COMPUTER PROGRAMS & SYSTEMS INC
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015.

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

For the transition period from to .
Commission file number: 000-49796

COMPUTER PROGRAMS AND SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	74-3032373
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
6600 Wall Street, Mobile, Alabama	36695
(Address of Principal Executive Offices)	(Zip Code)

(251) 639-8100
(Registrant’s Telephone Number, Including Area Code)
N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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 Exchange Act.

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

As of May 7, 2015, there were 11,315,573 shares of the issuer’s common stock outstanding.

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COMPUTER PROGRAMS AND SYSTEMS, INC.
Quarterly Report on Form 10-Q
(For the three months ended March 31, 2015)
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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements.
COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$29,967,280	$23,791,748
Investments	10,804,476	10,703,126
Accounts receivable, net of allowance for doubtful accounts of $1,134,000 and $1,253,000, respectively	21,480,122	23,101,575
Financing receivables, current portion, net	15,755,513	18,111,633
Inventories	1,574,120	1,431,560
Deferred tax assets	2,298,495	2,318,988
Prepaid income taxes	—	1,120,487
Prepaid expenses and other	1,354,780	936,915
Total current assets	83,234,786	81,516,032
Property and equipment, net	16,449,991	17,038,619
Financing receivables, net of current portion	914,903	770,169
Deferred tax assets	257,563	—
Total assets	$100,857,243	$99,324,820
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,832,307	$3,990,368
Deferred revenue	4,992,502	5,890,431
Accrued vacation	4,127,360	3,930,778
Income taxes payable	1,920,215	—
Other accrued liabilities	5,349,593	4,349,207
Total current liabilities	20,221,977	18,160,784
Deferred tax liabilities	—	383,050
Stockholders' equity:		
Common stock, $0.001 par value; 30,000,000 shares authorized; 11,315,573 and 11,208,879 shares issued and outstanding	11,316	11,209
Additional paid-in capital	40,484,687	38,983,350
Accumulated other comprehensive income (loss)	67,558	(19,337)
Retained earnings	40,071,705	41,805,764
Total stockholders' equity	80,635,266	80,780,986
Total liabilities and stockholders' equity	$100,857,243	$99,324,820

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Sales revenues:		
System sales	$12,584,948	$20,453,427
Support and maintenance	18,531,712	18,245,121
Business management, consulting and managed IT services	15,122,683	13,395,830
Total sales revenues	46,239,343	52,094,378
Costs of sales:		
System sales	9,809,683	11,193,416
Support and maintenance	7,159,711	7,373,953
Business management, consulting and managed IT services	9,963,978	9,091,710
Total costs of sales	26,933,372	27,659,079
Gross profit	19,305,971	24,435,299
Operating expenses:		
Sales and marketing	3,033,358	3,964,167
General and administrative	8,438,984	8,484,121
Total operating expenses	11,472,342	12,448,288
Operating income	7,833,629	11,987,011
Other income (expense):		
Other income (expense)	83,366	(40,910)
Total other income (expense)	83,366	(40,910)
Income before taxes	7,916,995	11,946,101
Provision for income taxes	2,409,087	4,231,043
Net income	$5,507,908	$7,715,058
Net income per common share—basic	$0.49	$0.69
Net income per common share—diluted	$0.49	$0.69
Weighted average shares outstanding used in per common share computations:		
Basic	11,052,044	11,005,468
Diluted	11,052,044	11,005,468
Dividends declared per common share	$0.64	$0.57

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net income	$5,507,908	$7,715,058
Other comprehensive income, net of tax		
Unrealized gain on investments available for sale, net of tax	86,895	46,347
Total other comprehensive income, net of tax	86,895	46,347
Comprehensive income	$5,594,803	$7,761,405

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2014	11,208,879	$11,209	$38,983,350	$ (19,337)	$41,805,764	$80,780,986
Net income	—	—	—	—	5,507,908	5,507,908
Unrealized gain on investments available for sale, net of tax	—	—	—	86,895	—	86,895
Issuance of restricted stock	106,694	107	(107)	—	—	—
Stock-based compensation	—	—	1,436,637	—	—	1,436,637
Dividends	—	—	—	—	(7,241,967)	(7,241,967)
Income tax benefit from restricted stock dividends	—	—	65,384	—	—	65,384
Deficient tax benefit from restricted stock	—	—	(577)	—	—	(577)
Balance at March 31, 2015	11,315,573	$11,316	$40,484,687	$ 67,558	$40,071,705	$80,635,266

