GSI TECHNOLOGY INC
Form 10-Q
February 06, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

or

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

For the transition period from to

Commission File Number 000-33387

GSI Technology, Inc.
(Exact name of registrant as specified in its charter)

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

1213 Elko Drive

Sunnyvale, California 94089
(Address of principal executive offices, zip code)

(408) 331-8800
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant’s common stock outstanding as of January 31, 2013: 27,016,725

Table of Contents

GSI TECHNOLOGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2012

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2012	March 31, 2012
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$32,596	$31,634
Short-term investments	33,053	27,044
Accounts receivable, net	8,662	10,579
Inventories	15,188	16,725
Prepaid expenses and other current assets	6,812	8,108
Deferred income taxes	1,034	1,097
Total current assets	97,345	95,187
Property and equipment, net	11,224	12,806
Long-term investments	31,627	33,497
Other assets	1,857	1,627
Total assets	$142,053	$143,117
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$3,721	$5,490
Accrued expenses and other liabilities	3,387	4,343
Deferred revenue	2,469	2,670
Total current liabilities	9,577	12,503
Income taxes payable	2,111	1,835
Total liabilities	11,688	14,338
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock: $0.001 par value authorized: 5,000,000 shares; issued and outstanding: none	—	—
Common stock: $0.001 par value authorized: 150,000,000 shares; issued and outstanding: 26,991,600 and 27,617,942 shares, respectively	27	28
Additional paid-in capital	53,139	54,402
Accumulated other comprehensive income	42	88
Retained earnings	77,157	74,261
Total stockholders' equity	130,365	128,779
Total liabilities and stockholders' equity	$142,053	$143,117

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

Table of Contents

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net revenues	$17,514	$19,975	$50,307	$63,806
Cost of revenues	10,170	11,208	28,994	35,804
Gross profit	7,344	8,767	21,313	28,002
Operating expenses:				
Research and development	2,858	2,627	8,568	7,964
Selling, general and administrative	3,891	5,453	9,764	13,299
Total operating expenses	6,749	8,080	18,332	21,263
Income from operations	595	687	2,981	6,739
Interest income, net	117	139	348	409
Other income (expense), net	(8)	18	28	(7)
Income before income taxes	704	844	3,357	7,141
Provision (benefit) for income taxes	(140)	(147)	461	1,214
Net income	$844	$991	$2,896	$5,927
Net income per share:				
Basic	$0.03	$0.03	$0.11	$0.21
Diluted	$0.03	$0.03	$0.10	$0.20
Weighted average shares used in per share calculations:				
Basic	26,963	28,504	27,152	28,713
Diluted	27,987	29,189	27,957	29,861

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

Table of Contents

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands)			
Net income	$844	$991	$2,896	$5,927
Net unrealized loss on available-for-sale investments, net of tax	(38)	(51)	(46)	(20)
Comprehensive net income	$806	$940	$2,850	$5,907

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

Table of Contents

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31,	
	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net income	$2,896	$5,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for sales returns and doubtful accounts	—	31
Provision for excess and obsolete inventories	544	640
Depreciation and amortization	1,847	2,005
Stock-based compensation	1,688	1,557
Deferred income taxes	63	257
Windfall tax benefits from stock options exercised	(20)	(74)
Amortization of bond premium on investments	792	948
Changes in assets and liabilities:		
Accounts receivable	1,917	6,698
Inventory	993	216
Prepaid expenses and other assets	941	(2,584)
Accounts payable	(1,730)	(2,495)
Accrued expenses and other liabilities	(516)	(470)
Deferred revenue	(201)	(1,403)
Net cash provided by operating activities	9,214	11,253
Cash flows from investing activities:		
Purchase of investments	(27,660)	(30,317)
Proceeds from sales and maturities of investments	22,673	26,121
Purchases of property and equipment	(313)	(736)
Net cash used by investing activities	(5,300)	(4,932)
Cash flows from financing activities:		
Repurchase of common stock	(3,626)	(4,471)
Windfall tax benefits from stock options exercised	20	74
Proceeds from issuance of common stock under employee stock plans	654	1,497
Net cash used by financing activities	(2,952)	(2,900)
Net increase in cash and cash equivalents	962	3,421
Cash and cash equivalents at beginning of the period	31,634	25,952
Cash and cash equivalents at end of the period	$32,596	$29,373
Non-cash financing activities:		
Purchases of property and equipment through accounts payable and accruals	$91	$259
Supplemental cash flow information:		
Cash paid for income taxes	$359	$3,163

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

Table of Contents

GSI TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of GSI Technology, Inc. and its subsidiaries ("GSI" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. These interim financial statements contain all adjustments (which consist of only normal, recurring adjustments) that are, in the opinion of management, necessary to state fairly the interim financial information included therein. The Company believes that the disclosures are adequate to make the information not misleading. However, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

The consolidated results of operations for the three months and nine months ended December 31, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year.

