Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2015

or

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

For the transition period from to

Commission File Number 001-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0398779**
(State or other jurisdiction of incorporation or organization)	(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 ☒ No ☐

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

Indicate by check mark 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 ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐

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

The number of shares of the registrant's common stock outstanding as of January 31, 2016: 22,344,102

GSI TECHNOLOGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2015	March 31, 2015
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 30,725	$ 36,776
Short-term investments	19,381	22,201
Accounts receivable, net	8,654	8,257
Inventories	7,443	8,412
Prepaid expenses and other current assets	2,714	2,297
Total current assets	68,917	77,943
Property and equipment, net	8,921	8,708
Long-term investments	15,489	21,740
Goodwill	8,030	—
Other assets	6,838	498
Total assets	$ 108,195	$ 108,889
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,229	$ 2,961
Accrued expenses and other liabilities	4,369	5,937
Deferred revenue	1,942	2,815
Total current liabilities	8,540	11,713
Income taxes payable	101	780
Long-term deferred income taxes	875	—
Other accrued expenses	6,329	—
Total liabilities	15,845	12,493
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: 22,510,419 and 23,128,372 shares, respectively	23	23
Additional paid-in capital	27,529	29,407
Accumulated other comprehensive income (loss)	(59)	26
Retained earnings	64,857	66,940
Total stockholders' equity	92,350	96,396
Total liabilities and stockholders' equity	$ 108,195	$ 108,889

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

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net revenues	$ 12,921	$ 14,227	$ 40,523	$ 40,435
Cost of revenues	6,535	7,577	19,925	21,785
Gross profit	6,386	6,650	20,598	18,650
Operating expenses:				
Research and development	2,782	2,850	8,720	8,869
Selling, general and administrative	5,164	4,454	14,743	12,945
Total operating expenses	7,946	7,304	23,463	21,814
Loss from operations	(1,560)	(654)	(2,865)	(3,164)
Interest income, net	78	76	229	249
Other income (expense), net	11	25	(45)	35
Loss before income taxes	(1,471)	(553)	(2,681)	(2,880)
Benefit for income taxes	(652)	(701)	(598)	(632)
Net income (loss)	$ (819)	$ 148	$ (2,083)	$ (2,248)
Net income (loss) per share:				
Basic	$ (0.04)	$ 0.01	$ (0.09)	$ (0.09)
Diluted	$ (0.04)	$ 0.01	$ (0.09)	$ (0.09)
Weighted average shares used in per share calculations:				
Basic	22,612	23,738	22,743	25,591
Diluted	22,612	24,325	22,743	25,591

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

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands)			
Net income (loss)	$ (819)	$ 148	$ (2,083)	$ (2,248)
Net unrealized loss on available-for-sale investments, net of tax	(68)	(46)	(85)	(81)
Total comprehensive income (loss)	$ (887)	$ 102	$ (2,168)	$ (2,329)

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

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (2,083)	$ (2,248)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Allowance for sales returns, doubtful accounts and other	(3)	(11)
Provision for excess and obsolete inventories	914	912
Depreciation and amortization	1,037	1,294
Stock-based compensation	1,387	1,533
Amortization of premium on investments	177	478
Changes in assets and liabilities, net of impact of acquisition:		
Accounts receivable	(394)	2,727
Inventory	55	(1,786)
Prepaid expenses and other assets	(364)	1,782
Accounts payable	(726)	(1,950)
Accrued expenses and other liabilities	(2,278)	(524)
Deferred revenue	(873)	(262)
Net cash provided by (used in) operating activities	(3,151)	1,945
Cash flows from investing activities:		
Purchase of investments	(12,526)	(10,712)
Sales and maturities of short-term investments	21,335	34,754
Acquisition	(7,343)	—
Purchases of property and equipment	(1,101)	(453)
Net cash provided by investing activities	365	23,589
Cash flows from financing activities:		
Repurchase of common stock	(4,083)	(27,120)
Proceeds from issuance of common stock under employee stock plans	818	919
Net cash used in financing activities	(3,265)	(26,201)
Net decrease in cash and cash equivalents	(6,051)	(667)
Cash and cash equivalents at beginning of the period	36,776	41,520
Cash and cash equivalents at end of the period	$ 30,725	$ 40,853
Supplemental cash flow information:		
Net cash paid (received) for income taxes	$ 78	$ (1,597)

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

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 GAAP 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, 2015.

The consolidated results of operations for the three months and nine months ended December 31, 2015 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, 2015.

Litigation and settlement costs

From time to time, the Company is involved in legal actions. See Note 6 for information regarding litigation that was resolved during the nine months ended December 31, 2015.

Recent accounting pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The update is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of this accounting standard on its consolidated financial statements.

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

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

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

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*." The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. ASU No. 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or, recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company is currently evaluating the impact of this accounting standard on its consolidated financial statements.

NOTE 2—NET INCOME (LOSS) PER COMMON SHARE

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net income (loss)	$ (819)	$ 148	$ (2,083)	$ (2,248)
Denominators:				
Weighted average shares—Basic	22,612	23,738	22,743	25,591
Dilutive effect of employee stock options	—	587	—	—
Weighted average shares—Dilutive	22,612	24,325	22,743	25,591
Net income (loss) per common share—Basic	$ (0.04)	$ 0.01	$ (0.09)	(0.09)
Net income (loss) per common share—Diluted	$ (0.04)	$ 0.01	$ (0.09)	(0.09)

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
	(In thousands)			
Shares underlying options	5,887	4,245	5,282	3,786

NOTE 3—BALANCE SHEET DETAIL

	December 31, 2015	March 31, 2015
	(In thousands)	
Inventories:		
Work-in-progress	$ 1,669	$ 2,422
Finished goods	5,379	5,362
Inventory at distributors	395	628
	$ 7,443	$ 8,412

	December 31, 2015	March 31, 2015
	(In thousands)	
Accounts receivable, net:		
Accounts receivable	$ 8,754	$ 8,360
Less: Allowances for sales returns, doubtful accounts and other	(100)	(103)
	$ 8,654	$ 8,257

	December 31, 2015	March 31, 2015
	(In thousands)	
Prepaid expenses and other current assets:		
Prepaid tooling and masks	$ 1,767	$ 1,208
Prepaid income taxes	—	139
Other receivables	306	350
Other prepaid expenses and other current assets	641	600
	$ 2,714	$ 2,297

	December 31, 2015	March 31, 2015
	(In thousands)	
Property and equipment, net:		
Computer and other equipment	$ 18,351	$ 17,264
Software	4,793	4,792
Land	3,900	3,900
Building and building improvements	2,256	2,256
Furniture and fixtures	114	110
Leasehold improvements	820	791
	30,234	29,113
Less: Accumulated depreciation and amortization	(21,313)	(20,405)
	$ 8,921	$ 8,708

Depreciation and amortization expense was $322,000 and $322,000, respectively, for the three months ended December 31, 2015 and 2014 and $892,000 and $1,164,000, respectively, for the nine months ended December 31, 2015 and 2014.

	December 31, 2015	March 31, 2015
	(In thousands)	
Other assets:		
Non-current deferred income taxes	$ 31	$ 27
Intangibles, net	3,748	393
Deposits	3,059	78
	$ 6,838	$ 498

Deposits at December 31, 2015 include approximately $3.0 million placed in escrow in connection with the Company's acquisition of MikaMonu on November 23, 2015. See Note 9— Acquisition for more information.

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

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets:			
Product designs	$ 590	$ 534	$ 56
Patents	4,220	528	3,692
Software	80	80	—
Total	$ 4,890	$ 1,142	$ 3,748

Amortization of intangible assets included in cost of revenues was $63,000 and $41,000, respectively, for the three months ended December 31, 2015 and 2014 and $145,000 and $130,000, respectively, for the nine months ended December 31, 2015 and 2014.

As of December 31, 2015, the estimated future amortization expense of intangible assets in the table above is as follows (in thousands):

Twelve Month Period Ending December 31,	
2016	$ 370
2017	313
2018	287
2019	233
2020	233
Thereafter	2,312
Total	$ 3,748

	December 31, 2015	March 31, 2015
	(In thousands)	
Accrued expenses and other liabilities:		
Accrued compensation	$ 2,683	$ 3,386
Accrued professional fees	480	1,380
Accrued commissions	267	268
Other accrued expenses	939	903
	$ 4,369	$ 5,937

	December 31, 2015	March 31, 2015
	(In thousands)	
Other accrued expenses:		
Contingent consideration	$ 5,800	$ —
Escrow indemnity accrual	484	—
Other long-term accrued liabilities	45	—
	$ 6,329	$ —

NOTE 4—INCOME TAXES

The current portion of the Company's unrecognized tax benefits was $0 at both December 31, 2015 and March 31, 2015. The long-term portion at December 31, 2015 and March 31, 2015 was $101,000 and $780,000, respectively, of which the timing of the resolution is uncertain. As of December 31, 2015, $1,731,000 of unrecognized tax benefits had been recorded as a reduction to net deferred tax assets. As of December 31, 2015 and March 31, 2015, the Company's net deferred tax assets of $7.2 million and $6.0 million, respectively, were subject to a full valuation allowance.

The Company recorded a net deferred tax liability of $821,000 associated with the estimated fair value adjustments of the intangible assets acquired in its acquisition of MikaMonu in the quarter ended December 31, 2015.

During the three months ended December 31, 2015, the Company recorded a tax benefit of $698,000 due to the reduction of uncertain tax benefits as a result of the lapse of applicable statutes of limitations.

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 $438,000, 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 2013 through 2015 remain open to examination by federal tax authorities, and fiscal years 2012 through 2015 remain open to examination by California tax authorities.

The Company's estimated annual effective income tax rate was approximately 9.6% and 5.1% as of December 31, 2015 and 2014, respectively. The annual effective tax rate as of December 31, 2015 and 2014 varies from the United States statutory income tax rate primarily due to valuation allowances in the United States whereby pre-tax losses do not result in the recognition of corresponding income tax benefits and expenses and the foreign tax differential.

NOTE 5—FINANCIAL INSTRUMENTS

Fair value measurements

Authoritative accounting guidance for fair value measurements provides a framework for measuring fair value and related disclosures. 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, 2015, the Level 1 category included money market

funds of $6.2 million, which were included in cash and cash equivalents on the Condensed Consolidated Balance Sheets.

Level 2: Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. The fair value of available-for-sale securities included in the Level 2 category is based on the market values obtained from an independent pricing service that were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well established independent pricing vendors and broker-dealers. As of December 31, 2015, the Level 2 category included short-term investments of $19.4 million and long-term investments of $ 15.5 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, 2015, the Company had no Level 3 financial assets and a Level 3 financial liability consisting of the contingent consideration liability for the acquisition of MikMonu. See Note 9—Acquisition for more information.

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

		Fair Value Measurements at Reporting Date Using		
	December 31, 2015	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 6,219	$ 6,219	$ —	$ —
Marketable securities	34,870	—	34,870	—
Total	$ 41,089	$ 6,219	$ 34,870	$ —

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

Short-term and long-term investments

All of the Company's short-term and long-term investments are classified as available-for-sale. Available-for-sale debt securities with maturities greater than twelve months are classified as long-term investments when they are not intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrecognized gains (losses), net of tax, as a component of accumulated other comprehensive income (loss) in the Condensed Consolidated Balance Sheets. The Company had money market funds of $6.2 million and $4.4 million at December 31, 2015 and March 31, 2015, respectively, included in cash and cash equivalents on the Condensed Consolidated Balance Sheets. 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, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$ 1,021	$ 2	$ —	$ 1,023
Corporate notes	3,425	—	(6)	3,419
Certificates of deposit	9,250	3	(5)	9,248
Foreign government obligations	2,692	—	(2)	2,690
Agency bonds	3,003	—	(2)	3,001
Total short-term investments	$ 19,391	$ 5	$ (15)	$ 19,381
Long-term investments:				
Corporate notes	$ 2,276	$ —	$ (10)	$ 2,266
Certificates of deposit	12,250	2	(29)	12,223
Agency bonds	1,000	—	—	1,000
Total long-term investments	$ 15,526	$ 2	$ (39)	$ 15,489

	March 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Short-term investments:				
State and municipal obligations	$ 6,810	$ —	$ —	$ 6,810
Corporate notes	7,366	10	—	7,376
Agency bonds	1,006	—	—	1,006
Certificates of deposit	7,000	9	—	7,009
Total short-term investments	$ 22,182	$ 19	$ —	$ 22,201
Long-term investments:				
State and municipal obligations	$ 1,053	$ 4	$ —	$ 1,057
Corporate notes	4,232	—	(10)	4,222
Certificates of deposit	9,750	24	(1)	9,773
Agency bonds	4,003	4	(2)	4,005
Foreign government obligations	2,684	—	(1)	2,683
Total long-term investments	$ 21,722	$ 32	$ (14)	$ 21,740

The Company's investment portfolio consists of both corporate and governmental securities that have a maximum maturity of three years. All unrealized 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.

The deferred tax asset related to unrecognized gains and losses on short-term and long-term investments was $17,000 at December 31, 2015. The deferred tax liability related to unrecognized gains and losses on short-term and long-term investments $11,000 at March 31, 2015.

As of December 31, 2015, contractual maturities of the Company's available-for-sale investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$ 19,391	$ 19,381
Maturing in one to three years	15,526	15,489
Maturing in more than three years	—	—
	$ 34,917	$ 34,870

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.

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 material for the three months or nine months ended December 31, 2015 or 2014.

Legal proceedings

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

On June 10, 2011, Cypress filed a complaint against the Company with the United States International Trade Commission (the "ITC"). The ITC complaint, as subsequently amended, alleged infringement by the Company of three of the five patents involved in the District Court case and one additional patent and also alleged infringement by three of the Company's distributors and 11 of its customers who allegedly incorporate the Company's SRAMs in their products. The ITC complaint sought a limited exclusion order excluding the allegedly infringing SRAMs, and products containing them, from entry into the United States and permanent orders directing the Company and the other respondents to cease and desist from selling or distributing such products in the United States. On July 21, 2011, the ITC formally instituted an investigation in response to Cypress's complaint. On June 7, 2013, the ITC announced that the full Commission had affirmed the determination of Chief Administrative

Judge Charles E. Bullock that GSI's SRAM devices, and products containing them, do not infringe the Cypress patents and that Cypress had failed to establish existence of a domestic industry that practices the patents. Moreover, the Commission reversed a portion of Judge Bullock's determination with respect to the validity of the patents, finding the asserted claims of one of the patents to have been anticipated by prior art and, therefore, invalid. The Commission ordered the investigation terminated, and Cypress did not appeal the ruling.