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

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COMPUTER PROGRAMS AND SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2015	2014
Operating Activities		
Net income	$5,507,908	$7,715,058
Adjustments to net income:		
Provision for bad debt	235,794	431,613
Deferred taxes	(673,378)	(1,062,627)
Stock-based compensation	1,436,637	706,601
Deficient tax benefit from restricted stock	577	—
Income tax benefit from restricted stock dividends	(65,384)	(32,299)
Depreciation	911,314	929,701
Changes in operating assets and liabilities:		
Accounts receivable	1,421,597	(4,873,384)
Financing receivables	2,175,448	1,410,175
Inventories	(142,560)	112,484
Prepaid expenses and other	(417,865)	(33,674)
Accounts payable	(158,061)	(342,931)
Deferred revenue	(897,929)	986,029
Other liabilities	1,196,968	1,917,564
Income taxes payable/prepaid income taxes	3,105,509	5,293,209
Net cash provided by operating activities	13,636,575	13,157,519
Investing Activities		
Purchases of property and equipment	(322,686)	(79,281)
Sale of investments	38,803	72,971
Net cash used in investing activities	(283,883)	(6,310)
Financing Activities		
Dividends paid	(7,241,967)	(6,363,452)
Deficient tax benefit from restricted stock	(577)	—
Income tax benefit from restricted stock dividends	65,384	32,299
Net cash used in financing activities	(7,177,160)	(6,331,153)
Increase in cash and cash equivalents	6,175,532	6,820,056
Cash and cash equivalents at beginning of period	23,791,748	11,729,185
Cash and cash equivalents at end of period	$29,967,280	$18,549,241
Supplemental disclosure of cash flow information		
Cash paid for interest	$—	$—
Cash paid for income taxes, net of refund	$—	$—

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

COMPUTER PROGRAMS AND SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2014 was derived from the audited consolidated balance sheet at that date. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of Computer Programs and Systems, Inc. ("CPSI" or the "Company") for the year ended December 31, 2014 and the notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

Principles of Consolidation

The condensed consolidated financial statements of CPSI include the accounts of TruBridge, LLC ("TruBridge"), a wholly-owned subsidiary of CPSI. All significant intercompany balances and transactions have been eliminated.

In April 2015, the Company announced the formation of Evident, LLC ("Evident"), a wholly-owned subsidiary of CPSI. Evident will provide electronic health record solutions previously sold under the CPSI name as well as an expanded range of offerings targeted specifically at rural and community healthcare organizations.

2. REVENUE RECOGNITION

The Company recognizes revenue in accordance with accounting principles generally accepted in the United States of America, principally those required by the Software topic and Revenue Recognition subtopic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification") and those prescribed by the SEC.

The Company's revenue is generated from three sources:

- System Sales - the sale of information systems, which includes perpetual software licenses, conversion, installation and training services, hardware and peripherals;
- Support and Maintenance - the provision of system support services, which includes software application support, hardware maintenance, continuing education, "Software as a Service" (or "SaaS") services, and forms and supplies; and
- Business Management, Consulting and Managed IT Services - the provision of business management services, which includes electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services, as well as Internet service provider ("ISP") services and consulting and managed IT services (collectively, "other professional IT services").

System Sales, Software Application Support and Hardware Maintenance

The Company enters into contractual obligations to sell perpetual software licenses, conversion, installation and training services, hardware and software application support and hardware maintenance services. On average, the Company is able to complete a system installation in three to four weeks. The methods employed by the Company to recognize revenue, which are discussed by element below, achieve results materially consistent with the provisions of Accounting Standards Update ("ASU") 2009-13, Multiple-Deliverable Revenue Arrangements, due to the relatively short period during which there are multiple undelivered elements, the relatively small amount of non-software related elements in the system sale arrangements, and the limited number of contracts in-process at the end of each reporting period. The Company recognizes revenue on the elements noted above as follows:

- Perpetual software licenses and conversion, installation and training services – The selling price of perpetual software licenses and conversion, installation and training services is based on management’s best estimate of selling price. In determining management’s best estimate of selling price, we consider the following: (1) competitor pricing, (2) supply and demand of installation staff, (3) overall economic conditions, and (4) our

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pricing practices as they relate to discounts. With the exception of certain arrangements with extended payment terms that were entered into in 2012 and that are not comparable to our historical or current arrangements (see Note 9), the method of recognizing revenue for the perpetual license of the associated modules included in the arrangement, and the related conversion, installation and training services over the term the services are performed, is on a module by module basis as the related perpetual licenses are delivered and the respective conversion, installation and training for each specific module is completed, as this is representative of the pattern of provision of these services.