Significant accounting policies

The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Litigation and settlement costs

From time to time, the Company is involved in legal actions. The Company currently is a party to pending legal proceedings which it is defending aggressively. See Note 6 for additional information regarding this pending litigation. There are many uncertainties associated with any litigation, and the Company may not prevail. The litigation, regardless of its eventual outcome, will be costly and time consuming and, should the outcome be adverse to the Company, could result in the Company being required to pay significant monetary damages. If that occurs, our business, financial condition and results of operations could be materially and adversely affected. If information becomes available that causes us to determine that a loss in any of our pending litigation, or the settlement of such litigation, is probable, and we can reasonably estimate the loss associated with such events, we will record the loss in accordance with GAAP. However, the actual liability in any such litigation may be materially different from our estimates, which could require us to record additional costs.

Recent accounting pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The entity is also required to present on the face of its financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The option under previous guidance that permitted the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. In December 2011, the FASB further amended its guidance to defer changes related to the presentation of reclassification adjustments indefinitely as a result of concerns raised by stakeholders that the new presentation requirements would be difficult for preparers and add unnecessary complexity to financial statements. The amendment (other than the portion regarding the presentation of reclassification adjustments which, as noted above, has been deferred indefinitely) was effective during the

Table of Contents

quarter ended June 30, 2012. The amendment impacted the presentation of the consolidated financial statements but did not impact the Company's financial position, results of operations or cash flows.

NOTE 2—NET INCOME PER COMMON SHARE

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net income	$844	$991	$2,896	$5,927
Denominators:				
Weighted average shares—Basic	26,963	28,504	27,152	28,713
Dilutive effect of employee stock options	1,024	685	805	1,148
Dilutive effect of employee stock purchase plan options	—	—	—	—
Weighted average shares—Dilutive	27,987	29,189	27,957	29,861
Net income per share—Basic	$0.03	$0.03	$0.11	$0.21
Net income per share—Diluted	$0.03	$0.03	$0.10	$0.20

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands)			
Stock options	3,243	2,640	3,130	1,140

Table of Contents

NOTE 3—BALANCE SHEET DETAIL

	December 31, 2012	March 31, 2012
	(In thousands)	
Inventories:		
Work-in-progress	$5,072	$6,163
Finished goods	9,443	9,832
Inventory at distributors	673	730
	$15,188	$16,725

	December 31, 2012	March 31, 2012
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	$8,762	$10,679
Less: Allowances for sales returns, doubtful accounts and other	(100)	(100)
	$8,662	$10,579

	December 31, 2012	March 31, 2012
	(In thousands)	
Prepaid expenses and other current assets:		
Prepaid tooling and masks	$1,296	$2,310
Prepaid income taxes	3,958	4,287
Other receivables	629	608
Other prepaid expenses	929	903
	$6,812	$8,108

	December 31, 2012	March 31, 2012
	(In thousands)	
Property and equipment, net:		
Computer and other equipment	$16,312	$16,235
Software	4,690	4,497
Land	3,900	3,900
Building and building improvements	2,256	2,256
Furniture and fixtures	110	110
Leasehold improvements	767	762
Construction in progress	51	201
	28,086	27,961
Less: Accumulated depreciation and amortization	(16,862)	(15,155)
	$11,224	$12,806

Depreciation and amortization expense was $531,000 and $541,000, respectively, for the three months ended December 31, 2012 and 2011 and $1,712,000 and $1,870,000, respectively, for the nine months ended December 31, 2012 and 2011.

7

Table of Contents

	December 31, 2012 (In thousands)	March 31, 2012
Other assets:		
Non-current deferred income taxes	$985	$619
Intangibles, net	789	925
Deposits	83	83
	$1,857	$1,627

The following table summarizes the components of intangible assets and related accumulated amortization balances at December 31, 2012 (in thousands):

	Life in Years	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:				
Product designs	7	$590	$281	$309
Patents	9	720	267	453
Software	5	80	53	27
		$1,390	$601	$789

Amortization of intangible assets included in cost of revenues was $45,000 and $45,000, respectively, for the three months ended December 31, 2012 and 2011and $135,000 and $135,000, respectively, for the nine months ended December 31, 2012 and 2011.

	December 31, 2012 (In thousands)	March 31, 2012
Accrued expenses and other liabilities:		
Accrued compensation	$2,011	$1,636
Accrued professional fees	275	1,233
Accrued commissions	341	332
Accrued royalties	17	24
Accrued income taxes	—	203
Accrued equipment and software costs	71	131
Other accrued expenses	672	784
	$3,387	$4,343

NOTE 4—INCOME TAXES

The current portion of the Company's unrecognized tax benefits at December 31, 2012 and March 31, 2012 was $0 and $599,000, respectively. The long-term portion at December 31, 2012 and March 31, 2012 was $2,111,000 and $1,835,000, respectively, of which the timing of the resolution is uncertain. As of December 31, 2012, $623,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. The unrecognized tax benefit balance as of December 31, 2012 of $2,589,000 would affect the Company's effective tax rate if recognized. It is possible, however, that some months or years may elapse before an uncertain position for which the Company has established a reserve is resolved.