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

The Company did not record any loss contingency during fiscal 2013, fiscal 2014 or fiscal 2015 in connection with these legal proceedings as the Company was unable to predict their outcome and could not estimate the likelihood or potential dollar amount of any adverse results.

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

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

- Each party agreed to release all claims against the other with respect to issues raised in the two lawsuits.

The parties agreed that the settlement agreement was entered into to resolve disputed claims, and that each party denies any liability to the other party.

NOTE 7—STOCK-BASED COMPENSATION

As of December 31, 2015, 6,719,123 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, 2015:

	Shares Available for Grant	Number of Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Intrinsic Value
Balance at March 31, 2015	6,213,943	6,774,151		$ 5.16	
Options reserved	1,156,419	—		—	
Granted	(661,103)	661,103		4.90	
Exercised	—	(76,745)		4.19	$ 46,977
Forfeited/expired	9,864	(19,864)		4.64	
Balance at December 31, 2015	6,719,123	7,338,645		$ 5.15	
Options vested and exercisable		4,976,550	3.82	$ 5.05	$ 484,583
Options vested and expected to vest		7,290,669	5.22	$ 5.14	$ 484,583

The weighted average fair value per underlying share of options granted during the three months ended December 31, 2015 and 2014 was $1.48 and $1.79, respectively and for the nine months ended December 31, 2015 and 2014 was $1.70 and $2.10, respectively.

Options outstanding by exercise price at December 31, 2015 were as follows:

	Number of	Options Outstanding		Options Exercisable	
Exercise Price	Shares Underlying Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Vested and Exercisable	Weighted Average Exercise Price
$ 2.43 - 3.43	892,584	$ 3.18	3.10	892,584	$ 3.18
$ 3.75 - 4.00	812,779	$ 3.96	3.21	812,779	$ 3.96
$ 4.17 - 4.68	747,515	$ 4.30	5.94	357,926	$ 4.30
$ 4.81 - 4.98	997,676	$ 4.92	7.88	389,871	$ 4.88
$ 5.13 - 5.34	625,513	$ 5.23	8.74	49,980	$ 5.19
$ 5.50	783,433	$ 5.50	0.88	783,433	$ 5.50
$ 5.59 - 6.00	901,930	$ 5.77	5.53	532,248	$ 5.81
$ 6.28 - 6.63	812,219	$ 6.48	6.36	645,440	$ 6.47
$ 6.82 - 7.00	651,376	$ 6.90	6.06	398,669	$ 6.92
$ 9.20	113,620	$ 9.20	5.07	113,620	$ 9.20
	7,338,645	$ 5.15	5.25	4,976,550	$ 5.05

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,	
	2015	2014	2015	2014
	(In thousands)			
Cost of revenues	$ 85	$ 93	$ 242	$ 296
Research and development	208	220	649	709
Selling, general and administrative	121	77	496	528
Total	$ 414	$ 390	$ 1,387	$ 1,533

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.

No tax benefit related to stock-based compensation was recognized in the three months or nine months ended December 31, 2015 or December 31, 2014 due to a full valuation allowance. There were no windfall tax benefits realized from exercised stock options in any of these periods. Compensation cost capitalized within inventory at December 31, 2015 was immaterial. As of December 31, 2015, the Company's total unrecognized compensation cost was $2.9 million, which will be recognized over a weighted average period of 2.01 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,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Stock Option Plans:				
Risk-free interest rate	1.56 %	1.60 %	1.52 - 1.57 %	1.60 - 1.70 %
Expected life (in years)	5.00	5.00	5.00	5.00
Volatility	36.3 %	41.3 %	36.3 - 38.0 %	41.3 - 44.8 %
Dividend yield	— %	— %	— — %	— %
Employee Stock Purchase Plan:				
Risk-free interest rate	0.15 %	0.05 %	0.09 - 0.15 %	0.05 %
Expected life (in years)	0.50	0.50	0.50	0.50
Volatility	27.9 %	38.0 %	26.3 - 27.9 %	30.8 - 38.0 %
Dividend yield	— %	— %	— %	— %

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,	
	2015	2014	2015	2014
	(In thousands)			
United States	$ 4,873	$ 5,077	$ 16,123	$ 13,471
China	2,808	4,459	9,916	11,697
Malaysia	10	20	15	2,720
Singapore	1,682	1,455	4,681	4,955
Netherlands	2,518	1,505	6,073	2,977
Rest of the world	1,030	1,711	3,715	4,615
	$ 12,921	$ 14,227	$ 40,523	$ 40,435

All sales are denominated in United States dollars.

NOTE 9—ACQUISITION

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

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

The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. The purchase price of the acquisition has been preliminarily allocated to the intangible assets acquired, with the excess of the purchase price over the fair value of assets acquired recorded as goodwill. The Company will perform a goodwill impairment test in February of each fiscal year.

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

Consideration

Under the terms of the acquisition agreement, the Company paid the former MikaMonu shareholders initial cash consideration of approximately $5.0 million at the closing on November 23, 2015. Approximately $484,000 of the initial payment was deposited in escrow to provide a fund for potential future indemnification claims by the Company. This amount is included in other assets on the Condensed Consolidated Balance Sheet at December 31, 2015.

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

The Company will make cash retention payments of up to an additional $2.5 million to the three former MikaMonu shareholders in installments over a four-year period, conditioned on the continued employment of Dr. Avidan Akerib, MikaMonu's co-founder and chief technologist. The retention amount of $2.5 million has been deposited in escrow and is included in other assets on the Consolidated Balance Sheet at December 31, 2015.

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

The portion of the retention payment contingently payable to Dr. Akerib (approximately $1.2 million) will be recorded as compensation expense over the period that his services are provided to the Company. The portion of the retention payment contingently payable to the other former MikaMonu shareholders (approximately $1.3 million) plus the maximum amount of the potential earnout payments totals approximately $38.8 million. The Company has determined that the fair value of this contingent consideration liability was $5.8 million at the acquisition date. This amount is included in other accrued expenses on the Consolidated Balance Sheet at December 31, 2015.

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

Acquisition-related costs

Acquisition-related costs of approximately $376,000 and $394,000 are included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the three months and nine months ended December 31, 2015, respectively.

Purchase price allocation

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

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

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

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

Identifiable intangible assets

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

	Fair Value (in thousands)	Useful Life (in years)
Patents	$ 3,500	15
Total acquired identifiable intangible assets	$ 3,500	

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

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

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Pro forma net revenues	$ 12,921	$ 14,227	$ 40,523	$ 40,670
Pro forma net loss	$ (563)	$ (166)	$ (2,540)	$ (3,229)
Pro forma net loss per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.11)	$ (0.13)

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

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, primarily for the networking and telecommunications markets. We are subject to the highly cyclical nature of the semiconductor industry, which has experienced significant fluctuations, often in connection with fluctuations in demand for the products in which semiconductor devices are used. Our revenues have been substantially impacted by significant fluctuations in sales to Cisco Systems, historically our largest customer, and more recently to Alcatel-Lucent. We expect that future direct and indirect sales to these two customers will continue to fluctuate significantly on a quarterly basis. The worldwide financial crisis and the resulting economic impact on the end markets we serve have adversely impacted our financial results since the second half of fiscal 2009, and we expect that the unsettled global economic environment will continue to affect our operating results in future periods. However, with no debt, substantial liquidity and a history of positive cash flows from operations, we believe we are in a better financial position than many other companies of our size.

Revenues. Our revenues are derived primarily from sales of our Very Fast SRAM products. Sales to networking and telecommunications OEMs accounted for 64% to 79% of our net revenues during our last three fiscal years. We also sell our products to OEMs that manufacture products for defense applications such as radar and guidance systems, for professional audio applications such as sound mixing systems, for test and measurement applications such as high-speed testers, for automotive applications such as smart cruise control and voice recognition systems, and for medical applications such as ultrasound and CAT scan equipment.

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

Alcatel-Lucent was our largest customer in fiscal 2015 and 2014. Alcatel-Lucent purchases products directly from us and through contract manufacturers and distributors. Purchases by Alcatel-Lucent represented approximately 32%, 25%, 19% and 12% of our net revenues in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, respectively. Cisco Systems, historically our largest OEM customer, purchases our products primarily through its consignment warehouse, Wintec Industries Inc, 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 9%, 13%, 19% and 29% of our net revenues in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, respectively. Our revenues have been substantially impacted by significant fluctuations in sales to Alcatel-Lucent and Cisco Systems, and we expect that future direct and indirect sales to these two customers will continue to fluctuate substantially on a quarterly basis and that such fluctuations may significantly affect our operating results in future periods. To our knowledge, none of our other OEM customers accounted for more than 10% of our net revenues in the nine months ended December 31, 2015 or in fiscal 2015, 2014 or 2013.

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

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of commissions paid to independent sales representatives, salaries, stock-based compensation and related expenses for personnel engaged in sales, marketing, administrative, finance and human resources activities, professional fees, costs associated with the promotion of our products and other corporate expenses. We expect that our sales and marketing expenses will increase in absolute dollars in future periods if we are able to grow and expand our sales force but that, to the extent our revenues increase in future periods, these expenses will generally decline as a percentage of net revenues. We also expect that, in support of any future growth that we are able to achieve, general and administrative expenses will generally increase in absolute dollars. General and administrative expenses increased significantly beginning in fiscal 2012 as a result of substantial legal expenses, principally related to our patent infringement and antitrust litigation with Cypress Semiconductor Corporation. These expenses varied significantly from quarter to quarter thereafter, depending on the relative level of activity in the Cypress litigation. In May 2015, we entered into a settlement agreement to resolve our protracted litigation with Cypress. Although we ceased to incur significant legal expenses related to our litigation with Cypress after the quarter ended June 30, 2015, legal expenses associated with unrelated commercial and trade secret litigation in which we were the plaintiff continued to be substantial through the quarter ended December 31, 2015, reflecting preparation for and conduct of the trial of that case which concluded in November 2015.

Acquisition

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

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

The acquisition has been accounted for as a purchase under authoritative guidance for business combinations. The purchase price of the acquisition has been preliminarily allocated to the intangible assets acquired, with the excess of the purchase price over the fair value of assets acquired recorded as goodwill. We will perform a goodwill impairment test in February of each fiscal year.

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

Under the terms of the acquisition agreement, we paid the former MikaMonu shareholders initial cash consideration of approximately $5.0 million at the closing on November 23, 2015. Approximately $484,000 of the initial payment was deposited in escrow to provide a fund for potential future indemnification claims. This amount is included in other assets on the Condensed Consolidated Balance Sheet at December 31, 2015.

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

We will make cash retention payments of up to an additional $2.5 million to the three former MikaMonu shareholders in installments over a four-year period, conditioned on the continued employment of Dr. Avidan Akerib, MikaMonu’s co-founder and chief technologist. The retention amount of $2.5 million has been deposited in escrow and is included in other assets on the Consolidated Balance Sheet at December 31, 2015.

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

$30 million, equal to 5% of net revenues from the sale of qualifying products in excess of certain thresholds will be made quarterly through December 31, 2025.

The portion of the retention payment contingently payable to Dr. Akerib (approximately $1.2 million) will be recorded as compensation expense over the period that his services are provided to us. The portion of the retention payment contingently payable to the other former MikaMonu shareholders (approximately $1.3 million) plus the maximum amount of the potential earnout payments totals approximately $38.8 million. We have determined that the fair value of this contingent consideration liability was $5.8 million at the acquisition date. This amount is included in other accrued expenses on the Consolidated Balance Sheet at December 31, 2015

The fair value of the contingent consideration liability was determined as of the acquisition date using unobservable inputs. These inputs include the estimated amount and timing of future cash flows, the probability of success (achievement of the various contingent events) and a risk-adjusted discount rate of approximately 14.8% used to adjust the probability-weighted cash flows to their present value. Subsequent to the acquisition date, at each reporting period, the contingent consideration liability will be re-measured at then current fair value with changes recorded in the statement of operations. Changes in any of the inputs may result in significant adjustments to the recorded fair value.

Acquisition-related costs of approximately $376,000 and $394,000 are included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the three months and nine months ended December 31, 2015, respectively.

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

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

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,	
	2015	2014	2015	2014
Net revenues	100.0 %	100.0	100.0 %	100.0 %
Cost of revenues	50.6	53.3	49.2	53.9
Gross profit	49.4	46.7	50.8	46.1
Operating expenses:				
Research and development	21.5	20.0	21.5	21.9
Selling, general and administrative	40.0	31.3	36.4	32.0
Total operating expenses	61.5	51.3	57.9	53.9
Loss from operations	(12.1)	(4.6)	(7.1)	(7.8)
Interest and other income (expense), net	0.7	0.7	0.5	0.7
Loss before income taxes	(11.4)	(3.9)	(6.6)	(7.1)
Provision for income taxes	(5.0)	(4.9)	(1.5)	(1.5)
Net income (loss)	(6.4)	1.0	(5.1)	(5.6)

Net Revenues. Net revenues decreased by 9.2% from $14.2 million in the three months ended December 31, 2014 to $12.9 million in the three months ended December 31, 2015 and were essentially unchanged at $40.4 million in the nine months ended December 31, 2014 compared to $40.5 million in the nine months ended December 31, 2015. Direct and indirect sales to Alcatel-Lucent, currently our largest customer, increased from $3.2 million in the three months ended December 31, 2014 to $4.8 million in the three months ended December 31, 2015 and from $9.6 million in the nine months ended December 31, 2014 to $12.8 million in the nine months ended December 31, 2015, reflecting increased demand for its systems that incorporate our products. Direct and indirect

sales to Cisco Systems, historically our largest customer, decreased by $900,000 from $2.0 million in the three months ended December 31, 2014 to $1.1 million in the three months ended December 31, 2015 and by $2.2 million from $5.7 million in the nine months ended December 31, 2014 to $3.5 million in the nine months ended December 31, 2015 due to softness in the market for its switches and routers that incorporate our products. Net revenues from sales to customers in China declined $1.7 million from $4.5 million in the three months ended December 31, 2014 to $2.8 million in the three months ended December 31, 2015 and by $1.8 million from $11.7 million in the nine months ended December 31, 2014 to $9.9 million in the nine months ended December 31, 2015, reflecting the continuing weakness in the global networking and telecommunications markets and, in particular, continued weakness in Asia. We believe that our net revenues were also negatively impacted by uncertainty regarding the outcome of our patent litigation with Cypress Semiconductor that was settled in May 2015. We believe that the Commission's favorable final determination in the ITC proceeding reduced this market uncertainty somewhat, and that the uncertainty was resolved with the settlement of the litigation. However, some design-in losses that we suffered during the pendency of the ITC proceeding will continue to adversely affect our revenues throughout the life of the related products. Shipments of our SigmaQuad product line accounted for 53.6% of total shipments in the nine months ended December 31, 2015 compared to 40.6% of total shipments in the nine months ended December 31, 2014.

