operations and to provide relevant footnote disclosures. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. ASU No. 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. We are currently evaluating the impact of this accounting standard on our consolidated financial statements. In March, April and May 2016, the FASB issued additional updates to the new revenue standard relating to reporting revenue on a gross versus net basis, identifying performance obligations and licensing arrangements, and narrow-scope improvements and practical expedients, respectively. We are in the process of assessing the impact this additional guidance is expected to have upon adoption, including determining the adoption method.

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

**Interest Rate Sensitivity.** We had cash, cash equivalents, short term investments and long-term investments totaling \$66.3 million at March 31, 2016. 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 believe a hypothetical 100 basis point increase in interest rates would not materially affect the fair value of our interest-sensitive financial instruments. Declines in interest rates, however, will reduce future investment income.





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Item 8. Financial Statements and Supplementary Data

GSI TECHNOLOGY, INC.

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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 accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows present fairly, in all material respects, the financial position of GSI Technology, Inc. and its subsidiaries at March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016 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, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, 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 10, 2016



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## GSI TECHNOLOGY, INC.

## CONSOLIDATED BALANCE SHEETS

|  | March 31,  |            |
|--|--|------------|
|  | 2016   | 2015       |
|  | (In thousands,<br>except share and per<br>share amounts) |            |
| <b>ASSETS</b>  |  |            |
| Cash and cash equivalents  | \$ 31,963  | \$ 36,776  |
| Short-term investments   | 23,149   | 22,201     |
| Accounts receivable, net   | 7,478  | 8,257      |
| Inventories  | 7,174  | 8,412      |
| Prepaid expenses and other current assets  | 2,198  | 2,297      |
| Total current assets   | 71,962   | 77,943     |
| Property and equipment, net  | 8,653  | 8,708      |
| Long-term investments  | 11,148   | 21,740     |
| Goodwill   | 8,030  | -          |
| Intangible assets, net   | 3,651  | 393        |
| Other assets   | 3,086  | 105        |
| Total assets   | \$ 106,530   | \$ 108,889 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |            |
| Accounts payable   | \$ 2,514   | \$ 2,961   |
| Accrued expenses and other liabilities   | 4,398  | 5,937      |
| Deferred revenue   | 2,330  | 2,815      |
| Total current liabilities  | 9,242  | 11,713     |
| Income taxes payable   | 116  | 780        |
| Long-term deferred income taxes  | 811  | -          |
| Other accrued expenses   | 6,492  | -          |
| Total liabilities  | 16,661   | 12,493     |
| Commitments and contingencies (Note 7)   |  |            |
| Stockholders' equity:  |  |            |
| Preferred stock: \$0.001 par value authorized: 5,000,000 shares; issued and outstanding: none  | -  | -          |
| Common Stock: \$0.001 par value authorized: 150,000,000 shares; issued and outstanding: 21,716,364 and 23,128,372 shares, respectively | 22   | 23         |
| Additional paid-in capital   | 25,050   | 29,407     |
| Accumulated other comprehensive income   | 27   | 26         |
| Retained earnings  | 64,770   | 66,940     |
| Total stockholders' equity   | 89,869   | 96,396     |
| Total liabilities and stockholders' equity   | \$ 106,530   | \$ 108,889 |

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



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GSI TECHNOLOGY, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Year Ended March 31,                     |            |            |
|---|--|------------|------------|
|   | 2016                                     | 2015       | 2014       |
|   | (In thousands, except per share amounts) |            |            |
| Net revenues  | \$ 52,736                                | \$ 53,498  | \$ 58,579  |
| Cost of revenues  | 25,999                                   | 28,375     | 32,469     |
| Gross profit  | 26,737                                   | 25,123     | 26,110     |
| Operating expenses:                                     |  |            |            |
| Research and development                                | 12,095                                   | 11,917     | 13,110     |
| Selling, general and administrative                     | 17,663                                   | 19,247     | 18,814     |
| Total operating expenses                                | 29,758                                   | 31,164     | 31,924     |
| Loss from operations                                    | (3,021)                                  | (6,041)    | (5,814)    |
| Interest income, net                                    | 307                                      | 324        | 387        |
| Other income (expense), net                             | (97)                                     | 64         | (49)       |
| Loss before income taxes                                | (2,811)                                  | (5,653)    | (5,476)    |
| Provision (benefit) for income taxes                    | (641)                                    | (675)      | 713        |
| Net loss  | \$ (2,170)                               | \$ (4,978) | \$ (6,189) |
| Net loss per share:                                     |  |            |            |
| Basic   | \$ (0.10)                                | \$ (0.20)  | \$ (0.23)  |
| Diluted   | \$ (0.10)                                | \$ (0.20)  | \$ (0.23)  |
| Weighted average shares used in per share calculations: |  |            |            |
| Basic   | 22,593                                   | 25,029     | 27,505     |
| Diluted   | 22,593                                   | 25,029     | 27,505     |

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

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GSI TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

|  | Year Ended March 31,                     |            |            |
|--|--|------------|------------|
|  | 2016                                     | 2015       | 2014       |
|  | (In thousands, except per share amounts) |            |            |
| Net loss   | \$ (2,170)                               | \$ (4,978) | \$ (6,189) |
| Net unrealized gain (loss) on available-for-sale investments, net of tax | 1  | (7)        | (12)       |
| Comprehensive net loss   | \$ (2,169)                               | \$ (4,985) | \$ (6,201) |

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

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GSI TECHNOLOGY, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|---|------------------------|------------------------|----------------------------------|---|----------------------|----------------------------------|
| 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 and retirement of common stock | (436,527)              | -                      | (2,880)                          | -   | -                    | (2,880)                          |
| Stock-based compensation expense          | -                      | -                      | 2,228                            | -   | -                    | 2,228                            |
| Windfall tax benefit from                 |                        |                        |                                  |   |                      |                                  |
| stock options exercised                   | -                      | -                      | (33)                             | -   | -                    | (33)                             |
| Comprehensive loss:                       |                        |                        |                                  |   |                      |                                  |
| Net loss                                  | -                      | -                      | -                                | -   | (6,189)              | (6,189)                          |
| Net unrealized loss on                    |                        |                        |                                  |   |                      |                                  |
| available-for-sale investments            | -                      | -                      | -                                | (12)  | -                    | (12)                             |
| Total comprehensive loss                  | -                      | -                      | -                                | -   | -                    | (6,201)                          |
| Balance, March 31, 2014                   | 27,561,482             | 28                     | 56,399                           | 33  | 71,918               | 128,378                          |
| Issuance of common stock                  |                        |                        |                                  |   |                      |                                  |
| under employee stock option plans         | 228,665                | -                      | 952                              | -   | -                    | 952                              |
| Repurchase and retirement of common stock | (4,661,775)            | (5)                    | (30,021)                         | -   | -                    | (30,026)                         |
| Stock-based compensation expense          | -                      | -                      | 2,077                            | -   | -                    | 2,077                            |
| Comprehensive loss:                       |                        |                        |                                  |   |                      |                                  |
| Net loss                                  | -                      | -                      | -                                | -   | (4,978)              | (4,978)                          |
| Net unrealized loss on                    |                        |                        |                                  |   |                      |                                  |
| available-for-sale investments            | -                      | -                      | -                                | (7)   | -                    | (7)                              |
| Total comprehensive loss                  | -                      | -                      | -                                | -   | -                    | (4,985)                          |
| Balance, March 31, 2015                   | 23,128,372             | 23                     | 29,407                           | 26  | 66,940               | 96,396                           |
| Issuance of common stock                  |                        |                        |                                  |   |                      |                                  |
| under employee stock option plans         | 199,961                | -                      | 818                              | -   | -                    | 818                              |
| Repurchase and retirement of common stock | (1,611,969)            | (1)                    | (7,025)                          | -   | -                    | (7,026)                          |
| Stock-based compensation expense          | -                      | -                      | 1,850                            | -   | -                    | 1,850                            |
| Comprehensive loss:                       |                        |                        |                                  |   |                      |                                  |
| Net loss                                  | -                      | -                      | -                                | -   | (2,170)              | (2,170)                          |