Management believes that it is reasonably possible that within the next twelve months the Company could have a reduction in uncertain tax benefits of up to $582,000, including interest and penalties, related to positions taken with respect to credits and loss carryforwards on previously filed tax returns.

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

The Company is subject to taxation in the United States and various state and foreign jurisdictions. Fiscal years 2009 through 2012 remain open to examination by federal and most state tax authorities. In the three months ended June 30, 2012,

8

Table of Contents

the Company settled an examination by the California Franchise Tax Board. The tax provision for the nine month period ended December 31, 2012 includes a discrete benefit of $168,000 associated with the net result of the settlement and the associated tax reserves, including interest to date.

The Company's estimated annual effective income tax rate was approximately 26.1% and 19.5% as of December 31, 2012 and 2011, respectively. The differences between the effective income tax rate and the applicable statutory U.S. income tax rate in each period were primarily due to the effects of the expiration of federal R&D credits, foreign tax rate differentials and tax free interest income, offset by stock-based compensation expense. On January 2, 2013, federal R & D credits were extended retroactively from January 1, 2012, resulting in a benefit of $480,000 that will be recorded in the results of operations for the three months ending March 31, 2013.

NOTE 5—FINANCIAL INSTRUMENTS

Fair value measurements

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

Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. As of December 31, 2012, the Level 1 category included money market funds of $6.2 million, which were included in cash and cash equivalents in the Condensed Consolidated Balance Sheet.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers. As of December 31, 2012, the Level 2 category included short-term investments of $33.1 million and long-term investments of $31.6 million, which were comprised of certificates of deposit, corporate debt securities and government and agency securities.

Level 3: Valuations based on inputs that are unobservable and involve management judgment and the reporting entity's own assumptions about market participants and pricing. As of December 31, 2012, the Company had no Level 3 financial assets measured at fair value in the Condensed Consolidated Balance Sheet.

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

		Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	December 31, 2012	(Level 1)	(Level 2)	(Level 3)
Assets:				

Money market funds	$6,246	$6,246	$—	$—
Marketable securities	64,680	—	64,680	—
Total	$70,926	$6,246	$64,680	$—

Table of Contents

		Fair Value Measurement at Reporting Date Using		
	March 31, 2012	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$11,275	$11,275	$—	$—
Marketable securities	60,541	—	60,541	—
Total	$71,816	$11,275	$60,541	$—

Short-term and long-term investments

All of the Company’s short-term and long-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of accumulated other comprehensive income in the Condensed Consolidated Balance Sheets. The Company had money market funds of $6.2 million and $11.3 million at December 31, 2012 and March 31, 2012, respectively, included in cash and cash equivalents in the Condensed Consolidated Balance Sheet. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when declines are determined to be other-than-temporary.

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

	December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$13,941	$9	$—	$13,950
Corporate notes	8,088	23	—	8,111
Certificates of deposit	10,975	17	—	10,992
Total short-term investments	$33,004	$49	$—	$33,053
Long-term investments:				
State and municipal obligations	$11,124	$8	$—	$11,132
Corporate notes	8,448	4	—	8,452
Certificates of deposit	5,998	19	—	6,017
Other	6,050	—	(24)	6,026
Total long-term investments	$31,620	$31	$(24)	$31,627

Table of Contents

	March 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$14,261	$18	$—	$14,279
Corporate notes	3,037	4	—	3,041
Certificates of deposit	9,705	19	—	9,724
Total short-term investments	$27,003	$41	$—	$27,044
Long-term investments:				
State and municipal obligations	$15,992	$26	$—	$16,018
Corporate notes	6,201	11	—	6,212
Certificates of deposit	8,473	52	—	8,525
Other	2,758	—	(16)	2,742
Total long-term investments	$33,424	$89	$(16)	$33,497

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

As of December 31, 2012 and March 31, 2012, the deferred tax liability related to unrecognized gains and losses on short-term and long-term investments was $14,000 and $26,000, respectively.

As of December 31, 2012, contractual maturities of the Company’s available-for-sale non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$33,004	$33,053
Maturing in one to three years	31,620	31,627
	$64,624	$64,680

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

NOTE 6—COMMITMENTS AND CONTINGENCIES

Indemnification obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the Company, under which the Company 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, the Company's indemnification obligations are 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 that may be required under these or similar agreements due to the conditional nature of the Company’s obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on its business, financial condition, cash flows or results of operations.