Cost of Revenues. Cost of revenues decreased by 13.8% from $7.6 million in the three months ended December 31, 2014 to $6.5 million in the three months ended December 31, 2015 and by 8.5% from $21.8 million in the nine months ended December 31, 2014 to $19.9 million in the nine months ended December 31, 2015. In each of these periods, cost of revenues decreased primarily due to improved gross margin. Cost of revenues included stock-based compensation expense of $85,000 and $93,000, respectively, for the three months ended December 31, 2015 and 2014 and $242,000 and $296,000, respectively, for the nine months ended December 31, 2015 and 2014.

Gross Profit. Gross profit decreased by 4.0% from $6.7 million in the three months ended December 31, 2014 to $6.4 million in the three months ended December 31, 2015 and increased by 10.4% from $18.7 million in the nine months ended December 31, 2014 to $20.6 million in the nine months ended December 31, 2015. Gross margin increased from 46.7% in the three months ended December 31, 2014 to 49.4% in the three months ended December 31, 2015 and from 46.1% in the nine months ended December 31, 2014 to 50.8% in the nine months ended December 31, 2015. The increases in gross profit and improvements in gross margin were primarily related to favorable changes in the mix of products and customers.

Research and Development Expenses. Research and development expenses were unchanged at $2.9 million and $2.8 million in the three months ended December 31, 2014 and 2015, respectively. Research and development expenses included stock-based compensation expense of $208,000 and $220,000, respectively, for the three months ended December 31, 2015 and 2014. Research and development expenses decreased 1.9% from $8.9 million in the nine months ended December 31, 2014 to $8.7 million in the nine months ended December 31, 2015. This decrease was primarily due to a decrease of $130,000 in depreciation expense and lesser decreases in stock-based compensation expense, facility related expenses and software maintenance expense, partially offset by increases in patent related legal expenses and payroll related expenses. Research and development expenses included stock-based compensation expense of $649,000 and $709,000, respectively, for the nine months ended December 31, 2015 and 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 15.9% from $4.5 million in the three months ended December 31, 2014 to $5.2 million in the three months ended December 31, 2015. An increase of $883,000 in legal fees was partially offset by decreases in independent sales representatives commissions, payroll related expenses and stock-based compensation expense. Selling, general and administrative expenses included stock-based compensation expense of $121,000 and $77,000, respectively, for the three months ended December 31, 2015 and 2014. Selling, general and administrative expenses increased 13.9% from $12.9 million in the nine months ended December 31, 2014 to $14.7 million in the nine months ended December 31, 2015. This increase was primarily due to increases of $1.8 million in legal fees related to the patent infringement and antitrust litigation involving Cypress Semiconductor Corporation which was settled in May 2015 and commercial and trade secret litigation in which we were the plaintiff, the trial of which concluded in November 2015, and lesser increases in other professional fees and payroll related expenses, partially offset by a decrease in travel related expenses and stock-based compensation expense. Selling, general and administrative expenses

included stock-based compensation expense of $496,000 and $528,000, respectively, for the nine months ended December 31, 2015 and 2014.

Interest and Other Income (Expense), Net. Interest and other income (expense), net decreased $12,000 from income of $101,000 in the three months ended December 31, 2014 to $89,000 in the three months ended December 31, 2015. Interest income increased by $2,000. A foreign exchange gain of $25,000 for the three months ended December 31, 2014 compared to an exchange gain of $11,000 for the three months ended December 31, 2015. Interest and other income (expense), net decreased 35.2% from income of $284,000 in the nine months ended December 31, 2014 to $184,000 in the nine months ended December 31, 2015. Interest income decreased by $20,000 due to lower interest rates received on our cash and short-term and long-term investments on a lesser total cash and investments balance. A foreign exchange gain of $35,000 for the nine months ended December 31, 2014 compared to an exchange loss of $45,000 for the nine months ended December 31, 2015. The exchange gains and losses in each period were related to our Taiwan branch operations.

Provision for Income Taxes. The benefit for income taxes increased 7.0% from $701,000 in the three months ended December 31, 2014 to $652,000 in the three months ended December 31, 2015 and decreased 5.4% from $632,000 in the nine months ended December 31, 2014 to $598,000 in the nine months ended December 31, 2015. These changes were due to fluctuations in the relative mix of income among our operating jurisdictions.

Net Income (Loss). Net income of $148,000 in the three months ended December 31, 2014 compares to a net loss of $819,000 in the three months ended December 31, 2015. Net loss decreased 7.3% from $2.2 million in the nine months ended December 31, 2014 to $2.1 million in the nine months ended December 31, 2015. These fluctuations were primarily due to the changes in net revenues and gross profit and the changes in operating expenses discussed above.

Liquidity and Capital Resources

As of December 31, 2015, our principal sources of liquidity were cash, cash equivalents and short-term investments of $50.1 million compared to $59.0 million as of March 31, 2015.

Net cash used in operating activities was $3.2 million for the nine months ended December 31, 2015 compared to net cash provided by operating activities of $1.9 million for the nine months ended December 31, 2014. The primary uses of cash in the current nine month period was a decrease of $2.3 million in accrued expenses and other liabilities, a net loss of $2.1 million, lesser decreases in deferred revenue and accounts payable and an increase in inventory. The decrease in accrued expenses and other liabilities was primarily related to a decrease in accrued legal expenses related to the patent infringement and antitrust litigation involving Cypress Semiconductor Corporation that was settled in May 2015 and other litigation in the quarter ended December 31, 2015 compared to the quarter ended March 31, 2015 and the payment of cash-based incentive compensation in the nine month period ended December 31, 2015.

Net cash provided by investing activities was $365,000 in the nine months ended December 31, 2015 compared to $23.6 million in the nine months ended December 31, 2014. Investment activities in the nine months ended December 31, 2015 consisted primarily of the maturity of corporate notes, state and municipal obligations and certificates of deposit of $21.3 million, partially offset by the purchase of investments of $12.5 million, our acquisition of MikaMonu for $7.3 million and the purchase of property and equipment for $1.1 million. Investment activities in the nine months ended December 31, 2014 consisted primarily of the maturity of corporate notes and certificates of deposit of $34.8 million, partially offset by the purchase of investments of $10.7 million.

Net cash used by financing activities in the nine months ended December 31, 2015 primarily consisted of the repurchase of $4.1 million of our common stock at an average purchase price of $4.99, partially offset by the net proceeds from the sale of common stock pursuant to our employee stock plans. Net cash used by financing activities in the nine months ended December 31, 2014 primarily consisted of the repurchase of an aggregate of $27.1 million of our common stock at an average purchase price of $6.46 including shares purchased for $25 million in our modified “Dutch” tender offer that settled in August 2014, partially offset by 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 revenue growth, if any, 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 pending 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.

Contractual Obligations

The following table describes our contractual obligations as of December 31, 2015:

	Payments due by period				
	Up to 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Facilities and equipment leases	$ 255,000	$ 137,000	$ —	$ —	$ 392,000
Wafer, test and mask purchase obligations	1,390,000	—	—	—	1,390,000
	$ 1,645,000	$ 137,000	$ —	$ —	$ 1,782,000

As of December 31, 2015, the current portion of our unrecognized tax benefits was $0, and the long-term portion was $101,000. We do not expect to make federal income tax payments in the next twelve months, and we are not able to make a reasonably reliable estimate of the timing of such payments due to uncertainties in the timing of tax credit outcomes.

In connection with the acquisition of MikaMonu on November 23, 2015, we are required to make contingent consideration payments to the former MikaMonu shareholders conditioned upon the retention of MikaMonu's key employee and the achievement of certain product development milestones and revenue targets for products based on the MikaMonu technology. As of December 31, 2015, the accrual for potential contingent consideration was $5.8 million.

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, 2015.

Off-Balance Sheet Arrangements

At December 31, 2015, 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 November 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The update is effective for annual reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

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

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

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

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*." The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. ASU No. 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. We are currently evaluating the impact of this accounting standard on our consolidated financial statements.

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.

Interest Rate Sensitivity. We had cash, cash equivalents, short-term investments and long-term investments totaling $65.6 million at December 31, 2015. These amounts were invested primarily in money market funds, state and municipal obligations, corporate notes, certificates of deposit, government agency bonds and foreign government obligations. 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***

Management's Evaluation of Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2015, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report for the purpose of ensuring that the information required to be disclosed by us in 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 quarter ended December 31, 2015 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 sought unspecified damages for past infringement and a permanent injunction against future infringement.

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

The Minnesota District Court case had been stayed pending the conclusion of the ITC proceeding. Following the termination of the ITC proceeding, the stay was lifted. On May 1, 2013, Cypress filed an additional lawsuit in the United States District Court for the Northern District of California alleging infringement by our products of five

additional Cypress patents. Like the Minnesota case, the complaint in the California lawsuit sought unspecified damages for past infringement and a permanent injunction against future infringement. We filed answers in both cases denying liability and asserting affirmative defenses. On August 7, 2013, the parties stipulated that the claims in the Minnesota case with respect to three of the asserted patents would be dismissed without prejudice and that the claims with respect to the remaining two patents would be transferred to the Northern District of California and consolidated with the pending California case. On August 20, 2013, the Court in the California case ordered the cases consolidated.

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

On May 6, 2015, the Company and Cypress entered into a settlement agreement to resolve the patent infringement and antitrust litigation. Under the settlement agreement:

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

- Each party agreed to release all claims against the other with respect to issues raised in the two lawsuits.

The parties agreed that the settlement agreement was entered into to resolve disputed claims, and that each party denies any liability to the other party.

Item 1A. ***Risk Factors***

Our future performance is subject to a variety of risks. If any of the following risks actually occur, our business, financial condition and results of operations could suffer and the trading price of our common stock could decline. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations. You should also refer to other information contained in this report, including our condensed consolidated financial statements and related notes. The risk factors described below do not contain any material changes from those previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

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

Our quarterly and annual revenues, expenses and operating results have varied significantly and are likely to vary in the future. For example, in the eleven fiscal quarters ended December 31, 2015, we recorded net revenues of as much as $16.4 million and as little as $12.8 million and quarterly operating income of as much as $241,000 and, in ten quarters, operating losses, including our operating loss of $3.6 million in the quarter ended March 31, 2014. We therefore believe that period-to-period comparisons of our operating results are not a good indication of our future performance, and you should not rely on them to predict our future performance or the future performance of our stock price. In future periods, we may not have any revenue growth, or our revenues could decline. Furthermore, if our operating expenses exceed our expectations, our financial performance could be adversely affected. Factors that may affect periodic operating results in the future include:

- our ability to anticipate and conform to new industry standards.

- unpredictability of the timing and size of customer orders, since most of our customers purchase our products on a purchase order basis rather than pursuant to a long-term contract;

- changes in our customers' inventory management practices;
- fluctuations in availability and costs associated with materials needed to satisfy customer requirements;
- manufacturing defects, which could cause us to incur significant warranty, support and repair costs, lose potential sales, harm our relationships with customers and result in write-downs;
- changes in our product pricing policies, including those made in response to new product announcements and pricing changes of our competitors;
- fluctuations in our quarterly operating expenses due to substantial litigation-related expenses in some quarters; and
- our ability to address technology issues as they arise, improve our products' functionality and expand our product offerings.

Our expenses are, to a large extent, fixed, and we expect that these expenses will increase in the future. We will not be able to adjust our spending quickly if our revenues fall short of our expectations. If this were to occur, our operating results would be harmed. If our operating results in future quarters fall below the expectations of market analysts and investors, the price of our common stock could fall.

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

Alcatel-Lucent, currently our largest customer, purchases our products directly from us and through contract manufacturers and distributors. Purchases by Alcatel-Lucent represented approximately 32%, 25%, 19% and 12% of our net revenues in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, respectively. Cisco Systems, historically our largest OEM customer, purchases our products through its consignment warehouses and contract manufacturers and directly from us. Purchases by Cisco Systems represented approximately 9%, 13%, 19% and 29% of our net revenues in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, respectively. We expect that our operating results in any given period will continue to depend significantly on orders from our key OEM customers, including Alcatel-Lucent and Cisco Systems, and our future success is dependent to a large degree on the business success of these OEMs over which we have no control. We do not have long-term contracts with Alcatel-Lucent, Cisco Systems or any of our other major OEM customers, distributors or contract manufacturers that obligate them to purchase our products. We expect that future direct and indirect sales to Alcatel-Lucent, Cisco Systems and our other key OEM customers will continue to fluctuate significantly on a quarterly basis and that such fluctuations may substantially affect our operating results in future periods. If we fail to continue to sell to our key OEM customers, distributors or contract manufacturers in sufficient quantities, our business could be harmed.

We have incurred significant losses in prior periods and may incur losses in the future.

We have incurred significant losses in prior periods. We incurred losses of $5.0 million and $6.2 million during fiscal 2015 and 2014, respectively. Although we have operated profitably during nine of our last eleven fiscal years, there can be no assurance that our Very Fast SRAMs will continue to receive broad market acceptance or that we will be able to achieve sustained revenue growth. Our failure to do so may result in additional losses in the future. In addition, our operating expenses over the past several years have included substantial litigation-related expenses, and we expect that these expenses will continue to be substantial in the next quarter. Our expenses will also increase if we are able to expand our business. If our revenues do not grow to offset these expected expenses, our business will suffer.