Net unrealized gain on

|                                |            |       |           |       |           |           |
|--------------------------------|------------|-------|-----------|-------|-----------|-----------|
| available-for-sale investments | -          | -     | -         | 1     | -         | 1         |
| Total comprehensive loss       | -          | -     | -         | -     | -         | (2,169)   |
| Balance, March 31, 2016        | 21,716,364 | \$ 22 | \$ 25,050 | \$ 27 | \$ 64,770 | \$ 89,869 |

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

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## GSI TECHNOLOGY, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended March 31, |            |            |
|---|----------------------|------------|------------|
|   | 2016                 | 2015       | 2014       |
|   | (In thousands)       |            |            |
| Cash flows from operating activities:   |                      |            |            |
| Net loss  | \$ (2,170)           | \$ (4,978) | \$ (6,189) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                      |            |            |
| Allowance for sales returns, doubtful accounts and other                        | (3)                  | (8)        | (5)        |
| Provision for excess and obsolete inventories                                   | 1,172                | 1,067      | 2,079      |
| Depreciation and amortization   | 1,459                | 1,633      | 1,981      |
| Stock-based compensation  | 1,850                | 2,077      | 2,228      |
| Deferred income taxes   | -                    | -          | 1,224      |
| Windfall tax benefits from stock options exercised                              | -                    | -          | 33         |
| Amortization of bond premium on investments                                     | 209                  | 593        | 842        |
| Changes in assets and liabilities, net of impact of acquisition:                |                      |            |            |
| Accounts receivable   | 782                  | (11)       | 2,008      |
| Inventory   | 66                   | (1,294)    | 3,545      |
| Prepaid expenses and other assets   | 102                  | 2,854      | 1,046      |
| Accounts payable  | (441)                | (1,915)    | 1,066      |
| Accrued expenses and other liabilities  | (2,081)              | 811        | (857)      |
| Deferred revenue  | (485)                | 292        | (554)      |
| Net cash provided by operating activities                                       | 460                  | 1,121      | 8,447      |
| Cash flows from investing activities:   |                      |            |            |
| Purchase of investments   | (14,149)             | (16,009)   | (35,866)   |
| Sales and maturities of investments   | 23,585               | 39,699     | 28,412     |
| Acquisition   | (4,359)              | -          | -          |
| Restricted cash   | (2,984)              | -          | -          |
| Purchases of property and equipment   | (1,158)              | (481)      | (761)      |
| Net cash provided by (used in) investing activities                             | 935                  | 23,209     | (8,215)    |
| Cash flows from financing activities:   |                      |            |            |
| Repurchase of common stock  | (7,026)              | (30,026)   | (2,880)    |
| Windfall tax benefits from stock options exercised                              | -                    | -          | (33)       |
| Proceeds from issuance of common stock under employee stock plans               | 818                  | 952        | 3,081      |
| Net cash provided by (used in) financing activities                             | (6,208)              | (29,074)   | 168        |
| Net increase (decrease) in cash and cash equivalents                            | (4,813)              | (4,744)    | 400        |
| Cash and cash equivalents at beginning of the year                              | 36,776               | 41,520     | 41,120     |
| Cash and cash equivalents at end of the year                                    | \$ 31,963            | \$ 36,776  | \$ 41,520  |
| Non-cash financing activities:  |                      |            |            |
| Purchases of property and equipment through accounts payable and accruals       | \$ -                 | \$ 6       | \$ -       |
| Supplemental cash flow information:   |                      |            |            |
| Net cash paid (received) for income taxes                                       | \$ 78                | \$ (2,394) | \$ 2       |

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

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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 LLDRAM 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 four wholly-owned subsidiaries, GSI Technology Holdings, Inc., GSI Technology (BVI), Inc., GSI Technology Israel Ltd. 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 LLDRAM 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, 2016, 2015 and 2014, all of the wafers used in the Company's SRAM and LLDRAM 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 affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change,

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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. See Note 7 for information regarding litigation that was resolved during the year ended March 31, 2016. 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 value.

### 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" on the Consolidated Balance Sheets. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines in fair value 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. 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

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based upon the expected collectability of accounts receivable. There were no write offs of accounts receivable in the years ended March 31, 2016, 2015 or 2014.

At March 31, 2016, four customers accounted for 26%, 25%, 13%, and 11% of accounts receivable, and for the year then ended, four customers accounted for 28%, 16%, 14% and 13% of net revenues. At March 31, 2015, four customers accounted for 25%, 20%, 16%, and 13% of accounts receivable, and for the year then ended, three customers accounted for 35%, 13% and 12% of net revenues. 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.

**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 \$1.2 million, \$1.1 million and \$2.1 million, respectively, in fiscal 2016, 2015 and 2014.

**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 could exist 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, 2016, 2015 or 2014.





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### Goodwill and intangible assets

Goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

The Company assesses goodwill for impairment on an annual basis on the last day of February in the fourth quarter of its fiscal year and if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The Company has one reporting unit. In accordance with ASU 2011-08, Testing Goodwill for Impairment, qualitative factors can be assessed to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

Intangible assets with finite useful lives are amortized over their estimated useful lives, generally on a straight-line basis over five to fifteen 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, 2016, the Company has recorded a tax provision reflecting a full valuation allowance of its \$6.4 million and \$6.0 million of net deferred tax assets at March 31, 2016 and 2015, respectively.

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 \$4,000, \$5,000 and \$7,000 for the years ended March 31, 2016, 2015, and 2014, 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 Consolidated Statements of Operations. These gains and losses were not material for the years ended March 31, 2016, 2015 or 2014.

### Segments

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

### Accounting for stock-based compensation

Stock-based compensation expense recognized in the Consolidated 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 2016, 2015 and 2014 resulted in an expected term of approximately five years. The Company used historical volatility to estimate expected volatility in fiscal 2016, 2015 and 2014. 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 loss

Comprehensive income (loss) is defined to include all changes in stockholders' equity during a period except those resulting from investments by owners and distributions to owners. For the years ended March 31, 2016, 2015 and 2014, comprehensive loss was \$2,169,000, \$4,985,000 and \$6,201,000, respectively.