Table of Contents

Product warranties

The Company warrants its products to be free of defects generally for a period of three years. The Company estimates its warranty costs based on historical warranty claim experience and includes such costs in cost of revenues. Warranty costs were not significant for the three months or nine months ended December 31, 2012 or 2011.

Legal proceedings

In March 2011, Cypress Semiconductor Corporation, a semiconductor manufacturer, filed a lawsuit against the Company in the United States District Court for the District of Minnesota alleging that the Company's products, including its SigmaDDR and SigmaQuad families of Very Fast SRAMs, infringe five patents held by Cypress. The complaint seeks unspecified damages for past infringement and a permanent injunction against future infringement. On June 10, 2011, Cypress filed a complaint against the Company with the United States International Trade Commission (the “ITC”). The ITC complaint, as subsequently amended, alleges infringement by the Company of three of the five patents involved in the District Court case and one additional patent and also alleges infringement by three of our distributors and 11 of our customers who allegedly incorporate our SRAMs in their products. The ITC complaint seeks a limited exclusion order excluding the allegedly infringing SRAMs, and products containing them, from entry into the United States and permanent orders directing the Company and the other respondents to cease and desist from selling or distributing such products in the United States. On July 21, 2011, the ITC formally instituted an investigation in response to Cypress's complaint. Two of the distributor-respondents and ten of the customer-respondents were subsequently dismissed from the investigation. The evidentiary hearing took place during the week of March 12, 2012. On October 25, 2012, Chief Administrative Law Judge Charles E. Bullock issued his initial determination in which he held that the importation of the Company's SRAM products, and products containing them, and the sale within the United States of such products, have not violated applicable federal law with respect to any of the four patents that Cypress had alleged were infringed. Because he found that the accused products do not infringe any of the asserted patent claims, Judge Bullock did not consider or rule on the additional arguments of GSI and the other respondents that the Cypress patents are invalid and unenforceable. On November 7, 2012, Cypress filed a petition for review of the initial determination by the full Commission, and GSI and the other respondents filed a contingent petition for review seeking a ruling on the invalidity and unenforceability arguments as well as additional bases for finding non-infringement. In a notice issued on December 21, 2012, the ITC announced that it had determined to review Judge Bullock's initial determination, but also remanded the investigation to Judge Bullock to consider and rule on the invalidity and enforceability issues in advance of the ITC review. The target date for concluding the ITC investigation is June 25, 2013. The District Court case has been stayed pending the conclusion of the ITC proceeding. The Company believes that Judge Bullock's initial determination was correct and intends to continue to defend itself vigorously in both proceedings. However, the litigation process is inherently uncertain, and the Company may not prevail. Patent litigation is particularly complex and can extend for a protracted period of time, which can substantially increase the cost of such litigation. The Company has not recorded any loss contingency during fiscal 2011 or fiscal 2012 in connection with these legal proceedings as the Company cannot predict their outcome and cannot estimate the likelihood or potential dollar amount of any adverse results. However, an unfavorable outcome in these proceedings could have a material adverse impact on the Company's financial position, results of operations or cash flows for the period in which the outcome occurs and in future periods.

NOTE 7—STOCK-BASED COMPENSATION

As of December 31, 2012, 5,009,581 shares of common stock were available for grant under the Company’s 2007 Equity Incentive Plan.

The following table summarizes the Company’s stock option activities for the nine months ended December 31, 2012:

Table of Contents

	Number of Shares Underlying Outstanding Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Options outstanding as of March 31, 2012:	5,626,148		$4.64	
Granted	768,443		$4.78	
Exercised	(50,123)		$3.42	$81,815
Forfeited	(76,663)		$4.68	
Options outstanding as of December 31, 2012	6,267,805	6.15	$4.67	$10,776,890
Options exercisable as of December 31, 2012	3,775,060	4.71	$4.21	$7,990,611
Options vested and expected to vest	6,206,936	6.12	$4.66	$10,716,433

The weighted average fair value per underlying share of options granted during the three months ended December 31, 2012 and 2011 was $2.43 and $2.24, respectively, and for the nine months ended December 31, 2012 and 2011 was $2.12 and $2.73, respectively.

Options outstanding by exercise price at December 31, 2012 were as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Shares Underlying Vested and Exercisable Options	Weighted Average Exercise Price
$2.10 – 2.49	677,585	$2.23	2.54	677,585	$2.23
$2.83 – 3.43	838,586	$3.34	6.16	597,849	$3.31
$3.50 – 3.94	287,327	$3.68	3.81	287,327	$3.68
$4.00	727,288	$4.00	6.43	537,171	$4.00
$4.17 – 4.43	634,745	$4.23	7.43	260,185	$4.27
$4.50 – 4.92	638,623	$4.82	8.34	148,639	$4.68
$5.50	883,208	$5.50	3.88	883,208	$5.50
$5.59 - 6.28	805,990	$5.91	7.71	200,084	$5.86
$6.54 - 7.00	630,833	$6.76	7.98	141,202	$6.85
$9.20	143,620	$9.20	8.08	41,810	$9.20
	6,267,805	$4.67		3,775,060	