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

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

If we do not successfully develop new products to respond to rapid market changes due to changing technology and evolving industry standards, particularly in the networking and telecommunications markets, our business will be harmed.

If we fail to offer technologically advanced products and respond to technological advances and emerging standards, we may not generate sufficient revenues to offset our development costs and other expenses, which will hurt our business. The development of new or enhanced products is a complex and uncertain process that requires the accurate anticipation of technological and market trends. In particular, the networking and telecommunications markets are rapidly evolving and new standards are emerging. We are vulnerable to advances in technology by competitors, including new SRAM architectures, new forms of DRAM and the emergence of new memory technologies that could enable the development of products that feature higher performance or lower cost. We may experience development, marketing and other technological difficulties that may delay or limit our ability to respond to technological changes, evolving industry standards, competitive developments or end-user requirements. For example, because we have limited experience developing integrated circuits, or IC, products other than Very Fast SRAMs, our efforts to introduce new products may not be successful and our business may suffer. Other challenges that we face include:

- our products may become obsolete upon the introduction of alternative technologies;
- we may incur substantial costs if we need to modify our products to respond to these alternative technologies;
- we may not have sufficient resources to develop or acquire new technologies or to introduce new products capable of competing with future technologies;
- new products that we develop may not successfully integrate with our end-users' products into which they are incorporated;
- we may be unable to develop new products that incorporate emerging industry standards;
- we may be unable to develop or acquire the rights to use the intellectual property necessary to implement new technologies; and
- when introducing new or enhanced products, we may be unable to manage effectively the transition from older products.

We are subject to the highly cyclical nature of the networking and telecommunications markets.

Our products are incorporated into routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment used in the highly cyclical networking and telecommunications markets. We expect that the networking and telecommunications markets will continue to be highly cyclical, characterized by periods of rapid growth and contraction. Our business and our operating results are likely to fluctuate, perhaps quite severely, as a result of this cyclicality.

The market for Very Fast SRAMs is highly competitive.

The market for Very Fast SRAMs, which are used primarily in networking and telecommunications equipment, is characterized by price erosion, rapid technological change, cyclical market patterns and intense foreign and domestic competition. Several of our competitors offer a broad array of memory products and have greater financial, technical, marketing, distribution and other resources than we have. Some of our competitors maintain their own semiconductor fabrication facilities, which may provide them with capacity, cost and technical advantages over us. We cannot assure you that we will be able to compete successfully against any of these competitors. Our ability to compete successfully in this market depends on factors both within and outside of our control, including:

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

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

The average selling prices of our products are expected to decline, and if we are unable to offset these declines, our operating results will suffer.

Historically, the average unit selling prices of our products have declined substantially over the lives of the products, and we expect this trend to continue. A reduction in overall average selling prices of our products could result in reduced revenues and lower gross margins. Our ability to increase our net revenues and maintain our gross margins despite a decline in the average selling prices of our products will depend on a variety of factors, including our ability to introduce lower cost versions of our existing products, increase unit sales volumes of these products, and introduce new products with higher prices and greater margins. If we fail to accomplish any of these objectives, our business will suffer. To reduce our costs, we may be required to implement design changes that lower our manufacturing costs, negotiate reduced purchase prices from our independent foundries and our independent assembly and test vendors, and successfully manage our manufacturing and subcontractor relationships. Because we do not operate our own wafer foundry or assembly facilities, we may not be able to reduce our costs as rapidly as companies that operate their own foundries or facilities.

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

We sell our products to end customers both in the United States and internationally. We also rely heavily on our suppliers in Asia. We are therefore susceptible to adverse domestic and international economic and market conditions. In recent years, turmoil in global financial markets and economic conditions has impacted credit availability, consumer spending and capital expenditures, including expenditures for networking and telecommunications equipment. Weakness in global networking and telecommunications markets, particularly in Asia, has continued to adversely impact our revenues in recent quarters. Slowness in economic growth, domestically and in our key markets, uncertainty regarding macroeconomic trends, and volatility in financial markets may continue to adversely affect our business, financial condition and results of operations over coming quarters.

We are dependent on a number of single source suppliers, and if we fail to obtain adequate supplies, our business will be harmed and our prospects for growth will be curtailed.

We currently purchase several key components used in the manufacture of our products from single sources and are dependent upon supply from these sources to meet our needs. If any of these suppliers cannot provide components on a timely basis, at the same price or at all, our ability to manufacture our products will be constrained and our business will suffer. Most significantly, we obtain wafers for our Very Fast SRAM products from a single foundry, TSMC, and most of them are packaged at ASE. Wafers for our LLDRAM products are obtained exclusively from Powerchip. If we are unable to obtain an adequate supply of wafers from TSMC or Powerchip or find alternative sources in a timely manner, we will be unable to fulfill our customer orders and our operating results will be harmed. We do not have supply agreements with TSMC, Powerchip, ASE or any of our other independent assembly and test suppliers, and instead obtain manufacturing services and products from these suppliers on a purchase-order basis. Our suppliers, including TSMC and Powerchip, have no obligation to supply products or services to us for any specific product, in any specific quantity, at any specific price or for any specific time period. As a result, the loss or failure to perform by any of these suppliers could adversely affect our business and operating results.

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

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

We do not have long-term supply agreements with TSMC or Powerchip, but instead obtain our wafers on a purchase order basis. In order to secure future wafer supply from TSMC or Powerchip or from other independent foundries, we may be required to enter into various arrangements with them, which could include:

- contracts that commit us to purchase specified quantities of wafers over extended periods;
- investments in and joint ventures with the foundries; or
- non-refundable deposits with or prepayments or loans to foundries in exchange for capacity commitments.

We may not be able to make any of these arrangements in a timely fashion or at all, and these arrangements, if any, may not be on terms favorable to us. Moreover, even if we are able to secure independent foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

If we are unable to offset increased wafer fabrication costs by increasing the average selling prices of our products, our gross margins will suffer.

If there is a significant upturn in the networking and telecommunications markets that results in increased demand for our products and competing products, the available supply of wafers may be limited. As a result, we could be required to obtain additional manufacturing capacity in order to meet increased demand. Securing additional manufacturing capacity may cause our wafer fabrication costs to increase. If we are unable to offset these increased costs by increasing the average selling prices of our products, our gross margins will decline.

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

A significant percentage of our sales are made to distributors and to contract manufacturers who incorporate our products into end products for OEMs. For example, in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, our distributor Avnet Logistics accounted for 28.0%, 35.2%, 30.3% and 26.5%, respectively, of our net revenues. Avnet Logistics and our other existing distributors may choose to devote greater resources to marketing and supporting the products of other companies. Since we sell through multiple channels and distribution networks, we may have to resolve potential conflicts between these channels. For example, these conflicts may result from the different discount levels offered by multiple channel distributors to their customers or, potentially, from our direct sales force targeting the same equipment manufacturer accounts as our indirect channel distributors. These conflicts may harm our business or reputation.

We may be unable to accurately predict future sales through our distributors, which could harm our ability to efficiently manage our resources to match market demand.

Our financial results, quarterly product sales, trends and comparisons are affected by fluctuations in the buying patterns of the OEMs that purchase our products from our distributors. While we attempt to assist our distributors in maintaining targeted stocking levels of our products, we may not consistently be accurate or successful. This process involves the exercise of judgment and use of assumptions as to future uncertainties, including end user demand. Inventory levels of our products held by our distributors may exceed or fall below the levels we consider desirable on a going-forward basis. This could result in distributors returning unsold inventory to us, or in us not having sufficient inventory to meet the demand for our products. If we are not able to accurately predict sales through our distributors or effectively manage our relationships with our distributors, our business and financial results will suffer.

A small number of customers generally account for a significant portion of our accounts receivable in any period, and if any one of them fails to pay us, our financial position and operating results will suffer.

At December 31, 2015, three customers accounted for 35%, 24% and 17% of our accounts receivable, respectively. If any of these customers do not pay us, our financial position and operating results will be harmed. Generally, we do not require collateral from our customers.

We have previously disclosed a material weakness in our internal control over financial reporting relating to the evaluation and calculation of our inventory reserve which management believes has been fully remediated. Should we have inadequately remediated this material weakness or should we otherwise fail to maintain effective internal control over financial reporting and disclosure controls and processes, our ability to report our financial condition and results of operations accurately and on a timely basis could be adversely affected.

In connection with the completion of the quarter-end closing and review procedures for the quarter ended December 31, 2013, certain errors were identified in the evaluation and calculation of our inventory write-down for

the quarter and nine month period then ended that were the result of a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

During these closing and review procedures, our management determined that we had not designed and maintained effective controls over the review of supporting information to confirm the completeness and accuracy of our calculations for the write-down of excess or obsolete inventory, thereby affecting the valuation of our inventory as of December 31, 2013. While this control deficiency did not result in any material misstatement of our historical financial statements, it did result in adjustments identified by our auditors as part of their quarterly review process, and require corrections after our initial estimate of excess and obsolete inventory write-downs for the three month period ended December 31, 2013.

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

Our acquisition of companies or technologies could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results.

In November 2015, we acquired all of the outstanding capital stock of privately held MikaMonu Group Ltd., a development-stage, Israel-based company that specializes in in-place associative computing for markets including big data, computer vision and cyber security. We also acquired substantially all of the assets related to the SRAM memory device product line of Sony Corporation in 2009. We intend to supplement our internal development activities by seeking opportunities to make additional acquisitions or investments in companies, assets or technologies that we believe are complementary or strategic. Other than the MikaMonu and Sony acquisitions, we have not made any such acquisitions or investments, and therefore our experience as an organization in making such acquisitions and investments is limited. In connection with the recently completed MikaMonu acquisition, we are subject to risks related to potential problems, delays or anticipated costs that may be encountered in the development of products based on the MikaMonu technology and the establishment of new markets and customer relationships for the potential new products. In addition, in connection with the MikaMonu acquisition and any future acquisitions or investments we may make, we face numerous other risks, including:

- difficulties in integrating operations, technologies, products and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of overpaying for or misjudging the strategic fit of an acquired company, asset or technology;
- problems or liabilities stemming from defects of an acquired product or intellectual property litigation that may result from offering the acquired product in our markets;
- challenges in retaining key employees to maximize the value of the acquisition or investment;
- inability to generate sufficient return on investment;
- incurrence of significant one-time write-offs; and
- delays in customer purchases due to uncertainty.

If we proceed with additional acquisitions or investments, we may be required to use a considerable amount of our cash, or to finance the transaction through debt or equity securities offerings, which may decrease our financial liquidity or dilute our stockholders and affect the market price of our stock. As a result, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be harmed.

Claims that we infringe third party intellectual property rights could seriously harm our business and require us to incur significant costs.

In recent years, there has been significant litigation in the semiconductor industry involving patents and other intellectual property rights. We have recently been involved in protracted patent infringement litigation, and we could become subject to additional claims or litigation in the future as a result of allegations that we infringe others' intellectual property rights or that our use of intellectual property otherwise violates the law. Claims that our products infringe the proprietary rights of others would force us to defend ourselves and possibly our customers, distributors or manufacturers against the alleged infringement. Any such litigation regarding intellectual property could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. If any claims received in the future were to be upheld, the consequences to us could require us to:

- stop selling our products that incorporate the challenged intellectual property;
- obtain a license to sell or use the relevant technology, which license may not be available on reasonable terms or at all;
- pay damages; or
- redesign those products that use the disputed technology.

Although patent disputes in the semiconductor industry have often been settled through cross-licensing arrangements, we may not be able in any or every instance to settle an alleged patent infringement claim through a cross-licensing arrangement in part because we have a more limited patent portfolio than many of our competitors. If a successful claim is made against us or any of our customers and a license is not made available to us on commercially reasonable terms or we are required to pay substantial damages or awards, our business, financial condition and results of operations would be materially adversely affected.

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

Our success and ability to compete depends in large part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws and non-disclosure and other contractual agreements to protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement. Monitoring unauthorized use of our intellectual property is difficult and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Our attempts to enforce our intellectual property rights could be time consuming and costly. We were recently involved in litigation to enforce our intellectual property rights and to protect our trade secrets. Additional litigation of this type may be necessary in the future. Any such litigation could result in substantial costs and diversion of resources. If competitors are able to use our technology without our approval or compensation, our ability to compete effectively could be harmed.

We may experience difficulties in transitioning to smaller geometry process technologies and other more advanced manufacturing process technologies, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition the manufacture of our products to smaller geometry process technologies. This transition will require us to migrate to new manufacturing processes for our

products and redesign certain products. The manufacture and design of our products is complex, and we may experience difficulty in transitioning to smaller geometry process technologies or new manufacturing processes. These difficulties could result in reduced manufacturing yields, delays in product deliveries and increased expenses. We are dependent on our relationships with TSMC and Powerchip to transition successfully to smaller geometry process technologies and to more advanced manufacturing processes. We cannot assure you that TSMC or Powerchip will be able to effectively manage the transition or that we will be able to maintain our relationship with them. If we or TSMC or Powerchip experience significant delays in this transition or fail to implement these transitions, our business, financial condition and results of operations could be materially and adversely affected.

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

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

Our products are complex to design and manufacture and could contain defects, which could reduce revenues or result in claims against us.

We develop complex products. Despite testing by us and our OEM customers, design or manufacturing errors may be found in existing or new products. These defects could result in a delay in recognition or loss of revenues, loss of market share or failure to achieve market acceptance. These defects may also cause us to incur significant warranty, support and repair costs, divert the attention of our engineering personnel from our product development efforts, result in a loss of market acceptance of our products and harm our relationships with our OEM customers. Our OEM customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Defects in wafers and other components used in our products and arising from the manufacturing of these products may not be fully recoverable from TSMC or our other suppliers. For example, in the quarter ended December 31, 2005, we incurred a charge of approximately $900,000 related to the write-off of inventory resulting from an error in the assembly process at one of our suppliers. This write-off adversely affected our operating results for fiscal 2006.

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

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

- capital spending by telecommunication and network service providers and other end-users who purchase our OEM customers' products;

- the competition our OEM customers face, particularly in the networking and telecommunications industries;

- the technical, manufacturing, sales and marketing and management capabilities of our OEM customers;

- the financial and other resources of our OEM customers; and
- the inability of our OEM customers to sell their products if they infringe third-party intellectual property rights.