- Hardware – We recognize revenue for hardware upon shipment. The selling price of hardware is based on management's best estimate of selling price, which consists of cost plus a targeted margin.
- Software application support and hardware maintenance – We have established vendor-specific objective evidence ("VSOE") of the fair value of our software application support and hardware maintenance services by reference to the price our customers are required to pay for the services when sold separately via renewals. Support and maintenance revenue is recognized on a straight-line basis over the term of the maintenance contract, which is generally three to five years.

SaaS, ISP and Other Professional IT Services

The Company accounts for SaaS arrangements in accordance with the requirements of the Hosting Arrangement section under the Software topic and Revenue Recognition subtopic of the Codification. The Codification states that the software elements of SaaS services should not be accounted for as a hosting arrangement "if the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software." Each SaaS contract entered into by the Company includes a system purchase and buyout clause, and this clause specifies the total amount of the system buyout. In addition, a clause is included in the contract which states that should the system be bought out by the customer, the customer would be required to enter into a general support agreement (for post-contract support services) for the remainder of the original SaaS term. Accordingly, the Company has concluded that SaaS customers do not have the right to take possession of the system without significant penalty (i.e., the purchase price of the system), resulting in the determination that these contracts are service contracts for which revenue is recognized when the services are performed.

The Company will occasionally provide ISP and other professional IT services. Depending on the nature of the services provided, these services may be considered software elements or non-software elements. The selling price of services considered to be software elements is based on VSOE of the fair value of the services by reference to the price our customers are required to pay for the services when sold separately. The selling price of services considered to be non-software elements is based on third-party evidence of selling price of similar services. Revenue from these elements is recognized as the services are performed.

Business Management Services

Business management services consist of electronic billing, statement processing, payroll processing, accounts receivable management, contract management and insurance services. While business management service arrangements are contracts separate from the system sale and support and maintenance contracts, these contracts are often executed within a short time frame of each other. The amount of the total arrangement consideration allocated to these services is based on VSOE of fair value by reference to the rate at which our customers renew as well as the rate at which the services are sold to customers when the business management services agreement is not executed within a short time frame of the system sale and support and maintenance contracts. If VSOE of fair value does not exist for these services, we allocate arrangement consideration based on third-party evidence ("TPE") of selling price or, if neither VSOE nor TPE is available, estimated selling price. Because the pricing is transaction based (per unit pricing), customers are billed and revenue recognized as services are performed based on transaction levels.

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3. PROPERTY AND EQUIPMENT

Property and equipment were comprised of the following at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Land	$2,848,276	$2,848,276
Buildings and improvements	9,432,234	9,422,696
Maintenance equipment	1,230,714	1,230,714
Computer equipment	4,759,150	4,668,006
Leasehold improvements	4,753,386	4,680,233
Office furniture and fixtures	4,210,750	4,061,899
Automobiles	334,398	334,398
	27,568,908	27,246,222
Less: accumulated depreciation	(11,118,917)	(10,207,603)
Property and equipment, net	$16,449,991	$17,038,619

4. OTHER ACCRUED LIABILITIES

Other accrued liabilities were comprised of the following at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Salaries and benefits	$3,721,761	$2,782,862
Commissions	436,176	504,952
Self-insurance reserves	751,900	668,800
Other	439,756	392,593
	$5,349,593	$4,349,207

5. INVESTMENTS

The Company accounts for investments in accordance with FASB Codification topic, Investments – Debt and Equity Securities. Accordingly, investments are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. The Company's management determines the appropriate classification of investments in fixed income securities at the time of acquisition and re-evaluates the classification at each balance sheet date. An average cost method is used for purposes of determining the cost of investments sold.