Table of Contents

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Cost of revenues	$68	$79	$245	$237
Research and development	287	275	861	787
Selling, general and administrative	210	178	582	533
Total	$565	$532	$1,688	$1,557

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

The Company recognized related income tax benefits of $51,000 and $54,000, respectively, for the three months ended December 31, 2012 and 2011and $167,000 and $175,000, respectively, for the nine months ended December 31, 2012 and 2011. Windfall tax benefits realized from exercised stock options were $14,000 and $16,000, respectively, for the three months ended December 31, 2012 and 2011, and $20,000 and $74,000, respectively, for the nine months ended December 31, 2012 and 2011. Compensation cost capitalized within inventory at December 31, 2012 was insignificant. As of December 31, 2012, the Company’s total unrecognized compensation cost was $4.0 million, which will be recognized over a weighted average period of 2.05 years. The Company calculated the fair value of stock-based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Stock Option Plans:				
Risk-free interest rate	0.69 %	0.96 %	0.67 - 0.79%	0.96 - 1.89%
Expected life (in years)	5.00	5.00	5.00	5.00
Volatility	50.2 %	52.7 %	50.2 - 52.9%	50.8 - 52.7%
Dividend yield	—	—	—	—
Employee Stock Purchase Plan:				
Risk-free interest rate	0.14 %	0.05 %	0.14 - 0.15%	0.05 - 0.07%
Expected life (in years)	0.50	0.50	0.50	0.50
Volatility	47.3 %	43.9 %	23.4 - 47.3%	43.9 - 52.1%
Dividend yield	—	—	—	—

Table of Contents

NOTE 8—SEGMENT AND GEOGRAPHIC INFORMATION

Based on its operating management and financial reporting structure, the Company has determined that it has one reportable business segment: the design, development and sale of integrated circuits.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands)			
United States	$4,951	$4,307	$14,152	$13,780
China	2,746	4,018	11,054	13,446
Malaysia	5,929	8,079	13,662	22,286
Singapore	1,989	2,010	5,497	8,909
Rest of the world	1,899	1,561	5,942	5,385
	$17,514	$19,975	$50,307	$63,806

All sales are denominated in United States dollars.

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

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

Overview

We are a fabless semiconductor company that designs, develops and markets static random access memories, or SRAMs, that operate at speeds of less than 10 nanoseconds, which we refer to as Very Fast SRAMs, and low latency dynamic random access memories, or LLDRAMs. Our products are sold primarily to manufacturers of networking and telecommunications equipment. We are subject to the highly cyclical nature of the semiconductor industry, which has experienced significant fluctuations, often in connection with fluctuations in demand for the products in which semiconductor devices are used. Beginning in fiscal 2001, the networking and telecommunications markets experienced an extended period of severe contraction, during which our operating results sharply declined. Between fiscal 2004 and fiscal 2006, demand for networking and telecommunications equipment recovered. During the first three quarters of fiscal 2007, demand for such equipment accelerated and, as a result, our operating results improved. In the fourth quarter of fiscal 2007 and the first quarter of fiscal 2008, revenues again declined due, in part, to the implementation of a "lean manufacturing" program by our largest customer, Cisco Systems. Our revenues have been substantially impacted by the fluctuations in sales to Cisco Systems, and we expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis. The worldwide financial crisis and the resulting economic impact on the end markets we serve have adversely impacted our financial results since the second half of fiscal 2009, and we expect that the unsettled global economic environment will continue to affect our operating results in future periods. However, with no debt, substantial liquidity and a history of positive cash flows from operations, we believe we are in a better financial position than many other companies of our size.

Revenues. Our revenues are derived primarily from sales of our Very Fast SRAM products. Sales to networking and telecommunications original equipment manufacturers, or OEMs, accounted for 75% to 80% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for defense applications such as radar and

Table of Contents

guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

As is typical in the semiconductor industry, the selling prices of our products generally decline over the life of the product. Our ability to increase net revenues, therefore, is dependent upon our ability to increase unit sales volumes of existing products and to introduce and sell new products with higher average selling prices in quantities sufficient to compensate for the anticipated declines in selling prices of our more mature products. Although we expect the average selling prices of individual products to decline over time, we believe that, over the next several quarters, our overall average selling prices will increase due to a continuing shift in product mix to a higher percentage of higher price, higher density products. Our ability to increase unit sales volumes is dependent primarily upon increases in customer demand but, particularly in periods of increasing demand, can also be affected by our ability to increase production through the availability of increased wafer fabrication capacity from Taiwan Semiconductor Manufacturing Company, or TSMC, and Powerchip, our wafer suppliers, and our ability to increase the number of good integrated circuit die produced from each wafer through die size reductions and yield enhancement activities.