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

Our products have lengthy sales cycles that make it difficult to plan our expenses and forecast results.

Our products are generally incorporated in our OEM customers' products at the design stage. However, their decisions to use our products often require significant expenditures by us without any assurance of success, and often precede volume sales, if any, by a year or more. If an OEM customer decides at the design stage not to incorporate our products into their products, we will not have another opportunity for a design win with respect to that customer's product for many months or years, if at all. Our sales cycle can take up to 24 months to complete, and because of this lengthy sales cycle, we may experience a delay between increasing expenses for research and development and our sales and marketing efforts and the generation of volume production revenues, if any, from these expenditures. Moreover, the value of any design win will largely depend on the commercial success of our OEM customers' products. There can be no assurance that we will continue to achieve design wins or that any design win will result in future revenues.

Any significant order cancellations or order deferrals could adversely affect our operating results.

We typically sell products pursuant to purchase orders that customers can generally cancel or defer on short notice without incurring a significant penalty. Any significant cancellations or deferrals in the future could materially and adversely affect our business, financial condition and results of operations. Cancellations or deferrals could cause us to hold excess inventory, which could reduce our profit margins, increase product obsolescence and restrict our ability to fund our operations. We generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not pay for these products, we could miss future revenue projections or incur significant charges against our income, which could materially and adversely affect our operating results.

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

We are endeavoring to expand our business, and any growth that we are successful in achieving could place a significant strain on our management systems, infrastructure and other resources. To manage such growth of our operations and resulting increases in the number of our personnel, we will need to invest the necessary capital to continue to improve our operational, financial and management controls and our reporting systems and procedures. Our controls, systems and procedures may prove to be inadequate should we experience significant growth. In addition, we may not have sufficient administrative staff to support our operations. For example, we currently have only five employees in our finance department in the United States, including our Chief Financial Officer. Furthermore, our officers have limited experience in managing large or rapidly growing businesses. If our management fails to respond effectively to changes in our business, our business may suffer.

Our international business exposes us to additional risks.

Products shipped to destinations outside of the United States accounted for 60.2%, 66.2%, 69.2% and 68.8% of our net revenues in the nine months ended December 31, 2015 and in fiscal 2015, 2014 and 2013, respectively. Moreover, a substantial portion of our products is manufactured and tested in Taiwan, and we are now conducting business operations in Israel as a result of our recently completed acquisition of MikaMonu. We intend to continue expanding our international business in the future. Conducting business outside of the United States subjects us to additional risks and challenges, including:

- heightened price sensitivity from customers in emerging markets;

- compliance with a wide variety of foreign laws and regulations and unexpected changes in these laws and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, competition, export licenses and other trade barriers;
- potential political and economic instability in, or foreign conflicts that involve or affect, the countries in which we, our customers and our suppliers are located;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;
- difficulties and costs of staffing and managing personnel, distributors and representatives across different geographic areas and cultures, including assuring compliance with the U. S. Foreign Corrupt Practices Act and other U. S. and foreign anti-corruption laws;
- limited protection for intellectual property rights in some countries; and
- fluctuations in freight rates and transportation disruptions.

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

TSMC and Powerchip, as well as our other independent suppliers and many of our OEM customers have operations in the Pacific Rim, an area subject to significant earthquake risk and adverse consequences related to the potential outbreak of contagious diseases such as the H1N1 Flu.

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

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

Changes in Taiwan's political, social and economic environment may affect our business performance.

Because much of the manufacturing and testing of our products is conducted in Taiwan, our business performance may be affected by changes in Taiwan's political, social and economic environment. For example, any political instability resulting from the relationship among the United States, Taiwan and the People's Republic of China could damage our business. Moreover, the role of the Taiwanese government in the Taiwanese economy is significant. Taiwanese policies toward economic liberalization, and laws and policies affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change, resulting in greater

restrictions on our ability and our suppliers' ability to do business and operate facilities in Taiwan. If any of these changes were to occur, our business could be harmed and our stock price could decline.

We are substantially dependent on the continued services and performance of our senior management and other key personnel.

Our future success is substantially dependent on the continued services and continuing contributions of our senior management who must work together effectively in order to design our products, expand our business, increase our revenues and improve our operating results. Members of our senior management team have long-standing and important relationships with our key customers and suppliers. The loss of services of Lee-Lean Shu, our President and Chief Executive Officer, Robert Yau, our Vice President of Engineering, any other executive officer or other key employee could significantly delay or prevent the achievement of our development and strategic objectives. We do not have employment contracts with, nor maintain key person insurance on, any of our executive officers.

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

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

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

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

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

Some of our products are incorporated into advanced military electronics such as radar and guidance systems. Military expenditures and appropriations for such purchases rose significantly in recent years. However, as the current conflict in Afghanistan winds down, demand for our products for use in military applications may decrease, and our operating results could suffer. Domestic budget considerations may also adversely affect our operating results. For example, if governmental appropriations for military purchases of electronic devices that include our products are reduced, our revenues will likely decline.

Our operations involve the use of hazardous and toxic materials, and we must comply with environmental laws and regulations, which can be expensive, and may affect our business and operating results.

We are subject to federal, state and local regulations relating to the use, handling, storage, disposal and human exposure to hazardous and toxic materials. If we were to violate or become liable under environmental laws in the future as a result of our inability to obtain permits, human error, accident, equipment failure or other causes, we could be subject to fines, costs, or civil or criminal sanctions, face property damage or personal injury claims or be required to incur substantial investigation or remediation costs, which could be material, or experience disruptions in our operations, any of which could have a material adverse effect on our business. In addition, environmental laws

could become more stringent over time imposing greater compliance costs and increasing risks and penalties associated with violations, which could harm our business.

We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances applicable to specified electronic products placed on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the RoHS Directive). We also expect that our operations will be affected by other new environmental laws and regulations on an ongoing basis. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, and could require that we change the design and/or manufacturing of our products, any of which could have a material adverse effect on our business.

The trading price of our common stock is subject to fluctuation and is likely to be volatile.

The trading price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control, including:

- actual or anticipated declines in operating results;
- changes in financial estimates or recommendations by securities analysts;
- the institution of legal proceedings against us or significant developments in such proceedings;
- announcements by us or our competitors of financial results, new products, significant technological innovations, contracts, acquisitions, strategic relationships, joint ventures, capital commitments or other events;
- changes in industry estimates of demand for Very Fast SRAM products;
- the gain or loss of significant orders or customers;
- recruitment or departure of key personnel; and
- market conditions in our industry, the industries of our customers and the economy as a whole**.**

In recent years the stock market in general, and the market for technology stocks in particular, have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. The market price of our common stock might experience significant fluctuations in the future, including fluctuations unrelated to our performance. These fluctuations could materially adversely affect our business relationships, our ability to obtain future financing on favorable terms or otherwise harm our business. In addition, in the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. This risk is especially acute for us because the extreme volatility of market prices of technology companies has resulted in a larger number of securities class action claims against them. Due to the potential volatility of our stock price, we may in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources. This could harm our business and cause the value of our stock to decline.

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

From November 2008 through December 2015 we repurchased and retired an aggregate of 9,546,446 shares of our common stock at a total cost of $50.6 million, including 3,846,153 shares repurchased at a total cost of $25 million pursuant to a modified “Dutch auction” self-tender offer that we completed in August 2014 and additional shares repurchased in the open market pursuant to our stock repurchase program. At December 31, 2015, we had outstanding authorization from our Board of Directors to purchase up to an additional $4.4 million of our

common stock from time to time under our repurchase program. Although our Board has determined that these repurchases are in the best interests of our stockholders, they expose us to certain risks including:

- the risks resulting from a reduction in the size of our "public float," which is the number of shares of our common stock that are owned by non-affiliated stockholders and available for trading in the securities markets, which may reduce the volume of trading in our shares and result in reduced liquidity and, potentially, lower trading prices;

- the risk that our stock price could decline and that we would be able to repurchase shares of our common stock in the future at a lower price per share than the prices we have paid in our tender offer and repurchase program; and

- the risk that the use of a portion of our cash reserves for this purpose has reduced, or may reduce, the amount of cash that would otherwise be available to pursue potential cash acquisitions or other strategic business opportunities.

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

As of January 31, 2016, our executive officers, directors and entities affiliated with them beneficially owned approximately 33% of our outstanding common stock. As a result, these stockholders will be able to exercise substantial influence over, and may be able to effectively control, matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could have the effect of delaying or preventing a third party from acquiring control over or merging with us.

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

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

- our stockholders have no right to remove directors without cause;

- our stockholders have no right to act by written consent;

- our stockholders have no right to call a special meeting of stockholders; and

- stockholders must comply with advance notice requirements to nominate directors or submit proposals for consideration at stockholder meetings.

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

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Stock Repurchase Program

On November 13, 2008, we announced that our Board of Directors had authorized us to repurchase, at management's discretion, shares of our common stock having an aggregate purchase price of up to $10 million (the "Repurchase Program"). On January 26, 2012, we announced that the Board had increased the dollar value of shares that may be repurchased under the Repurchase Program by $10 million, and, on August 21, 2013, we announced that the Board had further increased the dollar value by an additional $10 million. Under the Repurchase Program, we may repurchase shares from time to time on the open market or in private transactions. The specific timing and amount of the repurchases are dependent on market conditions, securities law limitations and other factors. The Repurchase Program may be suspended or terminated at any time without prior notice.

Below is a summary of the repurchases of our common stock made during the quarter ended December 31, 2015, all of which were made under the Repurchase Program:

Period	Shares Repurchased	Average Price per Share	Value of Shares That May Yet Be Repurchased Under the Repurchase Program
Beginning approximate dollar value available to be repurchased as of September 30, 2015			$ 5,428,781
October 1 to October 31, 2015	50,401	$ 4.26	$ 5,214,051
November 1 to November 30, 2015	99,561	$ 4.38	$ 4,778,465
December 1 to December 31, 2015	89,546	$ 4.00	$ 4,419,935
Total shares repurchased	239,508		
Ending approximate dollar value that may be repurchased as of December 31, 2015			$ 4,419,935

Item 6. *Exhibits*

Exhibit Number	Name of Document
10.1	Stock Purchase Agreement dated November 23, 2015 among GSI Technology, Inc., GSI Technology Holdings, Inc. and MikaMonu Group Ltd.
31.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Douglas M. Schirle, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, and Douglas M. Schirle, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 8, 2016

GSI Technology, Inc.

By: /s/ LEE-LEAN SHU
Lee-Lean Shu
President, Chief Executive Officer and Chairman

By: /s/ DOUGLAS M. SCHIRLE
Douglas M. Schirle
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Name of Document
10.1	Stock Purchase Agreement dated November 23, 2015 among GSI Technology, Inc., GSI Technology Holdings, Inc. and MikaMonu Group Ltd.
31.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Douglas M. Schirle, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Lee-Lean Shu, President, Chief Executive Officer and Chairman, and Douglas M. Schirle, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 10.1

EXECUTION VERSION

STOCK PURCHASE AGREEMENT

by and among

GSI TECHNOLOGY, INC.,
a Delaware corporation
("Parent"),

GSI TECHNOLOGY HOLDINGS, INC.,
a Cayman Islands corporation and wholly-owned subsidiary of Parent
("Buyer"),

MIKAMONU GROUP LTD.,
an Israeli corporation
(the "Company"),

and

THE HOLDERS OF ALL OUTSTANDING CAPITAL STOCK OF THE COMPANY
(the "Shareholders")

Dated as of November 23, 2015

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

EXHIBITS

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (as amended, modified or supplemented from time to time in accordance with the terms hereof) (this "Agreement") is made and entered into as of November 23, 2015 by and among GSI TECHNOLOGY, INC., a Delaware corporation ("Parent"), GSI TECHNOLOGY HOLDINGS, INC., a Cayman Islands corporation and wholly-owned subsidiary of Parent ("Buyer"), MIKAMONU GROUP LTD., an Israeli corporation (the "Company"), Avidan Akerib ("Akerib"), Ruth Orda ("Orda") and Itai Leshem, as trustee ("Leshem") (each of Akerib, Orda and Leshem a "Shareholder" and, collectively, the "Shareholders"), and Orda in her additional capacity as Shareholders' Representative.

RECITALS

A. The Shareholders own all of the issued and outstanding ordinary shares, par value NIS 1.00 per share, of the Company (the "Shares");

B. Buyer desires to purchase from the Shareholders, and the Shareholders desire to sell to Buyer, at the Closing (as defined below) all of the Shares upon the terms and subject to the conditions set forth in this Agreement;

C. Concurrently with the execution and delivery of this Agreement, Akerib is entering into an agreement with Buyer and Parent regarding his continued employment by the Company following the Closing in the form of Exhibit A hereto (the "Employment Agreement") and a Non-Competition, Non-Solicitation, Non-Disparagement and Confidentiality Agreement in the form of Exhibit B hereto (the "Non-Competition Agreement"); and

D. Contemporaneously with the Closing, Parent and Buyer shall enter into an Escrow Agreement with ESOP Management and Trust Services Ltd., as escrow agent (the "Escrow Agent"), and the Shareholders' Representative substantially in the form of Exhibit C hereto (the "Escrow Agreement").

AGREEMENT

NOW THEREFORE, in consideration of the premises and mutual promises herein made, and in consideration of the representations, warranties and covenants herein contained, the parties to this Agreement hereby agree as follows:

ARTICLE I
DEFINITIONS; CERTAIN RULES OF CONSTRUCTION.

Section 1.01. Definitions.

(a) In addition to the other terms defined throughout this Agreement, the following terms shall have the following meanings when used in this Agreement:

"Action" means any claim, controversy, action, cause of action, suit, litigation, arbitration, investigation, opposition, interference, audit, assessment, hearing, complaint, demand or other legal proceeding (whether sounding in contract, tort or otherwise,

whether civil or criminal and whether brought at law or in equity) that is commenced, brought, conducted, tried or heard by or before, or otherwise involving, any Governmental Authority.