Investments were comprised of the following at March 31, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$86,747	$—	$—	$86,747
Obligations of U.S. Treasury, U.S. government corporations and agencies	1,806,626	11,608	(228)	1,818,006
Mortgaged-backed securities	63,620	1,899	—	65,519
Certificates of deposit	2,000,000	8,985	—	2,008,985
Corporate debt securities	6,760,842	65,141	(764)	6,825,219
	$10,717,835	$87,633	$(992)	$10,804,476

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Shown below are the amortized cost and fair value of available-for-sale securities with fixed maturities at March 31, 2015, by contract maturity date. Actual maturities may differ from contractual maturities because issuers of certain debt securities retain early call or prepayment rights.

	Amortized Cost	Fair Value
Due in 2015	$1,937,537	$1,956,884
Due in 2016	1,721,810	1,732,400
Due in 2017	706,394	708,114
Due in 2018	2,828,414	2,857,155
Due thereafter	3,523,680	3,549,923
	$10,717,835	$10,804,476

Investments were comprised of the following at December 31, 2014:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments (money market funds and accrued income)	$94,595	$—	$—	$94,595
Obligations of U.S. Treasury, U.S. government corporations and agencies	2,017,250	3,885	(349)	2,020,786
Mortgaged-backed securities	66,982	2,550	—	69,532
Certificates of deposit	2,000,000	—	(24,755)	1,975,245
Corporate debt securities	6,555,485	8,826	(21,343)	6,542,968
	$10,734,312	$15,261	$(46,447)	$10,703,126

The following tables show the Company’s investments’ gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, at March 31, 2015 and December 31, 2014, respectively:

	At March 31, 2015					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$494,574	$(228)	$—	$—	$494,574	$(228)
Corporate debt securities	600,655	(764)	—	—	600,655	(764)
	$1,095,229	$(992)	$—	$—	$1,095,229	$(992)

	At December 31, 2014					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Treasury, U.S. government corporations and agencies	$904,083	$(349)	$—	$—	$904,083	$(349)
Certificates of deposit	$1,975,245	$(24,755)	$—	$—	$1,975,245	$(24,755)
Corporate debt securities	3,975,432	(21,220)	149,838	(123)	4,125,270	(21,343)
	$6,854,760	$(46,324)	$149,838	$(123)	$7,004,598	$(46,447)

Our investment portfolio, including those securities in unrealized loss positions at March 31, 2015, is comprised almost entirely of investment-grade corporate and government debt securities and certificates of deposits with large financial institutions. The Company does not intend to sell the investments that are in an unrealized loss position, and it is not likely that the Company will be required to sell any investments before recovery of their amortized cost basis. As a result, the

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Company has determined that the unrealized losses are deemed to be temporary impairments as of March 31, 2015. The Company believes that the unrealized losses generally are caused by liquidity discounts and increases in risk premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in the credit quality of the issuer or underlying assets.

6. NET INCOME PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its common stock. Basic EPS is calculated by dividing the net income attributable to stockholders of the Company by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to stockholders of the Company and the weighted average number of shares of common stock outstanding during the period for the effects of all dilutive potential common shares, including awards under stock-based compensation arrangements.

The Company's unvested restricted stock awards (see Note 8) are considered participating securities under FASB Codification topic, Earnings Per Share, because they entitle holders to non-forfeitable rights to dividends until the awards vest or are forfeited. When a company has a security that qualifies as a "participating security," the Codification requires the use of the two-class method when computing basic EPS. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In determining the amount of net income to allocate to common stockholders, income is allocated to both common stock and participating securities based on their respective weighted average shares outstanding for the period, with net income attributable to common stockholders ultimately equaling net income less net income attributable to participating securities. Diluted EPS for the Company's common stock is computed using the more dilutive of the two-class method or the treasury stock method.

The following is a calculation of the basic and diluted EPS for the Company's common stock, including a reconciliation between net income and net income attributable to common stockholders:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Net income	$5,507,908	$7,715,058
Less: Net income attributable to participating securities	(133,702)	(109,352)
Net income attributable to common stockholders	$5,374,206	$7,605,706
Weighted average shares outstanding used in basic per common share computations	11,052,044	11,005,468
Add: Dilutive potential common shares	—	—
Weighted average shares outstanding used in diluted per common share computations	11,052,044	11,005,468
Basic EPS	$0.49	$0.69
Diluted EPS	$0.49	$0.69

During 2015, performance share awards were granted to certain executive officers and key employees of the Company which will result in the issuance of time-vesting restricted stock if the predefined performance criteria are met. The awards provide for an aggregate target of 52,364 shares, none of which have been included in the calculation of diluted EPS for the three months ended March 31, 2015 because the related threshold award performance level has not been achieved as of March 31, 2015. See Note 8.