### Business combinations

The Company allocates the fair value of the purchase consideration of its acquisitions to the tangible assets, liabilities, and intangible assets acquired, based on their estimated fair values. Goodwill represents the excess of acquisition cost over the fair value of tangible and identified intangible net assets of businesses acquired. Transaction costs and costs to restructure the acquired company are expensed as incurred. The operating results of the acquired company are reflected in the Company's consolidated financial statements after the closing date of the business combination. See Note 11 for additional information related to the acquisition of MikaMonu Group Ltd.



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### Recent accounting pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued an accounting standard update for the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This accounting standard update will be effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, and early adoption is permitted. The Company is currently evaluating the methods and impact of adopting the new accounting standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents a change of previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued an accounting standard update which requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The accounting standard update also updates certain presentation and disclosure requirements. This accounting standard update will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The update is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. Implementation of this guidance in the quarter ended March 31, 2016 did not have a material impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued a new accounting standard that eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment including the impact on prior periods be recognized in the reporting period in which the adjustment is identified along with additional disclosures. The new guidance will be effective for the Company beginning in the first quarter of fiscal 2017. The new guidance is required to be adopted prospectively with early adoption permitted for financial statements that have not yet been made available for issuance. The new guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". This standard update intends to simplify the subsequent measurement of inventory, excluding inventory accounted for under the last-in, first-out or the retail inventory methods. The update replaces the current lower of cost or market test with a lower of cost and net realizable value test. Under the current guidance, market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The

update is effective for reporting periods beginning after December 15, 2016, with early

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adoption permitted. The Company is currently evaluating the impact of this accounting standard on its consolidated financial statements.

In August 2014, the FASB issued new guidance related to the Company's responsibility to evaluate whether there is substantial doubt about its ability to continue ongoing business operations and to provide relevant footnote disclosures. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. ASU No. 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company is currently evaluating the impact of this accounting standard on its consolidated financial statements. In March, April and May 2016, the FASB issued additional updates to the new revenue standard relating to reporting revenue on a gross versus net basis, identifying performance obligations and licensing arrangements, and narrow-scope improvements and practical expedients, respectively. The Company is in the process of assessing the impact this additional guidance is expected to have upon adoption, including determining the adoption method.

## NOTE 2—NET LOSS PER COMMON SHARE

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

|   | Year Ended March 31,                     |            |            |
|---|--|------------|------------|
|   | 2016                                     | 2015       | 2014       |
|   | (In thousands, except per share amounts) |            |            |
| Net loss  | \$ (2,170)                               | \$ (4,978) | \$ (6,189) |
| Denominators:   |  |            |            |
| Weighted average shares—Basic                           | 22,593                                   | 25,029     | 27,505     |
| Dilutive effect of employee stock options               | -  | -          | -          |
| Dilutive effect of employee stock purchase plan options | -  | -          | -          |
| Weighted average shares—Dilutive                        | 22,593                                   | 25,029     | 27,505     |
| Net loss per common share—Basic                         | \$ (0.10)                                | \$ (0.20)  | \$ (0.23)  |
| Net loss per common share—Diluted                       | \$ (0.10)                                | \$ (0.20)  | \$ (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 loss per common share as they had an anti-dilutive effect:



|                           | Year Ended March 31, |       |       |
|---------------------------|----------------------|-------|-------|
|                           | 2016                 | 2015  | 2014  |
|                           | (In thousands)       |       |       |
| Shares underlying options | 5,407                | 3,851 | 2,911 |

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## NOTE 3—BALANCE SHEET DETAIL

|   | March 31,      |           |
|---|----------------|-----------|
|   | 2016           | 2015      |
|   | (In thousands) |           |
| Inventories:  |                |           |
| Work-in-progress  | \$ 1,697       | \$ 2,422  |
| Finished goods  | 5,011          | 5,362     |
| Inventory at distributors                                       | 466            | 628       |
|   | \$ 7,174       | \$ 8,412  |
|   |                |           |
|   | March 31,      |           |
|   | 2016           | 2015      |
|   | (In thousands) |           |
| Accounts receivable, net:                                       |                |           |
| Accounts receivable   | \$ 7,578       | \$ 8,360  |
| Less: Allowances for sales returns, doubtful accounts and other | (100)          | (103)     |
|   | \$ 7,478       | \$ 8,257  |
|   |                |           |
|   | March 31,      |           |
|   | 2016           | 2015      |
|   | (In thousands) |           |
| Prepaid expenses and other current assets:                      |                |           |
| Prepaid tooling and masks                                       | \$ 1,224       | \$ 1,208  |
| Prepaid income taxes  | -              | 139       |
| Other receivables   | 230            | 350       |
| Other prepaid expenses  | 744            | 600       |
|   | \$ 2,198       | \$ 2,297  |
|   |                |           |
|   | March 31,      |           |
|   | 2016           | 2015      |
|   | (In thousands) |           |
| Property and equipment, net:                                    |                |           |
| Computer and other equipment                                    | \$ 18,394      | \$ 17,264 |
| Software  | 4,793          | 4,792     |
| Land  | 3,900          | 3,900     |

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|   |          |          |
|---|----------|----------|
| Building and building improvements              | 2,256    | 2,256    |
| Furniture and fixtures                          | 114      | 110      |
| Leasehold improvements                          | 687      | 791      |
|   | 30,144   | 29,113   |
| Less: Accumulated depreciation and amortization | (21,491) | (20,405) |
|   | \$ 8,653 | \$ 8,708 |

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Depreciation and amortization expense was \$1,459,000, \$1,633,000 and \$1,981,000 for the years ended March 31, 2016, 2015 and 2014, respectively.

|                                   | March 31,      |        |
|-----------------------------------|----------------|--------|
|                                   | 2016           | 2015   |
|                                   | (In thousands) |        |
| Other assets:                     |                |        |
| Non-current deferred income taxes | \$ -           | \$ 27  |
| Deposits                          | 3,086          | 78     |
|                                   | \$ 3,086       | \$ 105 |

The following table summarizes the components of intangible assets and related accumulated amortization balances at March 31, 2016 and 2015, respectively (in thousands):

|                    | As of March 31, 2016 |                          |                 |
|--------------------|----------------------|--------------------------|-----------------|
|                    | Gross                |                          | Net             |
|                    | Carrying Amount      | Accumulated Amortization | Carrying Amount |
| Intangible assets: |                      |                          |                 |
| Product designs    | \$ 590               | \$ (555)                 | \$ 35           |
| Patents            | 4,220                | (604)                    | 3,616           |
| Software           | 80                   | (80)                     | -               |
| Total              | \$ 4,890             | \$ (1,239)               | \$ 3,651        |

|                    | As of March 31, 2015 |                          |                 |
|--------------------|----------------------|--------------------------|-----------------|
|                    | Gross                |                          | Net             |
|                    | Carrying Amount      | Accumulated Amortization | Carrying Amount |
| Intangible assets: |                      |                          |                 |
| Product designs    | \$ 590               | \$ (470)                 | \$ 120          |
| Patents            | 720                  | (447)                    | 273             |
| Software           | 80                   | (80)                     | -               |
| Total              | \$ 1,390             | \$ (997)                 | \$ 393          |

Amortization of intangible assets of \$242,000 and 171,000 was included in cost of revenues for the years ended March 31, 2016 and 2015, respectively.