"Affiliate" means, with respect to any specified Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such specified Person. For purposes of the foregoing, (a) a Person shall be deemed to control a specified Person if such Person (or a Family Member of such Person) possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such specified Person or (b) if such other Person is at such time a direct or indirect beneficial holder of at least 10% of any class of the Equity Interests of such specified Person.

"Ancillary Agreements" means the Employment Agreement, the Non-Competition Agreement, the Escrow Agreement and each of the other agreements, certificates, instruments and documents to be executed and delivered by the parties in connection with the Contemplated Transactions.

"Business" means the businesses conducted by the Company as of the date hereof.

"Business Day" means any day other than a Saturday or a Sunday or a weekday on which banks in San Jose, California are authorized or required to be closed.

"Change of Control Payment" means (a) any bonus, severance or other payment or other form of Compensation that is created, accelerated, accrues or becomes payable by the Company to any present or former director, stockholder, employee or consultant thereof, including pursuant to any employment agreement, benefit plan or any other Contractual Obligation, including any Taxes payable on or triggered by any such payment (other than payments in respect of the Shares under or as described in Article II of this Agreement) and (b) without duplication of any other amounts included within the definition of Shareholder Transaction Expenses, any other payment, expense or fee that accrues or becomes payable by the Company to any Governmental Authority or other Person under any Legal Requirement or Contractual Obligation, including in connection with the making of any filings, the giving of any notices or the obtaining of any consents, authorizations or approvals, in the case of each of (a) and (b), as a result of, or in connection with, the execution and delivery of this Agreement or any Ancillary Agreement or the consummation of the Contemplated Transactions.

"Change of Control Transaction" means, with respect to any Person, (i) the sale, lease, exclusive license, or other disposition of all or substantially all of such Person's property, business, technology or Intellectual Property Rights, (ii) the merger or consolidation of such Person with or into any other entity (other than a wholly-owned Subsidiary of such Person) or (iii) any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of such Person is transferred or disposed of, other than a transaction primarily for financing purposes.

"Closing Date" means the date on which the Closing actually occurs.

"Code" means the U.S. Internal Revenue Code of 1986, as amended.

"Company Disclosure Schedule" means the separate set of schedules relating to this Agreement prepared by the Company and delivered by the Company and the Shareholders' Representative to Parent and Buyer immediately prior to the execution and delivery of this Agreement.

"Company Intellectual Property Rights" means all Licensed Intellectual Property Rights and Owned Intellectual Property Rights.

"Company's Knowledge," "Knowledge of the Company" and similar formulations mean that one or more of Akerib and Orda (a) has actual knowledge of the fact or other matter at issue or (b) should have had actual knowledge of such fact or other matter assuming the diligent exercise of such individual's duties as a director, officer or employee of the Company.

"Company Products" means any products being sold, manufactured or developed, and any services being provided, by the Company in connection with and/or related to the Business as currently conducted.

"Compensation" means, with respect to any Person, all salaries, compensation, remuneration, bonuses or benefits of any kind or character whatsoever (including issuances or grants of Equity Interests), made directly or indirectly by the Company to or for the benefit of such Person or any Family Member of such Person in connection with their employment or engagement by the Company.

"Contemplated Transactions" means the transactions contemplated by this Agreement, including (a) the purchase and sale of the Shares, and the other transactions described in the recitals to this Agreement, (b) the execution, delivery and performance of the Ancillary Agreements and (c) the payment of fees and expenses relating to such transactions.

"Contractual Obligation" means, with respect to any Person, any contract, agreement, deed, mortgage, lease, sublease, license, sublicense or other commitment, promise, undertaking, obligation, arrangement, instrument or understanding, whether written or oral, to which or by which such Person is a party or otherwise subject or bound or to which or by which any property, business, operation or right of such Person is subject or bound.

"Debt" means, with respect to any Person, and without duplication, all Liabilities, including all obligations in respect of principal, accrued interest, penalties, fees and premiums, of such Person (a) for borrowed money (including amounts outstanding under overdraft facilities), (b) evidenced by notes, bonds, debentures or other similar Contractual Obligations, (c) in respect of "earn-out" obligations and other obligations for the deferred purchase price of property, goods or services (other than trade payables or accruals incurred in the Ordinary Course of Business), (d) for the capitalized liability

under all capital leases of such Person (determined in accordance with U.S. GAAP or Israeli GAAP, as applicable), (e) in respect of letters of credit and bankers' acceptances and (f) in the nature of Guarantees of any of the obligations described in clauses (a) through (e) above of any other Person.

"Employee Plan" means any plan, program, policy, arrangement or Contractual Obligation, whether formal or informal, whether or not reduced to writing, and whether covering a single individual or a group of individuals, that is (a) a welfare plan within the meaning of any applicable Legal Requirement, (b) a pension benefit plan within the meaning of any applicable Legal Requirement, (c) a stock bonus, stock purchase, stock option, restricted stock, stock appreciation right or similar equity-based plan or (d) any other deferred-compensation, retirement, severance, welfare-benefit, reimbursement, bonus, profit-sharing, incentive or fringe-benefit plan, program or arrangement.

"Encumbrance" means any charge, claim, community or other marital property interest, equitable or ownership interest, lien, license, option, pledge, security interest, mortgage, deed of trust, right of way, easement, encroachment, servitude, right of first offer or first refusal, buy/sell agreement and any other restriction or covenant with respect to, or condition governing the use, construction, voting (in the case of any security or Equity Interest), transfer, receipt of income or exercise of any other attribute of ownership (other than, in the case of a security, any restriction on the transfer of such security arising solely under federal and state securities laws).

"Enforceable" means, with respect to any Contractual Obligation stated to be Enforceable by or against any Person, that such Contractual Obligation is a legal, valid and binding obligation of such Person enforceable by or against such Person in accordance with its terms, except to the extent that enforcement of the rights and remedies created thereby is subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application affecting the rights and remedies of creditors and to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

"Environmental Laws" means any Legal Requirement relating to (a) releases or threatened releases of Hazardous Substances, (b) pollution or protection of public health or the environment or worker safety or health or (c) the manufacture, handling, transport, use, treatment, storage, or disposal of Hazardous Substances.

"Equity Interest" means, with respect to any Person, (a) any capital stock, partnership or membership interest, unit of participation or other similar interest (however designated) in such Person and (b) any option, warrant, purchase right, conversion right, exchange right or other Contractual Obligation which would entitle any other Person to acquire any such interest in such Person or otherwise entitle any other Person to share in the equity, profits, earnings, losses or gains of such Person (including stock appreciation, phantom stock, profit participation or other similar rights).

"Facilities" means any buildings, plants, improvements or structures located on the Real Property.

"Family Member" means, with respect to any individual, (a) such Person's spouse, (b) each parent, brother, sister or child of such Person or such Person's spouse, (c) the spouse of any Person described in clause (b) above, (d) each child of any Person described in clauses (a), (b) or (c) above, (e) each trust created for the benefit of one or more of the Persons described in clauses (a) through (d) above and (f) each custodian or guardian of any property of one or more of the Persons described in clauses (a) through (e) above in his or her capacity as such custodian or guardian.

"Government Contract" means any Contractual Obligation between the Company in its capacity as a prime contractor and any department or agency of any Governmental Authority.

"Government Subcontract" means any Contractual Obligation between the Company and any prime contractor or upper-tier subcontractor relating to a Contractual Obligation between such person and any department or agency of any Governmental Authority, and any subcontract under a Government Contract awarded by the Company to another Person under such Contractual Obligation or subcontract.

"Governmental Authority" means any United States, Israeli or other federal, state, local or municipal government, or political subdivision thereof, regulatory, self-regulatory, or any multinational organization or authority, or any other authority, agency, bureau, board, court, department, tribunal, instrumentality or commission thereof entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power, any court or tribunal, or any arbitrator or arbitral body.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, ruling, decision, verdict, determination or award made, issued or entered by or with any Governmental Authority.

"Guarantee" means, with respect to any Person, (a) any guarantee of the payment or performance of, or any contingent obligation in respect of, any Debt or other Liability of any other Person, (b) any other arrangement whereby credit is extended to any obligor (other than such Person) on the basis of any promise or undertaking of such Person (i) to pay the Debt or other Liability of such obligor, (ii) to purchase any obligation owed by such obligor, (iii) to purchase or lease assets under circumstances that are designed to enable such obligor to discharge one or more of its obligations or (iv) to maintain the capital, working capital, solvency or general financial condition of such obligor and (c) any liability as a general partner of a partnership or as a venturer in a joint venture in respect of Debt or other Liabilities of such partnership or venture.

"Hazardous Substance" means any pollutant, petroleum, or any fraction thereof, contaminant or toxic or hazardous material (including toxic mold), substance or waste.

"Indemnified Person" means, with respect to any Indemnity Claim, each Parent Indemnified Person or Shareholder Indemnified Person asserting the Indemnity Claim (or on whose behalf the Indemnity Claim is asserted) under Sections 9.01 or 9.02, as the case may be (it being understood that, as contemplated by Section 11.04, the Shareholders'

Representative will be the sole and exclusive agent, representative and attorney-in-fact for each of the Shareholders for all purposes of asserting Indemnity Claims, receiving and giving notices and service of process in respect thereof, making filings with any court or other Governmental Authority in respect thereof and controlling and otherwise making all decisions in connection with each Indemnity Claim brought on behalf of any Shareholders under Section 9.02, and the term "Indemnified Person" shall mean the Shareholders' Representative to the extent that it is acting in such capacity on behalf of any Shareholders).

"Indemnifying Party" means, with respect to any Indemnity Claim, the party or parties against whom such Indemnity Claim may be or has been asserted (it being understood that, without in any way limiting the Shareholders' payment and other obligations under any Contractual Obligation or Governmental Order arising out of, relating to, or resulting from any Indemnity Claim, as contemplated by Section 11.04, the Shareholders' Representative will be the sole and exclusive agent, representative and attorney-in-fact for each of the Shareholders for all purposes of responding to and defending Indemnity Claims, receiving and giving notices and service of process in respect thereof, making filings with any court or other Governmental Authority in respect thereof, controlling and otherwise making all decisions on behalf of each of the Shareholders in connection with each Indemnity Claim brought against any of the Shareholders under Section 9.01, and the term "Indemnifying Party" shall mean the Shareholders' Representative when it is acting in such capacity on behalf of any or all of the Shareholders).

"Indemnity Claim" means a claim for indemnity under Section 9.01 or 9.02, as the case may be.

"Indemnity Escrow Amount" means $496,400 less ten percent (10%) of the Shareholder Transaction Expenses deducted in the calculation of the Closing Cash Consideration pursuant to Section 2.03(b).

"Initial MikaMonu Product" means the first semiconductor memory device developed by the MikaMonu Business Unit incorporating associative computing technology based on the MikaMonu Technology and/or the MikaMonu IP and meeting specifications to be agreed upon by the Company and Akerib.

"Intellectual Property Rights" means any and all statutory and/or common law rights of every kind and nature, throughout the world, in, arising out of, or associated with:

(a) patents, utility models and all reissues, divisions, re-examinations, renewals, extensions, provisionals, continuations and continuations-in-part thereof and patentable inventions;

(b) copyrights, works of authorship, including computer programs, source code and executable code, whether embodied in software, firmware, documentation, designs, files, records, schematics, layouts or data, and mask works,

rights of privacy and publicity, moral rights, database rights provided by law, and all other proprietary rights;

(c) trademarks, trade names, service marks, service names, brands, trade dress and logos, and the goodwill associated therewith;

(d) domain names, web addresses and uniform resource locators (URLs);

(e) confidential information, trade secrets, and, to the extent confidential discoveries, innovations, know-how, proprietary information (including ideas, research and development, formulas, algorithms, compositions, processes and techniques, data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, business and marketing plans and proposals, graphics, illustrations, artwork, documentation, and manuals), including improvements, modifications, works in process, derivatives, or changes, to any of the foregoing;

(f) any other intellectual property or similar corresponding or equivalent rights to any of the foregoing anywhere in the world; and

(g) any and all registrations and applications relating to any of the foregoing.

"Israeli GAAP" means generally accepted accounting principles in the State of Israel as in effect from time to time.

"ITA" means the Israeli Tax Authority.

"Legal Requirement" means any law, statute, standard, ordinance, code, rule, regulation, resolution or promulgation of any Governmental Authority, or any Governmental Order, or any Permit granted under any of the foregoing, or any similar provision having the force or effect of law.

"Liability" means, with respect to any Person, any liability or obligation of such Person whether known or unknown, whether asserted or unasserted, whether determined, determinable or otherwise, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether directly incurred or consequential, whether due or to become due and whether or not required under U.S. GAAP or Israeli GAAP (as applicable) to be accrued on the financial statements of such Person.

"Licensed Intellectual Property Rights" means Intellectual Property Rights licensed to the Company that are used in and/or necessary for the conduct of the Business as currently conducted.

"Material Adverse Effect" means an adverse change to the business, assets, properties, financial condition, results of operations or prospects of the Company which, when taken as a whole, has a material adverse effect on the Company; provided,

however, that in no event shall any change resulting from changes in general business, financial, political, capital market or economic conditions (including any change resulting from any hostilities, war or military or terrorist attack) be taken into account in the determination of whether a Material Adverse Effect has occurred, except to the extent such change adversely affects the Company materially more than other companies in its industry.

"MikaMonu Business Unit" means the Company or any other Subsidiary, Affiliate or business unit of Parent conducting the Business in its current form or as may be conducted from time to time in the future based on the MikaMonu Technology and/or the MikaMonu IP.

"MikaMonu IP" means the Company Intellectual Property Rights as of the Closing Date and all improvements, enhancements, modifications and additions thereto created or acquired by the MikaMonu Business Unit following the Closing Date.

"MikaMonu Products" means: (i) the Company Products, including products currently under research and/or development by the Company; (ii) new products designed, developed, made, imported, exported, distributed, sold or offered for sale based on the MikaMonu Technology and/or MikaMonu IP by Parent, the MikaMonu Business Unit or any other Affiliate of Parent during the Earn-Out Period; and (iii) any revisions or updates of any of the foregoing designed, developed, made, imported, exported, distributed, sold or offered for sale by Parent, the MikaMonu Business Unit or any other Affiliate of Parent during the Earn-Out Period .