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7. INCOME TAXES

The Company accounts for income taxes in accordance with FASB Codification topic, Income Taxes. Deferred income taxes arise from the temporary differences in the recognition of income and expenses for tax purposes. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Deferred tax assets and liabilities were comprised of the following at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Deferred tax assets:		
Accounts receivable and financing receivables	$784,394	$879,094
Accrued vacation	1,235,431	1,158,764
Stock-based compensation	1,585,105	1,133,986
Deferred revenue	65,777	105,554
Accrued liabilities and other	212,892	175,575
Other comprehensive income	—	11,851
Total deferred tax assets	$3,883,599	$3,464,824
Deferred tax liabilities:		
Other comprehensive income	$41,407	$—
Depreciation	1,286,134	1,528,886
Total deferred tax liabilities	$1,327,541	$1,528,886

Significant components of the Company’s income tax provision in the Condensed Consolidated Statements of Income for the three months ended March 31 were as follows:

	2015	2014
Current provision:		
Federal	$2,564,444	$4,479,631
State	518,021	814,039
Deferred provision:		
Federal	(604,314)	(953,640)
State	(69,064)	(108,987)
Total income tax provision	$2,409,087	$4,231,043

The difference between income taxes at the U.S. federal statutory income tax rate of 35% and those reported in the Condensed Consolidated Statements of Income for the three months ended March 31 was as follows:

	2015	2014
Income taxes at U.S. Federal statutory rate	$2,770,948	$4,181,135
State income taxes, net of U.S. Federal tax effect	282,628	420,138
Domestic production activities deduction	(228,215)	(400,132)
Uncertain tax positions	(402,036)	—
Other	(14,238)	29,902
Total income tax provision	$2,409,087	$4,231,043

Our effective tax rate decreased to 30.4% for the three months ended March 31, 2015 from 35.4% for the three months ended March 31, 2014, primarily due to beneficial adjustments recorded during the three months ended March 31, 2015 related to our reserves for uncertain tax positions. The federal returns for tax years 2004 through 2009 are currently under examination by the Internal Revenue Service ("IRS"), primarily in relation to research credits claimed on those returns. Interactions with the IRS during the first quarter of 2015 regarding the examination of our federal returns for certain of the tax years under examination resulted in a more refined estimate regarding the expected outcome of the examinations for such tax years, prompting a change in our measurement of reserves for uncertain tax positions as the Company now estimates a more favorable outcome from such examinations.

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The Company had unrecognized tax benefits of $1,053,835 related to uncertain tax positions as of March 31, 2015 under the provisions of FASB Codification topic, Income Taxes, which is recorded as a component of income taxes payable within the Condensed Consolidated Balance Sheets. As of March 31, 2015, $160,599 of accrued interest related to such positions had been recorded. As stated previously, the federal returns for the tax years 2004 through 2009 are currently under examination by the IRS, primarily in relation to research credits claimed on those returns, as amended, by the Company. The federal returns for tax years 2010 through 2013 remain open to examination, and returns for tax years 2006 through 2013 remain open to examination by certain other taxing jurisdictions to which the Company is subject.

8. STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as an expense over the employee’s or non-employee director’s requisite service period.

The following table shows total stock-based compensation expense for the three months ended March 31, 2015 and 2014, included in the Condensed Consolidated Statements of Income:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Costs of sales	$596,856	$265,249
Operating expenses	839,781	441,352
Pre-tax stock-based compensation expense	1,436,637	706,601
Less: income tax effect	560,288	275,574
Net stock-based compensation expense	$876,349	$431,027

The Company's stock-based compensation awards are in the form of restricted stock and performance share awards made pursuant to the Company's 2005 Restricted Stock Plan, 2012 Restricted Stock Plan for Non-Employee Directors, and 2014 Incentive Plan (the "Plans"). As of March 31, 2015, there was $12,342,266 of unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plans.