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As of March 31, 2016, the estimated future amortization expense of intangible assets in the table above is as follows (in thousands):

| Year Ending March 31, |          |
|-----------------------|----------|
| 2017                  | \$ 349   |
| 2018                  | 313      |
| 2019                  | 267      |
| 2020                  | 233      |
| 2021                  | 233      |
| Thereafter            | 2,256    |
| Total                 | \$ 3,651 |

|   | March 31,      |          |
|---|----------------|----------|
|   | 2016           | 2015     |
|   | (In thousands) |          |
| Accrued expenses and other liabilities: |                |          |
| Accrued compensation                    | \$ 3,082       | \$ 3,386 |
| Accrued professional fees               | 83             | 1,380    |
| Accrued commissions                     | 284            | 268      |
| Accrued royalties                       | 21             | 26       |
| Other accrued expenses                  | 928            | 877      |
|   | \$ 4,398       | \$ 5,937 |

March 31,

|                                     | 2016           | 2015 |
|-------------------------------------|----------------|------|
|                                     | (In thousands) |      |
| Other accrued expenses:             |                |      |
| Contingent consideration            | \$ 5,856       | \$ - |
| Escrow indemnity accrual            | 484            | -    |
| Other long-term accrued liabilities | 152            | -    |
|                                     | \$ 6,492       | \$ - |

#### NOTE 4—GOODWILL

Goodwill represents the difference between the purchase price and the estimated fair value of the identifiable assets acquired and liabilities assumed in a business combination. The Company tests for goodwill impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset is more likely than not impaired. The Company has one reporting unit. The Company assesses goodwill for impairment on an annual basis on the last day of February in the fourth quarter of its fiscal year.

As of March 31, 2016, the Company had a goodwill balance of \$8.0 million. The goodwill resulted from the acquisition of MikaMonu Group Ltd. (“MikaMonu”) in fiscal 2016.

The Company’s market capitalization declined in fiscal 2016. A significant decline in a company’s stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below their carrying value. Significant judgment has been applied to determine whether stock price declines are a short-term swing or a long-term trend. The Company believes that the decline in its stock price will not be sustained.

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The Company utilized a two-step quantitative analysis to complete its annual impairment test during the fourth quarter of fiscal 2016 and concluded that there was no impairment, as the fair value of its sole reporting unit exceeded its carrying value. The Company determined that the second step of the impairment test was not necessary. The Company believes that the fair value established during the fiscal 2016 annual goodwill impairment testing was reasonable, and no triggering event has taken place subsequent to the fiscal 2016 annual assessment. However, a sustained decline in the Company's stock price could constitute a triggering event that would require assessment for potential goodwill impairment in fiscal 2017.

## NOTE 5—INCOME TAXES

Loss before income taxes and income tax expense consists of the following:

|  | Year Ended March 31, |            |            |
|--|----------------------|------------|------------|
|  | 2016                 | 2015       | 2014       |
|  | (In thousands)       |            |            |
| Loss before income taxes:              |                      |            |            |
| U.S.                                   | \$ (3,426)           | \$ (6,910) | \$ (6,388) |
| Foreign                                | 615                  | 1,257      | 912        |
|  | \$ (2,811)           | \$ (5,653) | \$ (5,476) |
| Current income tax expense (benefit):  |                      |            |            |
| U.S. federal                           | \$ (354)             | \$ (619)   | \$ (1,782) |
| Foreign                                | 15                   | (2)        | 113        |
| State                                  | (289)                | (54)       | (82)       |
|  | (628)                | (675)      | (1,751)    |
| Deferred income tax expense (benefit): |                      |            |            |
| U.S. federal                           | (3)                  | -          | 1,892      |
| Foreign                                | (10)                 | -          | -          |
| State                                  | -                    | -          | 572        |
|  | (13)                 | -          | 2,464      |
| Provision (benefit) for income tax     | \$ (641)             | \$ (675)   | \$ 713     |

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, |            |            |
|--------------------------------------|----------------------|------------|------------|
|                                      | 2016                 | 2015       | 2014       |
|                                      | (In thousands)       |            |            |
| U.S. Federal taxes at statutory rate | \$ (956)             | \$ (1,922) | \$ (1,862) |



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|                                     |          |          |         |
|-------------------------------------|----------|----------|---------|
| State taxes, net of federal benefit | (204)    | (39)     | 490     |
| Stock-based compensation            | 470      | 447      | 392     |
| Tax credits                         | (539)    | (472)    | (338)   |
| Foreign tax rate differential       | (368)    | (916)    | (650)   |
| Tax exempt interest                 | (9)      | (20)     | (29)    |
| Other                               | 6        | (35)     | (72)    |
|                                     | (1,600)  | (2,957)  | (2,069) |
| Valuation allowance                 | 959      | 2,282    | 2,782   |
|                                     | \$ (641) | \$ (675) | \$ 713  |

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

|                                | March 31,      |          |
|--------------------------------|----------------|----------|
|                                | 2016           | 2015     |
|                                | (In thousands) |          |
| Deferred tax assets:           |                |          |
| Deferred revenue               | \$ 231         | \$ 110   |
| Tax credits                    | 2,706          | 1,766    |
| Net operating losses           | 1,356          | 1,165    |
| Stock-based compensation       | 1,550          | 1,387    |
| Property and equipment         | 297            | 193      |
| Other reserves and accruals    | 1,175          | 1,407    |
| Total deferred tax assets      | \$ 7,315       | \$ 6,028 |
| Deferred tax liabilities:      |                |          |
| Intangible assets              | \$ (856)       | \$ -     |
| Unrecognized gains             | (14)           | (11)     |
| Total deferred tax liabilities | \$ (870)       | \$ (11)  |
| Net deferred tax assets        | \$ 6,445       | \$ 6,017 |
| Valuation allowance            | (7,256)        | (6,017)  |
| Net deferred tax liability     | \$ (811)       | \$ -     |

U.S. income taxes and withholding taxes have not been provided on a cumulative total of \$40.1 million of undistributed earnings for certain non-U.S. subsidiaries. The Company currently intends to indefinitely 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 long-term portion of the Company's unrecognized tax benefits at March 31, 2016 and 2015 was \$116,000 and \$780,000, respectively, of which the timing of the resolution is uncertain. As of March 31, 2016, \$1,943,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. As of March 31, 2016, the Company's net deferred tax assets of \$6.4 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, |          |          |
|--|----------------------|----------|----------|
|  | 2016                 | 2015     | 2014     |
|  | (In thousands)       |          |          |
| Unrecognized tax benefits, beginning of period           | \$ 1,982             | \$ 2,386 | \$ 2,760 |
| Additions based on tax positions related to current year | 453                  | 292      | 250      |
| Additions based on tax positions related to prior years  | 183                  | -        | 13       |