We may experience fluctuations in quarterly net revenues for a number of reasons. Historically, orders on hand at the beginning of each quarter are insufficient to meet our revenue objectives for that quarter and are generally cancelable up to 30 days prior to scheduled delivery. Accordingly, we depend on obtaining and shipping orders in the same quarter to achieve our revenue objectives. In addition, the timing of product releases, purchase orders and product availability could result in significant product shipments at the end of a quarter. Failure to ship these products by the end of the quarter may adversely affect our operating results. Furthermore, our customers may delay scheduled delivery dates and/or cancel orders within specified timeframes without significant penalty.

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

Cisco Systems, our largest OEM customer, purchases our products primarily through its consignment warehouses, SMART Modular Technologies, Jabil Circuit and Flextronics Technology, and also purchases some products through its contract manufacturers and directly from us. Historically, purchases by Cisco Systems have fluctuated from period to period. Based on information provided to us by Cisco Systems' consignment warehouses and contract manufacturers, purchases by Cisco Systems represented approximately 31%, 41%, 37% and 35% of our net revenues in the nine months ended December 31, 2012 and in fiscal 2012, 2011 and 2010, respectively. Our revenues have been substantially impacted by the fluctuations in sales to Cisco Systems, and we expect that future direct and indirect sales to Cisco Systems will continue to fluctuate significantly on a quarterly basis and that such fluctuations may significantly affect our operating results in future periods. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in fiscal 2012, 2011 or 2010.

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

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

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

Table of Contents

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

Selling, General and Administrative Expenses.   Selling, general and administrative expenses consist primarily of commissions paid to independent sales representatives, salaries, stock-based compensation and related expenses for personnel engaged in sales, marketing, administrative, finance and human resources activities, professional fees, costs associated with the promotion of our products and other corporate expenses. We expect that our sales and marketing expenses will increase in absolute dollars in future periods as we continue to grow and expand our sales force but that, to the extent our revenues increase in future periods, these expenses will generally decline as a percentage of net revenues. We also expect that, in support of our anticipated growth, general and administrative expenses will continue to increase in absolute dollars for the foreseeable future. General and administrative expenses increased significantly in fiscal 2012, primarily as a result of substantial legal expenses related to our pending patent infringement and antitrust litigation with Cypress Semiconductor Corporation. These expenses have varied significantly from quarter to quarter, depending on the relative level of activity in the litigation. They were substantially reduced during the six months ended September 30, 2012 while the issuance of the initial determination in the ITC proceeding was pending, although they increased again in the quarter ended December 21, 2012 as the parties filed and responded to petitions for review of the initial determination, which was issued on October 25, 2012. Legal expenses related to the patent litigation may again become substantial in future quarters, depending on the final outcome of the ITC proceeding, any court appeals of that outcome and whether Cypress chooses to proceed with other patent litigation that has been stayed during the ITC proceeding. Whatever the outcome of the patent litigation with Cypress, we expect to continue to incur additional legal expenses as we pursue our pending antitrust lawsuit against Cypress, and these expenses may be substantial during some quarters over the next one to two years.

Table of Contents

Results of Operations

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	58.1	56.1	57.6	56.1
Gross profit	41.9	43.9	42.4	43.9
Operating expenses:				
Research and development	16.3	13.2	17.0	12.5
Selling, general and administrative	22.2	27.3	19.4	20.8
Total operating expenses	38.5	40.5	36.4	33.3
Income from operations	3.4	3.4	6.0	10.6
Interest and other income (expense), net	0.6	0.8	0.7	0.6
Income before income taxes	4.0	4.2	6.7	11.2
Provision for income taxes	(0.8)	(0.7)	0.9	1.9
Net income	4.8 %	4.9 %	5.8 %	9.3 %

Net Revenues. Net revenues decreased by 12.3% from $20.0 million in the three months ended December 31, 2011 to $17.5 million in the three months ended December 31, 2012 and decreased 21.2% from $63.8 million in the nine months ended December 31, 2011 to $50.3 million in the nine months ended December 31, 2012. The reduction in net revenues in both periods was due primarily to softness in orders from our top three customers, each of which does significant business in Europe, where ongoing economic turmoil has adversely affected capital spending for network equipment manufactured by our customers. Direct and indirect sales to Cisco Systems, our largest customer, decreased by $3.4 million from $9.9 million in the three months ended December 31, 2011 to $6.5 million in the three months ended December 31, 2012 and by $12.0 million from $27.4 million in the nine months ended December 31, 2011 to $15.4 million in the nine months ended December 31, 2012. Additionally, excess inventories accumulated by our customers in fiscal 2011 and in early fiscal 2012 were drawn down in late fiscal 2012 and the first nine months of fiscal 2013, adversely affecting our revenues. We believe that our net revenues in the third and fourth quarters of fiscal 2012 and the first three quarters of fiscal 2013 were also negatively impacted by uncertainty regarding the outcome of our pending patent litigation with Cypress Semiconductor. We believe that the favorable initial determination in the ITC proceeding has reduced this market uncertainty, although it may continue to have some effect on our revenues over the next several quarters while review of the initial determination is pending, and thereafter should the final determination be unfavorable. Shipments of our SigmaQuad product line accounted for 35.2% of total shipments in the nine months ended December 31, 2012 compared to 33.3% of total shipments in the nine months ended December 31, 2011.

