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

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2009

or

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

For the transition period from to

Commission File Number 000-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

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

2360 Owen Street
Santa Clara, California 95054

(Address of principal executive offices, zip code)

(408) 980-8388

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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GSI TECHNOLOGY, INC.

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

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2009		March 31, 2009	
	(In thousands, except share and per share amounts)			
ASSETS				
Cash and cash equivalents	$	15,185	$	12,597
Short-term investments		25,590		34,740
Accounts receivable, net		9,448		5,622
Inventories		15,795		10,995
Prepaid expenses and other current assets		3,754		2,442
Deferred income taxes		1,022		975
Total current assets		70,794		67,371
Property and equipment, net		12,170		5,126
Long-term investments		21,222		19,428
Other assets		2,044		748
Total assets	$	106,230	$	92,673
LIABILITIES AND STOCKHOLDERS EQUITY				
Accounts payable	$	5,819	$	2,908
Accrued expenses and other liabilities		3,264		1,973
Deferred revenue		3,227		2,736
Total current liabilities		12,310		7,617
Income taxes payable		487		351
Total liabilities		12,797		7,968
Commitments and contingencies (Note 6)				
Stockholders equity:				
Preferred stock: $0.001 par value authorized: 5,000,000 shares; issued and outstanding: none				
Common stock: $0.001 par value authorized: 150,000,000 shares; issued and outstanding: 27,217,233 and 26,719,537 shares, respectively		27		27
Additional paid-in capital		48,369		46,202
Accumulated other comprehensive income		213		230
Retained earnings		44,824		38,246
Total stockholders equity		93,433		84,705
Total liabilities and stockholders equity	$	106,230	$	92,673

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

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

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

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GSI TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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

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

Significant accounting policies

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

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

Comprehensive net income

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

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

Recent accounting pronouncements

In August 2009, the FASB issued authoritative guidance for measuring liabilities at fair value that reaffirmed the previous definition of fair value and reintroduced the concept of entry value into the determination of fair value of liabilities. Entry value is the amount an entity would receive to enter into an identical liability. The implementation of this guidance in the quarter ended December 31, 2009 did not have any impact on the Company s consolidated financial position, results of operations or cash flows.

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In June 2009, the FASB established authoritative guidance relating to accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The implementation of this guidance in the quarter ended September 30, 2009 did not have any impact on the Company s consolidated financial position, results of operations or cash flows.

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

In April 2009, the FASB issued authoritative guidance for business combinations that amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance will require such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. Otherwise, entities would typically account for the acquired contingencies in accordance with authoritative guidance for contingencies. The guidance became effective for the Company s business combinations for which the acquisition date is on or after April 1, 2009. The Company did not acquire any contingencies as part of the business combination that it completed during the nine months ended December 31, 2009, and the effect of this guidance on future periods will depend on the nature and significance of any business combinations the Company may make that are subject to this guidance.

In April 2009, the FASB issued authoritative guidance which amended previous existing guidance for determining whether impairment is other-than-temporary for debt securities. This guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, this guidance expands and increases the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company s financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. This guidance provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The guidance also requires increased disclosures. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company s financial position or results of operations.

In April 2009, the FASB issued authoritative guidance that requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material effect on its results of operations or financial position.

In December 2007, the FASB revised authoritative guidance for business combinations which establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This guidance will apply prospectively for the Company to business combinations for which the acquisition date is on or after April 1, 2009. The Company accounted for the business combination that it completed during the nine months ended December 31, 2009 under this guidance.

In December 2007, the FASB issued authoritative guidance which established accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company adopted this guidance on April 1, 2009, and its adoption did not have a material impact on the Company s financial position or results of operations.

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NOTE 2 NET INCOME PER COMMON SHARE

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

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

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

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

NOTE 3 BALANCE SHEET DETAIL

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

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

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

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

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

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

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

NOTE 4 INCOME TAXES

The current portion of the Company s unrecognized tax benefits at December 31, 2009 and March 31, 2009 was $649,000 and $471,000, respectively. The long-term portion at December 31, 2009 and March 31, 2009 was $487,000 and $351,000, respectively, of which the timing of the resolution is uncertain. As of December 31, 2009, $318,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. The unrecognized tax benefit balance as of December 31, 2009 of $1,317,000 would affect the Company s effective tax rate if recognized. It is possible, however, that some months or years may elapse before an uncertain position for which the Company has established a reserve is resolved.