"MikaMonu Revenues" means net revenues from the sale, licensing or other monetization of MikaMonu Products, MikaMonu Technology or MikaMonu IP by the Company, as a Subsidiary of Parent, or by Parent or any other Affiliate of Parent, recognized by any of the foregoing in accordance with U.S. GAAP, as consistently applied, during the Earn-Out Period; provided, however, that (i) net revenues received from the sale or licensing of demonstration or evaluation units shall not be considered to be MikaMonu Revenues and (ii) MikaMonu Revenues from the sale of products in which MikaMonu Products, MikaMonu Technology and/or MikaMonu IP are combined with other components or technology into an end product (a "Combination Product") shall be calculated on the basis of the full amount of the net revenues from the sale of the Combination Product.

"MikaMonu Technology" means the Company's technology as of the Closing Date and all improvements, enhancements, modifications and additions thereto created or acquired by the MikaMonu Business Unit following the Closing Date.

"NIS" means Israeli new shekel.

"Ordinance" means the Israeli Income Tax Ordinance (New Version), 1961, as amended, and all rules and regulations promulgated thereunder.

"Ordinary Course of Business" mean, with respect to any Person, an action taken by such Person in the ordinary course of such Person's business that is consistent with the

past customs and practices of such Person and that is taken in the ordinary course of the normal day-to-day operations of such Person.

"Organizational Documents" means, with respect to any Person (other than an individual), (a) the certificate or articles of incorporation, association or organization and any joint venture, limited liability company, operating or partnership agreement and other similar documents adopted or filed in connection with the creation, formation or organization of such Person and (b) all by-laws, voting agreements and similar documents, instruments or agreements relating to the organization or governance of such Person, in each case, as amended or supplemented.

"Owned Intellectual Property Rights" means Intellectual Property Rights owned by the Company that are used in or necessary for the conduct of the Business as currently conducted and as currently proposed to be conducted.

"Permit" means, with respect to any Person, any license, franchise, permit, consent, approval, right, privilege, certificate or other similar authorization issued by, or otherwise granted by, any Governmental Authority to which or by which such Person is subject or bound or to which or by which any property, business, operation or right of such Person is subject or bound.

"Permitted Encumbrance" means (a) statutory liens for current Taxes not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings and for which appropriate reserves have been established in accordance with U.S. GAAP or Israeli GAAP, as applicable, (b) mechanics', materialmen's, carriers', workers', repairers' and similar statutory liens arising or incurred in the Ordinary Course of Business the existence of which would not constitute an event of default under, or breach of, a Real Property Lease and the Liabilities of the Company in respect of which are not overdue or otherwise in default, (c) liens to secure landlords, lessors or renters under leases or rental agreements (to the extent the Company is not in default under such lease or rental agreement) and (d) the rights of the bank in which the Company's accounts are maintained to place a charge, lien or encumbrance on an account solely for the purpose of securing an overdraft in another account or other borrowing facility of the Company.

"Person" means any individual or any corporation, association, partnership, limited liability company, joint venture, joint stock or other company, business trust, trust, organization, Governmental Authority or other entity of any kind.

"Pro Rata Percentage" means, with respect to each Shareholder, the following percentage: Akerib – 49.5% ; Orda – 49.5% and Leshem – 1.0%.

"Publicly Available Software" means: (a) any software that contains, or is derived in any manner (in whole or in part) from, any software that is distributed as free software, open source software (e.g. Linux) or similar licensing or distribution models; and (b) any software that requires as a condition of use, modification and/or distribution of such software that such software or other software incorporated into, derived from or

distributed with such software (i) be disclosed or distributed in source code form, (ii) be licensed for the purpose of making derivative works or (iii) be redistributable at no charge.

"Representative" means, with respect to any Person, any director, officer, employee, agent, manager, consultant, advisor, or other representative of such Person, including legal counsel, accountants and financial advisors.

"Shareholder Transaction Expenses" means all costs, fees and expenses incurred in connection with or in anticipation of the negotiation, execution and delivery of this Agreement and the Ancillary Agreements or the consummation of the Contemplated Transactions to the extent such costs, fees and expenses are payable or reimbursable by the Company, including, (i) all brokerage fees, commissions, finders' fees or financial advisory fees, (ii) the fees and expenses of Shaked & Co. Law Offices and all other fees and expenses of legal counsel, accountants, consultants and other experts and advisors so incurred, (iii) any Change of Control Payments and (iv) any value added Tax applicable with respect to the costs, fees and expenses described in clauses (i) through (iv) above. Shareholder Transaction Expenses will not include the fees of the Escrow Agent pursuant to the Escrow Agreement.

"Subsidiary" means, with respect to any specified Person, any other Person of which such specified Person, directly or indirectly through one or more Subsidiaries, (a) owns at least 50% of the outstanding Equity Interests entitled to vote generally in the election of the board of directors or similar governing body of such other Person, or (b) has the power to generally direct the business and policies of that other Person, whether by contract or as a general partner, managing member, manager, joint venturer, agent or otherwise.

"Tax" or "Taxes" means (a) any and all United States, Israeli or other federal, state or local charges, fees, levies or other assessments, including income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, escheat, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax, custom, duty or governmental fee, or other like assessment or charge of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not and (b) any liability for the payment of any amounts of the type described in clause (a) of this definition as a result of being a member of an affiliated, consolidated, combined or unitary group for any period, as a result of any tax sharing or tax allocation agreement, arrangement or understanding, or as a result of being liable for another Person's taxes as a transferee or successor, by Contractual Obligation or otherwise.

"Tax Return" means any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Treasury Regulations" means the regulations promulgated under the Code.

"U.S. GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Valid Tax Certificate" means a valid certificate, ruling or any other written instructions regarding Tax withholding specific to the Contemplated Transactions, issued by the applicable Governmental Authority in form and substance reasonably satisfactory to Buyer, that is applicable to the payments to be made to any Person pursuant to this Agreement stating that no withholding, or reduced withholding of Israeli Tax is required with respect to such payment or providing any other instructions regarding Tax withholding; provided, however, that the final version of any request for a Valid Tax Certificate shall under any circumstances be subject to the prior written approval of Buyer, which will not be unreasonably withheld or delayed.

(b) In addition to the defined terms in paragraph (a) above, the following terms are defined elsewhere in this Agreement:

Term	Section
Agreement	Preamble
Akerib	Preamble
Assets	Section 3.09(a)
Audited Financials	Section 3.06(a)(i)
Beneficial Enterprise	Section 3.13(m)
Buy-Back Notice	Section 2.12(a)
Buyer	Preamble
Claims	Section 6.08
Closing	Section 2.04
Closing Cash Consideration	Section 2.03
Company	Preamble
Company Registrations	Section 3.11(c)
Continuing Employee	Section 6.07(a)
Current Liability Policies	Section 3.22
Deferred Cash Consideration	Section 2.06(a)
Deferred Payment Dates	Section 2.06(a)
Discontinuation Notice	Section 2.12(a)
Earn-Out Consideration	Section 2.07(b)
Earn-Out Period	Section 2.07(b)
Earn-Out Provisions	Section 2.02
Employment Agreement	Recitals
Escrow Agent	Recitals
Escrow Agreement	Recitals
Financials	Section 3.06(a)(ii)
Holdback Amount	Section 2.05(a)(iii)
IP Contracts	Section 3.11(d)
Leshem	Preamble
Losses	Section 9.01(a)
Material Company Contract	Section 3.16(b)

Term	Section
MGI	Section 3.01(b)
MikaMonu Revenues Certification	Section 2.08(a)
Milestone	Section 2.07(a)
Milestone Payment	Section 2.07(a)
Non-Competition Agreement	Recitals
OCS	Section 3.11(k)
Orda	Preamble
Outbound IP Contracts	Section 3.11(d)
Parent	Preamble
Parent Common Stock	Section 2.09(c)
Parent Indemnified Person	Section 9.01(a)
Parent SEC Reports	Section 5.07
Payee	Section 2.10(a)
Payor	Section 2.10(a)
Pre-Closing Tax Period	Section 10.02
Purchase Consideration	Section 2.02
Real Property	Section 3.10(a)
Real Property Leases	Section 3.10(a)
Reference Balance Sheet	Section 3.06(a)(ii)
Reference Balance Sheet Date	Section 3.06(a)(ii)
Revenue-Based Payments	Section 2.07(b)
SEC	Section 2.09(d)
Scheduled Intellectual Property Rights	Section 3.11(c)
Section 14 Arrangement	Section 3.20(a)
Shareholder Indemnified Person	Section 9.02(a)
Shareholders	Preamble
Shareholders' Representative	Section 11.04(a)
Shares	Recitals
Straddle Period	Section 10.04
Tax Contest Claims	Section 10.06
Third Party Claim	Section 9.04(a)
Transfer Taxes	Section 10.01
VAT	Section 3.13(q)
Withholding Drop Date	Section 2.10(b)

Section 1.02. Certain Matters of Construction.

(a) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

(b) Section and subsection headings are not to be considered part of this Agreement, are included solely for convenience, are not intended to be full or accurate

descriptions of the content of the Sections or subsections of this Agreement and shall not affect the construction hereof.

(c) Except as otherwise explicitly specified to the contrary herein, (i) the words "hereof," "herein," "hereunder" and words of similar import shall refer to this Agreement as a whole and not to any particular Section or subsection of this Agreement and reference to a particular Section of this Agreement shall include all subsections thereof, (ii) references to a Section or Exhibit means a Section of or Exhibit to this Agreement, unless another agreement is specified, (iii) definitions shall be equally applicable to both the singular and plural forms of the terms defined, and references to the masculine, feminine or neuter gender shall include each other gender, (iv) the word "including" means including without limitation, (v) any reference to "$" or "dollars" means United States dollars and (vi) references to a particular statute or regulation include all rules and regulations thereunder and any successor statute, rule or regulation, in each case as amended or otherwise modified from time to time.

(d) The parties intend that each representation, warranty and covenant contained herein will have independent significance. If any party has breached or violated, or if there is an inaccuracy in, any representation, warranty or covenant contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached or violated, or in respect of which there is not an inaccuracy, will not detract from or mitigate the fact that the party has breached or violated, or there is an inaccuracy in, the first representation, warranty or covenant.

(e) Unless the context clearly requires otherwise, when used herein "or" shall not be exclusive (i.e., "or" shall mean "and/or").

(f) Time is of the essence with regard to all dates and time periods set forth or referred to in this Agreement.

(g) Where a provision of the Agreement states that the Company has "made available" any document to Parent, that means that such document has been posted to the Company's electronic data room not later than two (2) Business Days prior to the date of this Agreement.

ARTICLE II
PURCHASE AND SALE OF SHARES; CLOSING.

Section 2.01. Purchase and Sale of Shares. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, each of the Shareholders shall sell, transfer and deliver to Buyer, free and clear of all Encumbrances, and Buyer shall purchase from each of the Shareholders, all of the outstanding Shares held by such Shareholders.

Section 2.02. Purchase Consideration. The aggregate consideration for the purchase of the Shares hereunder (the "Purchase Consideration") shall consist of: (i) the Closing Cash Consideration calculated pursuant to Section 2.03, (ii) the Deferred Cash Consideration to the extent that it becomes payable to the Shareholders pursuant to Section 2.06, (iii) any portion of the Indemnity Escrow Amount that becomes payable to the Shareholders pursuant to this

Agreement and the Escrow Agreement and (iv) the Earn-Out Consideration to the extent that it becomes payable to the Shareholders pursuant to Sections 2.07, 2.08 and 2.09 (the "Earn-Out Provisions").

Section 2.03. Closing Cash Consideration. At the Closing, Buyer shall deliver to the Shareholders cash in an aggregate amount determined as follows (the "Closing Cash Consideration"):

(a) $4,964,000 U.S. dollars;

(b) less the amount of any Shareholder Transaction Expenses not otherwise paid by the Shareholders or reimbursed by the Shareholders to the Company prior to the Closing Date; and

(c) less the Indemnity Escrow Amount.

Section 2.04. The Closing. The purchase and sale of the Shares (the "Closing") shall take place on the date hereof at the offices of DLA Piper LLP (US), 2000 University Avenue, East Palo Alto, CA 94303, immediately after the execution and delivery of this Agreement, subject to the satisfaction or waiver of each of the conditions set forth in Articles VII and VIII hereof (other than those conditions which can be satisfied only at the Closing, but subject to the satisfaction or waiver of such conditions at Closing), or at such other time and place as may be agreed to by the parties hereto (with the Shareholders' Representative acting for all the Shareholders). The Closing shall be deemed to be effective for purposes of this Agreement as of 12:01 A.M. Pacific Time on the Closing Date. Notwithstanding the foregoing, the parties shall endeavor in good faith to effectuate the Closing simultaneously in different locations in order to avoid the travel and additional expense of requiring all parties to be simultaneously located in the same place. In furtherance thereof, the parties shall deliver, in escrow to their respective counsel and other appropriate parties, executed versions of all assignments, instructions, documents, certificates, wire transfer instructions, escrow instructions and other matters and things necessary to effect the Closing in such manner.

Section 2.05. Closing Deliveries and Payments.

(a) Buyer's Closing Deliveries and Payments. Upon the terms and subject to the conditions set forth in this Agreement, Buyer shall deliver or cause to be delivered at the Closing the following:

(i) to the Shareholders, an aggregate amount in cash equal to the Closing Cash Consideration, with each Shareholder receiving, by wire transfer of immediately available funds to an account of such Shareholder designated in writing by the Shareholders' Representative to Parent not less than two (2) Business Days prior to the Closing Date, an amount in cash equal to such Shareholders' Pro Rata Percentage of the Closing Cash Consideration;

(ii) to the Escrow Agent, an amount of cash equal to the Indemnity Escrow Amount; and

(iii) to the Escrow Agent, cash in the amount of $2,500,000 (the "Holdback Amount").

(b) Shareholders' Closing Deliveries. Upon the terms and subject to the conditions set forth in this Agreement, each Shareholder shall deliver or cause to be delivered to Buyer at the Closing certificates representing all Shares to be sold by such Shareholder hereunder, duly endorsed (or accompanied by duly executed transfer powers) and in proper form for transfer to Buyer, and with all required tax transfer stamps attached.

Section 2.06. Deferred Cash Consideration.