Restricted Stock

The Company grants restricted stock to executive officers, certain key employees and non-employee directors under the Plans with the fair value of the awards representing the fair value of the common stock on the date the restricted stock is granted. Shares of restricted stock generally vest in equal annual installments over the applicable vesting period, which ranges from one to five years. The Company records expenses for these grants on a straight-line basis over the applicable vesting periods. Shares of restricted stock may also be issued pursuant to the settlement of performance share awards, for which the Company records expenses in the manner described in the "Performance Share Awards" section below.

A summary of restricted stock activity (including shares of restricted stock issued pursuant to the settlement of performance share awards) under the Plans for the three months ended March 31, 2015 and 2014 is as follows:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Nonvested restricted stock outstanding at beginning of period	160,216	$ 59.14	153,674	$ 58.15
Granted	60,850	51.85	4,808	58.22
Performance share awards settled through the issuance of restricted stock	45,844	60.28	—	—
Vested	(4,808)	58.22	—	—
Nonvested restricted stock outstanding at end of period	262,102	$ 57.66	158,482	$ 58.15

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Performance Share Awards

In 2014, the Company began to grant performance share awards to executive officers and certain key employees under the 2014 Incentive Plan. The number of shares of common stock earned and issuable under the award is determined at the end of each performance period, based on the Company's achievement of performance goals predetermined by the Compensation Committee of the Board of Directors at the time of grant. If certain levels of the performance objective are met, the award results in the issuance of shares of restricted stock corresponding to such level, which shares are then subject to time-based vesting pursuant to which the shares of restricted stock vest in equal annual installments over the applicable vesting period, which is three years for restricted stock issued pursuant to performance share awards.

In the event that the Company's financial performance meets the predetermined target for the performance objective, the Company will issue each award recipient the number of restricted shares equal to the target award specified in the individual's underlying performance share award agreement. In the event the financial results of the Company exceed the predetermined target, additional shares up to the maximum award may be issued. In the event the financial results of the Company fall below the predetermined target, a reduced number of shares may be issued. If the financial results of the Company fall below the threshold performance level, no shares will be issued.

The recipients of performance share awards do not receive dividends or possess voting rights during the performance period and, accordingly, the fair value of the performance share awards is the quoted market value of the Company's stock on the grant date less the present value of the expected dividends not received during the relevant period. Expense is recognized using the accelerated attribution (graded vesting) method over the period beginning on the date the Company determines that it is probable that the performance criteria will be achieved and ending on the last day of the vesting period for the restricted stock issued in satisfaction of such awards. In the event the Company determines it is no longer probable that the minimum performance level will be achieved, all previously recognized compensation expense related to the applicable awards is reversed in the period such a determination is made.

A summary of performance share award activity under the 2014 Incentive Plan for the three months ended March 31, 2015 and 2014 is as follows, based on the target award amounts set forth in the performance share award agreements:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Shares	Weighted-Average Grant-Date Fair Value	Shares	Weighted-Average Grant-Date Fair Value
Performance share awards outstanding at beginning of period	46,541	$ 60.28	—	$ —
Granted	52,364	49.29	—	—
Forfeited or unearned	(697)	60.28	—	—
Performance share awards settled through the issuance of restricted stock	(45,844)	60.28	—	—
Performance share awards outstanding at end of period	52,364	$ 49.29	—	$ —

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9. FINANCING RECEIVABLES

Short-Term Payment Plans

The Company has sold information and patient care systems to certain healthcare providers under Second Generation Meaningful Use Installment Plans (see below) with maximum contractual terms of three years and expected terms of less than one year and other arrangements requiring fixed monthly payments over terms ranging from three to 12 months ("Fixed Periodic Payment Plans"). These receivables, collectively referred to as short-term payment plans and included in the current portion of financing receivables, were comprised of the following at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Second Generation Meaningful Use Installment Plans, gross	$13,922,239	$15,554,900
Fixed Periodic Payment Plans, gross	988,098	2,239,817
Short-term payment plans, gross	14,910,337	17,794,717

		(11,997)	
Prepaid expenses and other assets	(631)	789	(806)
Accounts payable	(1,322)	(578)	(512)
Accrued expenses and other liabilities	628	413	162
Deferred revenue	(2,207)	1,239	600
Net cash provided by (used in) operating activities	16,197	18,826	(4,741)
Cash flows from investing activities:			
Decrease in restricted cash		1,000	
Purchase of investments	(49,713)	(75,822)	(9,500)
Sales and maturities of short-term investments	34,154	40,227	9,500
Purchases of property and equipment	(674)	(3,339)	(2,033)
Net cash used in investing activities	(16,233)	(37,934)	(2,033)
Cash flows from financing activities:			
Initial public offering costs paid during the year		(739)	(580)
Proceeds from initial public offering, net of underwriting discount		31,361	
Repurchase of common stock	(4,090)		
Windfall tax benefits from stock options exercised	280	13	
Proceeds from issuance of common stock under employee stock plans	544	97	124