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|  |          |          |          |
|--|----------|----------|----------|
| Settlements during the current year                                  | -        | -        | -        |
| Lapses during the current year applicable to statutes of limitations | (563)    | (696)    | (637)    |
| Unrecognized tax benefits, end of period                             | \$ 2,055 | \$ 1,982 | \$ 2,386 |

The unrecognized tax benefit balance as of March 31, 2016 of \$112,000 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 \$16,000, 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. As of March 31, 2016, the Company maintained a full valuation allowance of \$7.3 million for deferred tax assets that are not expected to be utilized in future years. Fiscal years 2013 through 2016 remain open to examination by the federal tax authorities and fiscal years 2011 through 2016 remain open to examination by California.

NOTE 6—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, 2016, the Level 1 category included money market funds of \$6.6 million, which were included in cash and cash equivalents on the Consolidated Balance Sheets.

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, 2016, the Level 2 category included short-term investments of \$23.2 million and long term-investments of \$11.1 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, 2016, the Company's Level 3 financial instruments measured at fair value on the Consolidated Balance Sheets consisted of the contingent consideration liability related to the MikaMonu acquisition. Refer to Note 11, "Acquisition" for more information.

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The fair value of financial assets measured on a recurring basis is as follows (in thousands):

|                       | March<br>31, 2016 | Fair Value Measurements at Reporting Date Using<br>Quoted Prices             |   |  |
|-----------------------|-------------------|--|---|--|
|                       |                   | in Active<br>Markets for<br>Identical Assets<br>and Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:               |                   |  |   |  |
| Money market funds    | \$ 6,611          | \$ 6,611   | —   | \$ —   |
| Marketable securities | 34,297            | —  | 34,297  | —  |
| Total                 | \$ 40,908         | \$ 6,611   | \$ 34,297   | \$ —   |

|                       | March<br>31, 2015 | Fair Value Measurements at Reporting Date Using<br>Quoted Prices             |   |  |
|-----------------------|-------------------|--|---|--|
|                       |                   | in Active<br>Markets for<br>Identical Assets<br>and Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Assets:               |                   |  |   |  |
| Money market funds    | \$ 4,409          | \$ 4,409   | \$ —  | \$ —   |
| Marketable securities | 43,941            | —  | 43,941  | —  |
| Total                 | \$ 48,350         | \$ 4,409   | \$ 43,941   | \$ —   |

#### 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 on the Consolidated Balance Sheets. The Company had money market funds of \$6.6 million and \$4.4 million at March 31, 2016 and March 31, 2015, respectively, included in cash and cash equivalents on 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.



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

|                                 | March 31, 2016 |                              |                               |               |
|---------------------------------|----------------|------------------------------|-------------------------------|---------------|
|                                 | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|                                 | (In thousands) |                              |                               |               |
| Short-term investments:         |                |                              |                               |               |
| State and municipal obligations | \$ 1,011       | \$ -                         | \$ -                          | \$ 1,011      |
| Corporate notes                 | 5,680          | -                            | (3)                           | 5,677         |
| Agency bonds                    | 2,001          | 1                            | -                             | 2,002         |
| Foreign government obligations  | 2,695          | 3                            | -                             | 2,698         |
| Certificates of deposit         | 11,750         | 12                           | -                             | 11,762        |
| Total short-term investments    | \$ 23,137      | \$ 16                        | \$ (3)                        | \$ 23,150     |
| Long-term investments:          |                |                              |                               |               |
| Corporate notes                 | \$ 558         | \$ 1                         | \$ -                          | \$ 559        |
| Certificates of deposit         | 8,500          | 24                           | (1)                           | 8,523         |
| Agency bonds                    | 1,000          | 4                            | -                             | 1,004         |
| Foreign government obligations  | 1,060          | 1                            | -                             | 1,061         |
| Total long-term investments     | \$ 11,118      | \$ 30                        | \$ (1)                        | \$ 11,147     |
|                                 |                |                              |                               |               |
|                                 | March 31, 2015 |                              |                               |               |
|                                 | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|                                 | (In thousands) |                              |                               |               |
| Short-term investments:         |                |                              |                               |               |
| State and municipal obligations | \$ 6,810       | \$ -                         | \$ -                          | \$ 6,810      |
| Corporate notes                 | 7,366          | 10                           | -                             | 7,376         |
| Agency bonds                    | 1,006          | -                            | -                             | 1,006         |
| Certificates of deposit         | 7,000          | 9                            | -                             | 7,009         |
| Total short-term investments    | \$ 22,182      | \$ 19                        | \$ -                          | \$ 22,201     |
| Long-term investments:          |                |                              |                               |               |
| State and municipal obligations | \$ 1,053       | \$ 4                         | \$ -                          | \$ 1,057      |
| Corporate notes                 | 4,232          | -                            | (10)                          | 4,222         |
| Certificates of deposit         | 9,750          | 24                           | (1)                           | 9,773         |
| Agency bonds                    | 4,003          | 4                            | (2)                           | 4,005         |
| Other                           | 2,684          | -                            | (1)                           | 2,683         |
| Total long-term investments     | \$ 21,722      | \$ 32                        | \$ (14)                       | \$ 21,740     |

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. Subject to normal credit risks, the Company has the ability to realize the full value of all these investments upon maturity.

At March 31, 2016, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was \$14,000. At March 31, 2015, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was \$11,000.



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As of March 31, 2016, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

|                                   | Cost           | Fair Value |
|-----------------------------------|----------------|------------|
|                                   | (In thousands) |            |
| Maturing within one year          | \$ 23,137      | \$ 23,150  |
| Maturing in one to three years    | 11,118         | 11,147     |
| Maturing in more than three years | -              | -          |
|                                   | \$ 34,255      | \$ 34,297  |

## NOTE 7—COMMITMENTS AND CONTINGENCIES

## Operating leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through February 2018. Rent expense for the years ended March 31, 2016, 2015 and 2014 was \$348,000, \$354,000 and \$368,000, 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, 2016 are as follows:

| Fiscal Year Ending March 31, | Operating Leases<br>(In thousands) |
|------------------------------|------------------------------------|
| 2017                         | \$304                              |
| 2018                         | 143                                |
| 2019                         | -                                  |
| 2020                         | -                                  |
| 2021                         | -                                  |
| Thereafter                   | -                                  |
| Total                        | \$447                              |

#### 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, 2016, 2015 and 2014 was \$44,000, \$53,000 and \$59,000, 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, 2016, 2015 or 2014.

### 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 sought 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 the Company's 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. 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

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District of California and consolidated with the pending California case. On August 20, 2013, the Court in the California case ordered the cases consolidated.