Cost of Revenues. Cost of revenues decreased by 9.3% from $11.2 million in the three months ended December 31, 2011 to $10.2 million in the three months ended December 31, 2012 and by 19.0% from $35.8 million in the nine months ended December 31, 2011 to $29.0 million in the nine months ended December 31, 2012. The decreases in both periods were primarily due to the corresponding decreases in net revenues. Cost of revenues included stock-based compensation expense of $68,000 and $79,000, respectively, for the three months ended December 31, 2012 and 2011 and $245,000 and $237,000, respectively, for the nine months ended December 31, 2012 and 2011.

Gross Profit. Gross profit decreased by 16.2% from $8.8 million in the three months ended December 31, 2011 to $7.3 million in the three months ended December 31, 2012 and by 23.9% from $28.0 million in the nine months ended December 31, 2011 to $21.3 million in the nine months ended December 31, 2012. Gross margin decreased from

43.9% in the three months ended December 31, 2011 to 41.9% in the three months ended December 31, 2012 and from 43.9% in the nine months ended December 31, 2011 to 42.4% in the nine months ended December 31, 2012. The decreases in gross profit were primarily related to the decreased net revenues. The changes in gross margin were primarily related to changes in the mix of products and customers and the impact of reduced revenue on our fixed manufacturing costs.

Research and Development Expenses. Research and development expenses increased 8.8% from $2.6 million in the three months ended December 31, 2011 to $2.9 million in the three months ended December 31, 2012. This increase was primarily due to increases of $183,000 in payroll related expenses and $62,000 in patent related legal expenses. Research and

Table of Contents

development expenses included stock-based compensation expense of $287,000 and $275,000, respectively, for the three months ended December 31, 2012 and 2011. Research and development expenses increased 7.6% from $8.0 million in the nine months ended December 31, 2011 to $8.6 million in the nine months ended December 31, 2012. This increase was primarily due to increases of $467,000 in payroll related expenses, $90,000 in patent related legal expenses, $75,000 in stock-based compensation and a lesser increase in facility related expenses. Research and development expenses included stock-based compensation expense of $861,000 and $787,000, respectively, for the nine months ended December 31, 2012 and 2011.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased 28.6% from $5.5 million in the three months ended December 31, 2011 to $3.9 million in the three months ended December 31, 2012. This decrease was primarily due to a decrease of $1.8 million in legal fees related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation. Selling, general and administrative expenses included stock-based compensation expense of $210,000 and $178,000, respectively, for the three months ended December 31, 2012 and 2011. Selling, general and administrative expenses decreased 26.6% from $13.3 million in the nine months ended December 31, 2011 to $9.8 million in the nine months ended December 31, 2012. This decrease was primarily related to a decrease of $3.8 million in legal fees related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation and a decrease in independent sales representative commissions of $174,000 offset by an increase in payroll related expenses of $244,000. Selling, general and administrative expenses included stock-based compensation expense of $582,000 and $533,000, respectively, for the nine months ended December 31, 2012 and 2011.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased 30.6%, from $157,000 in the three months ended December 31, 2011 to $109,000 in the three months ended December 31, 2012. Interest income decreased by $27,000 due to lower interest rates received on our cash and short-term and long-term investments. In addition, we recorded a foreign currency exchange loss of $8,000 for the three months ended December 31, 2012 compared to an exchange gain of $13,000 for the three months ended December 31, 2011. Interest and other income (expense), net decreased 6.5% from $402,000 in the nine months ended December 31, 2011 to $376,000 in the nine months ended December 31, 2012. Interest income decreased by $68,000 due to lower interest rates received on our cash and short-term and long-term investments. Offsetting this decrease was a foreign currency exchange gain of $29,000 for the nine months ended December 31, 2012 compared to an exchange loss of $13,000 for the nine months ended December 31, 2011. The exchange gains and losses in each period were related to our Taiwan branch operations.

Provision for Income Taxes. The benefit for income taxes decreased from $147,000 in the three months ended December 31, 2011 to $140,000 in the three months ended December 31, 2012. The provision for income taxes decreased from $1.2 million in the nine months ended December 31, 2011 to $461,000 in the nine months ended December 31, 2012. These changes were due primarily to the changes in pre-tax income for the respective periods. During the three months ended June 30, 2012, we settled a tax audit for less than the amount previously provided for resulting in a tax benefit of $168,000 that contributed to the decrease in the tax provision for the nine months ended December 31, 2012.