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

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

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

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

NOTE 5 FINANCIAL INSTRUMENTS

Fair value measurements

Effective April 1, 2008, the first day of the Company s 2009 fiscal year, the Company adopted authoritative guidance issued in December 2007 for fair value measurements for financial assets and liabilities measured on a recurring basis. The guidance applies to all financial assets and financial liabilities that are being measured on a recurring basis, established a framework for measuring fair value and expanded related disclosures. The guidance requires fair value measurement to be classified and disclosed in one of the following three categories:

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Level 1: Valuations based on quoted prices in active markets for identical assets and liabilities. The fair value of available-for-sale securities included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. As of December 31, 2009, the Level 1 category included money market funds of $6.6 million, which were included in cash and cash equivalents in the Condensed Consolidated Balance Sheet.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers. As of December 31, 2009, the Level 2 category included short-term investments of $25.6 million and long term-investments of $21.2 million, which were comprised of certificates of deposit, corporate debt securities and government and agency securities.

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

Effective April 1, 2009, the Company adopted the newly issued authoritative guidance for fair value measurements of all nonfinancial assets and nonfinancial liabilities not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption did not have a material impact on the Company s financial position or results of operations.

Short-term and long-term investments

All of the Company s short-term and long-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of accumulated other comprehensive income in the Condensed Consolidated Balance Sheets. The Company had money market funds of $6.6 million and $4.6 million at December 31, 2009 and March 31, 2009, respectively, included in cash and cash equivalents in the Condensed Consolidated Balance Sheet. The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

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

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

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

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

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

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

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

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

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

NOTE 6 COMMITMENTS AND CONTINGENCIES

Indemnification obligations

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

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

Product warranties

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

Legal proceedings

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

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NOTE 7 STOCK OPTION PLANS

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

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

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

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

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

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

Stock-based compensation

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

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

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

The Company recognized related income tax benefits of $37,000 and $46,000, respectively, for the three months ended December 31, 2009 and 2008 and $120,000 and $119,000, respectively, for the nine months ended December 31, 2009 and 2008. Windfall tax benefits realized from exercised stock options were $77,000 and $4,000, respectively, for the three months ended December 31, 2009 and 2008 and $256,000 and $280,000, respectively, for the nine months ended December 31, 2009 and 2008. Compensation cost capitalized within inventory at December 31, 2009 was insignificant. As of December 31, 2009, the Company s total unrecognized compensation cost was $3.2 million, which will be recognized over the weighted average period of 1.77 years. The Company calculated the fair value of stock-based awards in the periods presented using the Black-Scholes option pricing model and the following weighted average assumptions:

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

NOTE 8 SEGMENT AND GEOGRAPHIC INFORMATION

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

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

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

All sales are denominated in United States dollars.

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NOTE 9 ACQUISITION

On August 28, 2009, the Company acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation and its subsidiaries, including Sony Electronics Inc. (collectively, Sony). As part of the transaction, the Company also entered into an Intellectual Property Agreement with Sony under which it acquired certain patents and license rights to other intellectual property used in connection with the acquired product line.

The acquisition was undertaken by the Company in order to increase its market share in the SRAM memory business, expand its relationships with its major customers and expand its product portfolio. The acquisition resulted in a bargain purchase as Sony had been incurring significant losses on an annual basis, had a minimal product offering, had only one customer and declining annual revenues at the time of the acquisition and was therefore motivated to sell the assets of its SRAM product line.

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

The results of operations and estimated fair value of assets acquired and liabilities assumed were included in the Company s condensed consolidated financial statements beginning August 29, 2009.

Consideration

The total purchase consideration is expected to be approximately $6.9 million in cash, of which approximately $5.2 million was paid at the closing and $1.2 million which was paid in October 2009 following a post-closing adjustment to reflect actual product inventory on hand at the closing. The consideration also includes contingent consideration of $500,000, which represents the fair value of future cash payments expected to be made by the Company based on the sale of certain acquired SRAM products over an eight quarter period commencing with the September 2009 quarter, the quarter in which the Company first derived revenue from shipments of such products. The Company estimated the contingent purchase consideration based on probability weighted expected future cash flows, which is included under accrued expenses and other liabilities in the Condensed Consolidated Balance Sheet at December 31, 2009. These cash flows were discounted at a rate of approximately 20%. There is no material change in the fair value of contingent consideration at December 31, 2009 compared to fair value estimated at September 30, 2009.

Acquisition-related costs

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

Purchase price allocation

The allocation of the purchase price to acquired tangible and identifiable intangible assets was based on their estimated fair values at the date of acquisition.

The fair value allocated to each of the major classes of tangible and identifiable intangible assets of Sony s SRAM memory device product line acquired on August 28, 2009 and the bargain purchase gain recorded under other income (expense), net in the Condensed Consolidated Statements of Operations was computed as follows (in thousands):

Inventory	$	3,702
Tooling and masks		604
Property and equipment		2,800
Intangible assets		1,390
Deferred tax liability resulting from acquisition		