The Company did not record any loss contingency during fiscal 2014, fiscal 2015 or fiscal 2016 in connection with these legal proceedings as the Company was unable to predict their outcome and could not estimate the likelihood or potential dollar amount of any adverse results.

On May 6, 2015, the Company and Cypress entered into a settlement agreement to resolve the patent infringement litigation and a separate lawsuit pending in the United States District Court for the Northern District of California in which the Company alleged that Cypress had violated federal and state antitrust laws. Under the settlement agreement:

- Each of the parties agreed to dismiss its lawsuit with prejudice in consideration of the dismissal with prejudice of the lawsuit brought by the other party; and
  - Each party agreed to release all claims against the other with respect to issues raised in the two lawsuits.
- The parties agreed that the settlement agreement was entered into to resolve disputed claims, and that each party denies any liability to the other party.

### NOTE 8—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.

On August 6, 2014, the Company completed a modified "Dutch auction" self-tender offer to repurchase for cash shares of its common stock. The Company accepted for purchase and retirement an aggregate of 3,846,153 shares of its common stock at a final purchase price of \$6.50 per share, for an aggregate cost of approximately \$25 million, excluding fees and expenses related to the tender offer.

The Company's board of directors has authorized the repurchase, at management's discretion, of shares of its common stock. 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, 2016, including the shares purchased in the modified "Dutch Auction" self-tender offer, the Company has repurchased and retired a total of 10,340,501 shares at an average cost of \$5.18 per share for a total cost of \$53.5 million. At March 31, 2016, management was authorized to repurchase additional shares with a value of up to \$1.5 million under the repurchase program.

### NOTE 9—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.



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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 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





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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 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

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would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or of any parent or subsidiary corporation, or (2) the employee's rights to purchase stock under all of our employee stock purchase plans would accrue at a rate that exceeds \$25,000 in value for each calendar year of participation in such plans.

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

Amounts accumulated for each participant under the 2007 Purchase Plan are used to purchase shares of the Company's common stock at the end of each offering period at a price generally equal to 85% of the lower of the fair market value of our common stock at the beginning of an offering period or at the end of the offering period. Prior to commencement of an offering period, the administrator is authorized to reduce, but not increase, this purchase price discount for that offering period, or, under circumstances described in the 2007 Purchase Plan, during that offering period. The maximum number of shares a participant may purchase in any six-month offering period is the lesser of (i) that number of 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, 2013           | 4,867,458                  | 6,336,319                                       |   | 4.46                            |                 |
| 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 reserved                    | 1,377,699                  | -   |   | -                               |                 |
| Granted                             | (791,903)                  | 791,903   |   | 5.20                            |                 |
| Exercised                           | -                          | (119,085)                                       |   | 3.88                            | 262,253         |
| Forfeited                           | 42,647                     | (42,647)  |   | 5.49                            |                 |
| Balance at March 31, 2015           | 6,213,943                  | 6,774,151                                       |   | 5.16                            |                 |
| Options reserved                    | 1,156,419                  | -   |   | -                               |                 |
| Granted                             | (969,913)                  | 969,913   |   | 4.42                            |                 |
| Exercised                           | -                          | (76,745)  |   | 4.19                            | 46,977          |
| Forfeited                           | 31,614                     | (41,614)  |   | 4.82                            |                 |
| Balance at March 31, 2016           | 6,432,063                  | 7,625,705                                       |   | \$ 5.08                         |                 |
| Options vested and exercisable      |                            | 5,246,088                                       | 3.70  | \$ 5.02                         | \$ 939,846      |
| Options vested and expected to vest |                            | 7,574,414                                       | 5.14  | \$ 5.08                         | \$ 1,150,077    |

The options outstanding and by exercise price at March 31, 2016 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 - 3.40 | 895,204   | \$ 3.17                         | 5.06  | 586,394                       | \$ 3.05                         |
| \$ 3.43 - 4.00 | 1,118,969                                       | \$ 3.81                         | 3.10  | 1,118,969                     | \$ 3.81                         |
| \$ 4.17 - 4.81 | 935,478   | \$ 4.41                         | 5.75  | 670,261                       | \$ 4.33                         |
| \$ 4.90 - 4.98 | 793,963   | \$ 4.95                         | 7.92  | 298,150                       | \$ 4.91                         |
| \$ 5.13 - 5.34 | 625,513   | \$ 5.23                         | 8.49  | 62,626                        | \$ 5.22                         |
| \$ 5.50        | 783,433   | \$ 5.50                         | 0.63  | 783,433                       | \$ 5.50                         |
| \$ 5.59 - 6.00 | 899,930   | \$ 5.77                         | 5.24  | 568,526                       | \$ 5.80                         |

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|                |           |              |           |         |
|----------------|-----------|--------------|-----------|---------|
| \$ 6.28 - 6.63 | 808,219   | \$ 6.48 6.08 | 645,440   | \$ 6.47 |
| \$ 6.82 - 7.00 | 651,376   | \$ 6.90 5.76 | 398,669   | \$ 6.92 |
| \$ 9.20        | 113,620   | \$ 9.20 4.83 | 113,620   | \$ 9.20 |
|                | 7,625,705 | \$ 5.08 5.17 | 5,246,088 | \$ 5.02 |

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## Stock-based compensation

The Company recognized \$1,850,000, \$2,077,000 and \$2,228,000 of stock-based compensation expense for the years ended March 31, 2016, 2015 and 2014, respectively, as follows:

|                                     | Year Ended March 31, |          |          |
|-------------------------------------|----------------------|----------|----------|
|                                     | 2016                 | 2015     | 2014     |
|                                     | (In thousands)       |          |          |
| Cost of revenues                    | \$ 320               | \$ 401   | \$ 386   |
| Research and development            | 858                  | 941      | 970      |
| Selling, general and administrative | 672                  | 735      | 872      |
| Total                               | \$ 1,850             | \$ 2,077 | \$ 2,228 |

Stock-based compensation expense in the years ended March 31, 2016, 2015 and 2014 included \$136,000, \$153,000 and \$152,000, respectively, related to the Company's Employee Stock Purchase Plan.

No tax benefit was recognized in either fiscal 2016 or fiscal 2015 due to a full valuation allowance. There were no windfall tax benefits realized from exercised stock options recognized in fiscal 2016 or fiscal 2015. The reversal of previously recognized windfall tax benefits realized from exercised stock options was \$33,000 in fiscal 2014. Compensation cost capitalized within inventory at March 31, 2016 was not material. As of March 31, 2016, the Company's total unrecognized compensation cost was \$2.9 million, which will be recognized over the weighted average period of 2.13 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, |             |             |
|-------------------------------|----------------------|-------------|-------------|
|                               | 2016                 | 2015        | 2014        |
|                               | (In thousands)       |             |             |
| Stock Option Plans:           |                      |             |             |
| Risk-free interest rate       | 1.41- 1.57%          | 1.47- 1.7 % | 0.91- 1.61% |
| Expected life (in years)      | 5.00                 | 5.00        | 5.00        |
| Volatility                    | 36.3- 38.0%          | 40.4- 44.8% | 45.5- 48.4% |
| Dividend yield                | - %                  | - %         | - %         |
| Employee Stock Purchase Plan: |                      |             |             |
| Risk-free interest rate       | 0.09 0.15%           | 0.05%       | 0.07- 0.09% |
| Expected life (in years)      | 0.50                 | 0.50        | 0.50        |
| Volatility                    | 26.3- 27.9%          | 30.8- 38.0% | 30.4- 32.8% |
| Dividend yield                | - %                  | - %         | - %         |

The weighted average fair value of options granted during the years ended March 31, 2016, 2015 and 2014 was \$1.52, \$2.08 and \$2.73, respectively.