Net Income. Net income decreased 14.8% from $991,000 in the three months ended December 31, 2011 to $844,000 in the three months ended December 31, 2012 and 51.1% from $5.9 million in the nine months ended December 31, 2011 to $2.9 million in the nine months ended December 31, 2012. These decreases were primarily due to the decreases in net revenues, gross profit and the changes in operating expenses discussed above.

Liquidity and Capital Resources

As of December 31, 2012, our principal sources of liquidity were cash, cash equivalents and short-term investments of $65.6 million compared to $58.7 million as of March 31, 2012.

Net cash provided by operating activities was $9.2 million for the nine months ended December 31, 2012 compared to $11.3 million for the nine months ended December 31, 2011. The primary sources of cash in the current nine month period were net income of $2.9 million, a reduction of $1.9 million in accounts receivable, a reduction in inventory of $993,000 and a reduction in prepaid expenses of $941,000, offset by a decrease in accounts payable of $1.7 million. The decrease in accounts payable was primarily due to decreased legal expenses related to the pending patent infringement and antitrust litigation involving Cypress Semiconductor Corporation in the nine months ended December 31, 2012 compared to the nine months ended December 31, 2011.

Net cash used by investing activities was $5.3 million in the nine months ended December 31, 2012 compared to $4.9 million in the nine months ended December 31, 2011. Investment activities in the nine months ended December 31, 2012 consisted primarily of the purchase of state and municipal obligations, corporate notes and certificates of deposit of $27.7

million, partially offset by sales and maturities of investments of $22.7 million. Investment activities in the nine months ended December 31, 2011 primarily consisted of the purchase of state and municipal obligations, corporate notes and certificates of deposit of $30.3 million, partially offset by the sales and maturities of investments of $26.1 million.

Net cash used by financing activities in the nine months ended December 31, 2012 primarily consisted of the repurchase of $3.6 million of our common stock at an average purchase price of $4.47 per share. Net cash provided by financing activities consisted primarily of the net proceeds from the sale of common stock pursuant to our employee stock plans.

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

Table of Contents

Contractual Obligations

The following table describes our contractual obligations as of December 31, 2012:

	Payments due by period				
	Up to 1 year	1-3 years	3-5 years	More than 5 years	Total
Facilities leases	$262,000	$154,000	$—	$—	$416,000
Wafer, test and mask purchase obligations	3,470,000	1,645,000	—	—	5,115,000
	$3,732,000	$1,799,000	$—	$—	$5,531,000

As of December 31, 2012, the current portion of our unrecognized tax benefits was $0, and the long-term portion was $2,111,000. The unrecognized tax benefits balance as of December 31, 2012 of $2,589,000 would affect our effective tax rate if recognized. As of December 31, 2012, $623,000 of unrecognized tax benefits have been recorded as a reduction of net deferred tax assets.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Off-Balance Sheet Arrangements

At December 31, 2012, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, we are not exposed to the type of financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, we have the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, we must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. We are also required to present on the face of its financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The option under previous guidance that permitted the presentation of components of other comprehensive income as part of the statement of changes in stockholders' equity has been eliminated. In December 2011, the FASB further amended its guidance to defer changes related to the presentation of reclassification adjustments indefinitely as a result of concerns raised by stakeholders that the new presentation requirements would be difficult for preparers and add unnecessary complexity to financial statements. The amendment (other than the portion regarding the presentation of reclassification adjustments which, as noted above, has been deferred indefinitely) was effective for the quarter ended June 30, 1012. The amendment impacted the presentation of the financial statements but did not impact our financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

Table of Contents

Interest Rate Sensitivity. We had cash, cash equivalents, short-term investments and long-term investments totaling $97.3 million at December 31, 2012. These amounts were invested primarily in money market funds, state and municipal obligations, corporate notes and certificates of deposit. The cash, cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. We believe a hypothetical 100 basis point increase or decrease in interest rates would not materially affect the fair value of our interest-sensitive financial instruments. Declines in interest rates, however, will reduce future investment income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of December 31, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in this report is made known to them by others on a timely basis, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in order to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized, and reported by us within the time periods specified in the SEC’s rules and instructions for Form 10-Q.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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

On June 10, 2011, Cypress filed a complaint against GSI with the United States International Trade Commission (the “ITC”). The ITC complaint, as subsequently amended, alleges infringement by GSI of three of the five patents involved in the District Court case and one additional patent and also alleges infringement by three of our distributors and 11 of our customers who allegedly incorporate our SRAMs in their products. The ITC complaint seeks a limited exclusion order excluding the allegedly infringing SRAMs, and produ