Net cash provided by (used in) financing activities		(3,266)	30,732	(456)
Net increase (decrease) in cash and cash equivalents		(3,302)	11,624	(7,230)
Cash and cash equivalents at beginning of the year		15,899	4,275	11,505
Cash and cash equivalents at end of the year		$ 12,597	$ 15,899	$ 4,275
Non-cash financing activities:				
	Purchases of property and equipment through accounts payable and accruals	$ 259	$ 285	$ 1,342
	Conversion of preferred stock to common stock	$	$ 9,007	$
Supplemental cash flow information:				
	Cash paid for income taxes	$ 2,732	$ 2,777	$ 4,096
	Cash paid for interest	$	$	$ 8

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

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

Accounting principles

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

Basis of consolidation

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

Use of estimates

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

Risk and uncertainties

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Revenue recognition

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

Cash and cash equivalents

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

Short-term and long-term investments

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

Restricted cash

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Concentration of credit risk

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

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

Inventories

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

Property and equipment, net

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Impairment of long-lived assets

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

Research and development

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

Income taxes

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

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

Shipping and handling costs

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

Advertising expense

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

Foreign currency transactions

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

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Segments

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

Accounting for stock-based compensation

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Comprehensive income

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

Recent accounting pronouncements

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

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

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

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

NOTE 2 NET INCOME PER COMMON SHARE

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 NET INCOME PER COMMON SHARE (Continued)

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BALANCE SHEET DETAIL

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

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

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

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

	$ 5,126	$ 5,840

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 BALANCE SHEET DETAIL (Continued)

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

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

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

NOTE 4 RELATED PARTY TRANSACTIONS

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INCOME TAXES

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INCOME TAXES (Continued)

Deferred tax assets consist of the following:

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

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

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 INCOME TAXES (Continued)

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

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

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

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

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

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

NOTE 6 FINANCIAL INSTRUMENTS

Fair value measurements

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (Continued)

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

Short-term and long-term investments

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

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

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

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

Total long-term investments	$15,677	$ 40	$ (112)	$15,605

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 FINANCIAL INSTRUMENTS (Continued)

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

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

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

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

NOTE 7 COMMITMENTS AND CONTINGENCIES

Operating leases

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)

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

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

Royalty obligation

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

Indemnification obligations

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

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

Product warranties

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 COMMITMENTS AND CONTINGENCIES (Continued)

Legal Proceedings

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

NOTE 8 REDEEMABLE CONVERTIBLE PREFERRED STOCK

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

NOTE 9 COMMON STOCK

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

NOTE 10 STOCK BASED COMPENSATION

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

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

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

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

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

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

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

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

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

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

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

The following table summarizes stock option activities:

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

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

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

Stock-based compensation

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

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 STOCK BASED COMPENSATION (Continued)

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

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

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

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION

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

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

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

All sales are denominated in United States dollars.

GSI TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

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

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

NOTE 12 EMPLOYEE BENEFIT PLAN

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

NOTE 13 QUARTERLY FINANCIAL DATA (Unaudited)

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

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

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

None.

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

Management's Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

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

None.

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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 2009 annual meeting of stockholders (the "Proxy Statement") pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report, and certain information therein is incorporated in this report by reference.

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

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

Item 11. ***Executive Compensation***

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

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

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

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

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

Item 14. ***Principal Accounting Fees and Services***

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

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

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

1. *Financial Statements*

2. *Financial Statement Schedules*

Schedule II Valuation and Qualifying Accounts

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

3. *Exhibits:*

The following exhibits are filed herewith:

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

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

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

* Compensatory plan or management contract

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SIGNATURES

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

Date: June 10, 2009

GSI TECHNOLOGY, INC.

By: /s/ DOUGLAS M. SCHIRLE

Douglas M. Schirle
Chief Financial Officer

POWER OF ATTORNEY

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

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

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

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SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

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