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## NOTE 10—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, |           |           |
|-------------------|----------------------|-----------|-----------|
|                   | 2016                 | 2015      | 2014      |
|                   | (In thousands)       |           |           |
| United States     | \$ 20,951            | \$ 18,099 | \$ 18,021 |
| China             | 12,123               | 15,695    | 13,294    |
| Malaysia          | 32                   | 2,720     | 9,827     |
| Singapore         | 7,345                | 6,552     | 5,979     |
| Rest of the world | 12,285               | 10,432    | 11,458    |
|                   | \$ 52,736            | \$ 53,498 | \$ 58,579 |

All sales are denominated in United States dollars.

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

|               | March 31,      |          |
|---------------|----------------|----------|
|               | 2016           | 2015     |
|               | (In thousands) |          |
| United States | \$ 6,085       | \$ 6,630 |
| Taiwan        | 2,521          | 2,078    |
| Israel        | 47             | -        |
|               | \$ 8,653       | \$ 8,708 |

## NOTE 11—ACQUISITION

On November 23, 2015, the Company acquired all of the outstanding capital stock of privately held MikaMonu Group Ltd. (“MikaMonu”), a development-stage, Israel-based company that specializes in in-place associative computing for markets including big data, computer vision and cyber security. MikaMonu, located in Tel Aviv, held 12 United States patents and a number of pending patent applications.



The acquisition was undertaken by the Company in order to gain access to the MikaMonu patents and the potential markets, and new customer base in those markets, that can be served by new products that the Company plans to develop using the MikaMonu patents.

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

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The results of operations of MikaMonu and the estimated fair value of the assets acquired were included in the Company's consolidated financial statements beginning November 23, 2015.

### Consideration

Under the terms of the acquisition agreement, the Company paid the former MikaMonu shareholders initial cash consideration of approximately \$4.4 million at the closing on November 23, 2015. The Company will make cash payments of up to \$484,000 to the three former MikaMonu shareholders in May 2017 upon the release of cash held in escrow for potential indemnification claims. This amount is included in other assets on the Consolidated Balance Sheet at March 31, 2016.

The Company is also required to pay the former MikaMonu shareholders future contingent consideration consisting of retention payments and "earnout" payments, as described below.

The Company will make cash retention payments of up to an additional \$2.5 million to the three former MikaMonu shareholders in installments over a four-year period, conditioned on the continued employment of Dr. Avidan Akerib, MikaMonu's co-founder and chief technologist. The retention amount of \$2.5 million has been deposited in escrow and is included in other assets on the Consolidated Balance Sheet at March 31, 2016.

The Company will also make "earnout" payments to the former MikaMonu shareholders in cash or shares of the Company's common stock, at the Company's discretion, during a period of up to ten years following the closing if certain product development milestones and revenue targets for products based on the MikaMonu technology are achieved. Earnout amounts of \$750,000 will be payable if certain product development milestones are achieved by December 31, 2017. Additional earnout amounts of \$2,750,000 and \$4,000,000 will be payable if certain revenue milestones are achieved by January 1, 2021 and January 1, 2022, respectively; and additional payments, up to a maximum of \$30 million, equal to 5% of net revenues from the sale of qualifying products in excess of certain thresholds, will be made quarterly through December 31, 2025.

The portion of the retention payment contingently payable to Dr. Akerib (approximately \$1.2 million) will be recorded as compensation expense over the period that his services are provided to the Company. The portion of the retention payment contingently payable to the other former MikaMonu shareholders (approximately \$1.3 million) plus the maximum amount of the potential earnout payments totals approximately \$38.8 million. The Company determined that the fair value of this contingent consideration liability was \$5.8 million at the acquisition date.

The fair value of the contingent consideration liability was determined as of the acquisition date using unobservable inputs. These inputs include the estimated amount and timing of future cash flows, the probability of success (achievement of the various contingent events) and a risk-adjusted discount rate of approximately 14.8% used to adjust the probability-weighted cash flows to their present value. Subsequent to the acquisition date, at each reporting period, the contingent consideration liability will be re-measured to fair value with changes recorded in the Consolidated Statements of Operations. Changes in any of the inputs may result in material adjustments to the recorded fair value. The amount included in other accrued expenses on the Consolidated Balance Sheet at March 31, 2016 was \$5.9 million.

### Acquisition-related costs

Acquisition-related costs of approximately \$32,000 and \$426,000 are included in selling, general and administrative expenses in the Consolidated Statements of Operations for the three months and twelve months ended March 31, 2016, respectively.



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## Purchase price allocation

The allocation of the purchase price to acquired identifiable intangible assets and goodwill was based on their estimated fair values at the date of acquisition. The fair value allocated to patents was \$3.5 million and the fair value allocated to goodwill was \$8.0 million. Goodwill represents the excess of the cost of an acquisition over the sum of the amounts assigned to identifiable intangible assets acquired less liabilities assumed. The goodwill resulting from the acquisition is not deductible for tax purposes.

The fair value allocated to tangible and identifiable intangible assets and goodwill of MikaMonu acquired on November 23, 2015 was computed as follows (in thousands):

|                                   |           |
|-----------------------------------|-----------|
| Cash and cash equivalents         | \$ 1      |
| Other receivables                 | 54        |
| Property and equipment, net       | 10        |
| Intangible assets                 | 3,500     |
| Goodwill                          | 8,030     |
| Total assets acquired             | 11,595    |
| Accrued expenses                  | (10)      |
| Net deferred tax liability        | (821)     |
| Total liabilities assumed         | (831)     |
| Fair value of net assets acquired | \$ 10,764 |

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

## Identifiable intangible assets

The following table sets forth the components of the identifiable intangible assets acquired in the MikaMonu acquisition, which are being amortized over their estimated useful lives on a straight-line basis:

|   | Fair Value<br>(in thousands) | Useful Life<br>(in years) |
|---|------------------------------|---------------------------|
| Patents                                       | \$ 3,500                     | 15                        |
| Total acquired identifiable intangible assets | \$ 3,500                     |                           |

The fair value of patents was determined using relief from royalty approach, which discounted expected future cash flows to present value. The cash flows were discounted at a rate of approximately 14.0%.

Prior to the closing of the acquisition, there were no material relationships between the Company and MikaMonu.



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The following table summarizes total net revenues and net loss of the combined entity had the acquisition of MikaMonu occurred on April 1, 2014 (in thousands, except loss per share data):

|   | Year Ended March 31, |            |
|---|----------------------|------------|
|   | 2016                 | 2015       |
| Pro forma net revenues                          | \$ 52,736            | \$ 54,134  |
| Pro forma net loss                              | \$ (2,575)           | \$ (5,810) |
| Pro forma net loss per share, basic and diluted | \$ (0.11)            | \$ (0.23)  |

The combined results in the table above have been prepared for comparative purposes only and include acquisition related adjustments for, among other items, the amortization of identifiable intangible assets. Since the acquisition date, the results of MikaMonu have been included in the Company's consolidated financial statements. The combined results do not purport to be indicative of the results of operations which would have resulted had the acquisition been effected at the beginning of the applicable periods noted above, or the future results of operations of the combined entity.

## NOTE 12—EMPLOYEE BENEFIT PLANS

The Company provides a defined contribution retirement plan (the "Retirement Plan"), which qualifies under Section 401(k) of the Internal Revenue Code of 1986. 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.

The Company provides a defined contribution retirement plan (the "Pension Plan") that covers essentially all of its employees located in Israel. Eligible employees may make contributions to the Pension Plan up to 5% of eligible compensation, and the Company contributes up to 15.83% of eligible compensation. All contributions are fully vested.

Pursuant to Israeli labor laws, the Company's Israeli subsidiary is required to pay severance pay to dismissed employees and employees leaving their employment in certain circumstances. Severance pay is computed based on length of service and generally according to the latest monthly salary and one month's salary for each year worked.

## NOTE 13 —QUARTERLY FINANCIAL DATA (Unaudited)

|  | Three Months Ended |               |              |           |
|--|--------------------|---------------|--------------|-----------|
|  | June 30,           | September 30, | December 31, | March 31, |
|  | 2015               | 2015          | 2015         | 2016      |
| (In thousands, except per share amounts)   |                    |               |              |           |
| Consolidated Statement of Operations Data: |                    |               |              |           |
| Net revenues                               | \$ 14,025          | \$ 13,577     | \$ 12,921    | \$ 12,213 |

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|                                   |           |           |           |          |
|-----------------------------------|-----------|-----------|-----------|----------|
| Gross profit                      | \$ 7,295  | \$ 6,917  | \$ 6,386  | \$ 6,139 |
| Net loss                          | \$ (917)  | \$ (347)  | \$ (819)  | \$ (87)  |
| Net loss per common share—Basic   | \$ (0.04) | \$ (0.02) | \$ (0.04) | \$ -     |
| Net loss per common share—Diluted | \$ (0.04) | \$ (0.02) | \$ (0.04) | \$ -     |

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|  | Three Months Ended |                          |                         |                      |
|--|--------------------|--------------------------|-------------------------|----------------------|
|  | June 30,<br>2014   | September<br>30,<br>2014 | December<br>31,<br>2014 | March<br>31,<br>2015 |
| (In thousands, except per share amounts)   |                    |                          |                         |                      |
| Consolidated Statement of Operations Data: |                    |                          |                         |                      |
| Net revenues                               | \$ 12,945          | \$ 13,263                | \$ 14,227               | \$ 13,063            |
| Gross profit                               | \$ 5,939           | \$ 6,061                 | \$ 6,650                | \$ 6,473             |
| Net income (loss)                          | \$ (1,446)         | \$ (950)                 | \$ 148                  | \$ (2,730)           |
| Net income (loss) per common share—Basic   | \$ (0.05)          | \$ (0.04)                | \$ 0.01                 | \$ (0.12)            |
| Net income (loss) per common share—Diluted | \$ (0.05)          | \$ (0.04)                | \$ 0.01                 | \$ (0.12)            |

## 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, 2016, 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.

## Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all 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

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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, 2016. 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 (2013). 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, 2016.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 53 of this Annual Report on Form 10-K.

Item 9B. Other Information

Not applicable.

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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 2016 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 "Proposal No. 1 - 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 "Proposal No. 2 - Ratification of Appointment of Independent Registered Public Accounting Firm" to be included in the Proxy Statement.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements

|  | Page |
|--|------|
| <u>Report of Independent Registered Public Accounting Firm</u>   | 53   |
| <u>Consolidated Balance Sheets As of March 31, 2016 and 2015</u>   | 54   |
| <u>Consolidated Statements of Operations For the Three Years Ended March 31, 2016, 2015 and 2014</u>           | 55   |
| <u>Consolidated Statements of Comprehensive Loss For the Three Years Ended March 31, 2016, 2015 and 2014</u>   | 56   |
| <u>Consolidated Statements of Stockholders' Equity For the Three Years Ended March 31, 2016, 2015 and 2014</u> | 57   |
| <u>Consolidated Statements of Cash Flows For the Three Years Ended March 31, 2016, 2015 and 2014</u>           | 58   |
| <u>Notes to Consolidated Financial Statements</u>  | 59   |

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<br>Numbe | 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 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)
- 10.12 (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)
- 10.13 (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)
- 10.14 (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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|         |   |
|---------|---|
| 10.15   | (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)   |
| 10.16   | Factory Lease Agreement for No. 1, 6th Floor, 30 Tai-Yuan Street, Chu-Pei City, Taiwan dated August 22, 2014 (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on August 26, 2014)                        |
| 10.17   | (1) GSI Technology, Inc. 2016 Variable Compensation Plan (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on August 3, 2015)   |
| 10.18   | Stock Purchase Agreement dated November 23, 2015 among GSI Technology, Inc., GSI Technology Holdings, Inc. and MikaMonu Group Ltd. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on February 4, 2016) |
| 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, and 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

June 10, 2016 GSI TECHNOLOGY, INC.

By: /s/ DOUGLAS M. SCHIRLE  
Douglas M. Schirle

Chief Financial Officer

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## POWER OF ATTORNEY

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

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

| Name   | Title  | Date          |
|--|--|---------------|
| /s/ LEE-LEAN SHU<br>Lee-Lean Shu             | President, Chief Executive Officer and Chairman<br>(Principal Executive Officer) | June 10, 2016 |
| /s/ DOUGLAS M. SCHIRLE<br>Douglas M. Schirle | Chief Financial Officer<br>(Principal Financial and Accounting Officer)          | June 10, 2016 |
| /s/ ROBERT YAU<br>Robert Yau                 | Vice President, Engineering, Secretary and Director                              | June 10, 2016 |
| /s/ JACK A. BRADLEY<br>Jack A. Bradley       | Director   | June 10, 2016 |
| /s/ E. THOMAS HART<br>E. Thomas Hart         | Director   | June 10, 2016 |
| /s/ HAYDN HSIEH<br>Haydn Hsieh               | Director   | June 10, 2016 |
| /s/ RUEY L. LU<br>Ruey L. Lu                 | Director   | June 10, 2016 |
| /s/ ARTHUR O. WHIPPLE<br>Arthur O. Whipple   | Director   | June 10, 2016 |