(a) Buyer will pay to the Shareholders, as additional consideration for the purchase of the Shares, cash in an aggregate amount up to the Holdback Amount. The Holdback Amount shall be held in escrow under the Escrow Agreement and released by the Escrow Agent to the Shareholders in installments (collectively, the "Deferred Cash Consideration") on the following dates (the "Deferred Payment Dates"), provided that, on each Deferred Payment Date, Akerib has been continually employed by Parent or a Subsidiary of Parent from the Closing Date through such Deferred Payment Date:

Deferred Payment Date	Deferred Cash Consideration
November 23, 2017	$ 750,000
November 23, 2018	$ 750,000
November 23, 2019	$ 1,000,000

(b) Any portion of the Holdback Amount that remains in escrow shall be released by the Escrow Agent to the Shareholders within thirty (30) Business Days following:

(i) a determination by Parent, or any Person that acquires control of Parent or the MikaMonu Business Unit through a Change of Control Transaction following the Closing Date, to discontinue development of the MikaMonu Technology and the MikaMonu IP (for the avoidance of doubt, a lack of activity over a three (3) month period shall be deemed to be a determination to discontinue the development of the MikaMonu Technology and the MikaMonu IP for purposes of this Section 2.06(b)(i)), in which case Parent or such other Person shall provide written notice of such determination to the Shareholder's Representative within ten (10) Business Days following such determination;

(ii) the termination by Parent or a Subsidiary of Parent of Akerib's employment other than for "Cause," as defined in the Employment Agreement;

(iii) the termination by Akerib of Akerib's employment with Parent or a Subsidiary of Parent for "Good Reason," as defined in the Employment Agreement; or

(iv) the termination of Akerib's employment with Parent or a Subsidiary of Parent due to his death.

(c) Any portion of the Holdback Amount that becomes payable pursuant to Sections 2.06(a) or 2.06(b) shall be paid to each Shareholder, in accordance with such Shareholders' Pro Rata Percentage, by wire transfer of immediately available funds to an account of such Shareholder designated in writing by the Shareholders' Representative to Parent and the Escrow Agent.

(d) The parties intend that the Deferred Cash Consideration payable from the Holdback Amount shall be a part of the aggregate consideration payable to the Shareholders for their Shares under this Agreement and that it shall not constitute taxable compensation or deemed taxable compensation for any services rendered or to be rendered at any time by any of the Shareholders. Each of the parties shall prepare and file all Tax Returns consistent with such treatment, unless otherwise required by the ITA or any applicable Legal Requirement, as determined in good faith by Parent or Buyer.

Section 2.07. Earn-Out Consideration.

(a) Buyer will pay to the Shareholders, as additional consideration for the purchase of the Shares, the following aggregate amounts (each a "Milestone Payment") subject to the achievement of the following milestones (each a "Milestone") by the applicable completion date:

Milestone	Milestone Completion Date	Milestone Payment
Tape-out of the Initial MikaMonu Product	December 31, 2017	$ 750,000
First $5,000,000 of MikaMonu Revenues	January 1, 2021	$ 2,750,000
Next $10,000,000 of MikaMonu Revenues	January 1, 2022	$ 4,000,000

(b) In addition, Buyer will pay to the Shareholders five percent (5%) of MikaMonu Revenues in excess of $15,000,000 recognized between the Closing Date and December 31, 2025 (the "Earn-Out Period") up to a maximum total of $30,000,000 (collectively, the "Revenue-Based Payments" and, together with the Milestone Payments, the "Earn-Out Consideration"), up to maximum total Earn-Out Consideration of $37,500,000.

Section 2.08. Determination of MikaMonu Revenues.

(a) MikaMonu Revenues, and the amount of any Milestone Payment or Revenue-Based Payment payable on the basis of such MikaMonu Revenues, shall be calculated by Parent for each fiscal quarter of Parent, beginning with the first fiscal quarter following the Closing in which MikaMonu Revenues are recognized and ending with the fiscal quarter ending December 31, 2025, and certified by Parent's Chief Financial Officer (each a "MikaMonu Revenues Certification"). The MikaMonu Revenues Certification for each such fiscal quarter shall be delivered by Parent to the Shareholders' Representative as soon as practicable after the end of such fiscal quarter and in no event more than twenty (20) Business Days thereafter.

(b) The Shareholders' Representative shall have twenty (20) Business Days (excluding Fridays and Jewish holidays) after receipt of any MikaMonu Revenues Certification

in which to give Parent written notice of any objection to the calculation of MikaMonu Revenues set forth in such MikaMonu Revenues Certification or the computation of the amount of the related Milestone Payment or Revenue-Based Payment. If the Shareholders' Representative does not timely object to any MikaMonu Revenues Certification, such MikaMonu Revenues Certification shall be deemed final and binding on all parties for all purposes of this Agreement except for changes based on computational errors or fraud which, in either case, are brought to Parent's attention promptly after their identification.

(c) Upon the request of the Shareholders' Representative, Parent shall allow the Shareholders' Representative and her accountants access to Parent's books and records relating to the calculation of MikaMonu Revenues for the limited purpose of reviewing such calculation, provided that the Shareholders' Representative and her accountants have entered into confidentiality agreements reasonably acceptable to Parent. All expenses incurred by the Shareholders' Representative in performing any such review shall be borne by the Shareholders, unless such review discloses an error of five percent (5%) or more in the calculation of MikaMonu Revenues, in which case Parent shall reimburse the Shareholders for such expenses.

(d) If the Shareholders' Representative timely objects to the calculation of MikaMonu Revenues set forth in any MikaMonu Revenues Certification, Parent and the Shareholders' Representative shall promptly meet and attempt in good faith to reach a resolution of such disagreement. Any dispute with respect to the amount of MikaMonu Revenues (or the amount of the related Milestone Payment or Revenue-Based Payment) which is not resolved by Parent and the Shareholders' Representative and their respective accountants within thirty (30) Business Days after delivery of notice of the dispute by the Shareholders' Representative shall, upon written request by either Parent or the Shareholders' Representative delivered to the other party, be submitted for final resolution to an independent certified public accounting firm of national reputation selected jointly by Parent's independent certified public accountants and an independent certified public accounting firm designated by the Shareholders' Representative. Each party shall, within ten (10) Business Days after submission of such dispute, deliver to such accounting firm the information such party wishes to have considered by such firm in making its determination. Each party shall promptly provide to such accounting firm any additional information relevant to the resolution of such dispute as such firm shall request. Such accounting firm shall present its determination and resolution of any dispute within thirty (30) Business Days after submission of such dispute to the firm. The determination and resolution by such accounting firm shall be binding and conclusive among the parties. The fees of such accounting firm shall be borne by the party or parties whose position in the dispute with respect to the calculation of MikaMonu Revenues is furthest from the final determination of the amount of MikaMonu Revenues by such accounting firm.

Section 2.09. Payment of Earn-Out Consideration.

(a) The Milestone Payment that becomes payable based on the tape-out of the Initial MikaMonu Product shall be paid within thirty (30) Business Days following the successful completion of such tape-out, as certified by the Chief Executive Officer of Parent.

(b) Any Milestone Payment or Revenue-Based Payment that becomes payable based on MikaMonu Revenues shall be paid on the earliest of (i) one (1) Business Day following

the expiration of the period for objection to the applicable MikaMonu Revenues Certification specified in Section 2.08(b), (ii) an earlier date agreed upon by Parent and the Shareholders' Representative following delivery of the applicable MikaMonu Revenues Certification or (iii) five (5) Business Days following the resolution of a dispute regarding the amount of such payment pursuant to Section 2.08(d).

(c) Any Earn-Out Consideration that becomes payable pursuant to this Sections 2.09 shall be paid to each Shareholder, in accordance with such Shareholder's Pro Rata Percentage. Each such payment shall be made, at Parent's election (i) in cash, by wire transfer of immediately available funds to an account of such Shareholder designated by the Shareholders' Representative to Parent, (ii) by delivery to the Shareholders of shares of common stock of Parent ("Parent Common Stock") or (iii) by a combination of such cash and shares of Parent Common Stock. For purposes of any such payment made, in whole or in part, in shares of Parent Common Stock, the value of such shares shall be the average closing sales price of the Parent Common Stock on the Nasdaq Global Market for the five (5) trading days ending on the last trading day before such payment.

(d) Parent hereby represents and warrants that any Parent Common Stock issued to the Shareholders pursuant to Section 2.09(c) shall be issued pursuant to a registration statement filed with the U.S. Securities and Exchange Commission (the "SEC") which is effective at the time of such issuance, or in a transaction exempt from such registration, and shall be fully and immediately tradeable and shall not be subject to any contractual "lock-up" period or similar restriction on trading; provided, however, that (i) if a Shareholder is an employee of Parent or a Subsidiary of Parent, he or she will be subject to Parent's insider trading policy, as in effect from time to time and (ii) if a Shareholder is deemed to be an "affiliate" or "executive officer" of Parent under U.S. federal securities laws, he or she will be subject to federal securities laws and regulations applicable to the sale of securities by such Persons.

Section 2.10. Withholding Rights.

(a) Each of Parent, Buyer and the Escrow Agent (each, a "Payor"), shall be entitled to deduct and withhold (or cause to be deducted or withheld) from any consideration (including, without limitation, the Closing Cash Consideration, the Holdback Amount, the Earn-Out Consideration and distributions of the Indemnity Escrow Amount) payable or otherwise deliverable pursuant to this Agreement or the Escrow Agreement to any Shareholder (each, a "Payee"), such amounts as Parent or Buyer shall reasonably determine that it is required to deduct and withhold with respect to the making of such payment under the Code, any provision of U.S. state or local Tax laws, the Ordinance, any provision of foreign Tax law or any other Legal Requirement; provided, however, that if any Payee provides the Payor with a Valid Tax Certificate, including any Valid Tax Certificate provided at Closing, the withholding (if any) of any amounts from the consideration payable to such Payee hereunder, and the payment of the consideration or any portion thereof, shall be made in accordance with the provisions of such Valid Tax Certificate. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement and the Escrow Agreement as having been paid to the Payee in respect of which such deduction and withholding was made by the Payor. To the extent a Tax is withheld by a Payor, the withheld amount shall be timely remitted to the ITA, and the Buyer shall timely furnish the respective Payee with a document evidencing such

withholding. The Payor shall advise each Payee within five (5) Business Days from the date on which a certificate/ruling concerning tax withholding is presented to Buyer by such Person, whether such ruling/certificate constitutes a Valid Tax Certificate.

(b) Notwithstanding the provisions of Section 2.10(a), any Payee shall be entitled to request in writing from the Payor, at least five (5) Business Days before any such payment is made, that with respect to Israeli Taxes any consideration payable or otherwise delivered pursuant to this Agreement and the Escrow Agreement to such Payee shall be retained by the Payor for a period of up to one-hundred eighty (180) days from Closing (the "Withholding Drop Date") (during which time such Payee may obtain a Valid Tax Certificate). If a Payee delivers a Valid Tax Certificate to the Payor no later than five (5) Business Days prior to the Withholding Drop Date, the deduction and withholding of any Israeli Taxes shall be made only in accordance with the provisions of such Valid Tax Certificate and the balance of the payment that is not withheld shall be paid to such Payee. If any Payee (i) does not provide the Payor with a Valid Tax Certificate by no later than five (5) Business Days before the Withholding Drop Date or (ii) submits a written request with the Payor to release his portion of the consideration payable or otherwise delivered pursuant to this Agreement and the Escrow Agreement prior to the Withholding Drop Date and fails to submit a Valid Tax Certificate at or before such time, then the amount to be withheld from such Payee's portion of the consideration otherwise payable pursuant to this Agreement or the Escrow Agreement shall be calculated according to the applicable withholding rate as determined in good faith by Buyer, which amount shall be increased, to the extent applicable, by the interest plus linkage differences as defined in Section 159A of the Ordinance for the time period between the fifteenth (15th) calendar day of the month following the Closing Date, and delivered to the applicable tax authority by the Payor, who shall pay to such Payee the balance of the payment due to such Payee that is not so withheld at the time the relevant payment is made, and calculated in NIS based on a dollars-to-NIS exchange rate not lower than the effective exchange rate at the Closing Date.

(c) In the event that the Payor receives a written demand from the ITA to withhold any amount out of the amount held by Buyer and transfer it to the ITA, the Payor (i) shall notify the applicable Payee of such matter promptly after receipt of such demand, and provide such Payee with reasonable time (but in no event less than thirty (30) days unless otherwise required by the ITA or any applicable Legal Requirements, as determined in good faith by the Payor) to attempt to delay such requirement or extend the period for complying with such requirement as evidenced by a written certificate, ruling or confirmation from the ITA and (ii) to the extent that any such certificate, ruling or confirmation is not timely provided by such Payee to the Payor, transfer to the ITA any amount so demanded, including any interest, indexation and fines required by the ITA in respect thereof, and such amounts shall be treated for all purposes of this Agreement as having been delivered and paid to the applicable Payee.

(d) Any withholding made in NIS with respect to payments made hereunder in dollars shall be calculated based on a conversion rate not lower than applicable rate on the Closing Date and in such manner as the Payor determines in good faith to be in compliance with the applicable Legal Requirements, and any commercially reasonable currency conversion commissions will be borne by the applicable Payee and deducted from payments to be made to such Payee.

Section 2.11. Operation of the MikaMonu Business Unit.

(a) Basic Principles. It is the present intention of Parent and the Shareholders, following the Closing, to actively develop the Business, as conducted and proposed to be conducted by the MikaMonu Business Unit, to the mutual advantage of Parent, MikaMonu and Parent's other stockholders. The parties acknowledge, however, that the industry in which Parent operates is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions and short product life cycles and that Parent must be able to react, on a timely and cost-effective basis, to meet changing customer requirements. Accordingly, except as expressly provided herein, the operations of the MikaMonu Business Unit, like all of Parent's other business units, shall at all times be subject to the management control of Parent. Without limiting the generality of the foregoing, Parent shall not be required, by virtue of the Earn-Out Provisions or otherwise, to: (i) operate the MikaMonu Business Unit or any component thereof in a manner consistent with the manner in which the Company operated the Business prior to the Closing; (ii) seek to maximize MikaMonu Revenues or accelerate the development of MikaMonu Products where to do so, in the sole opinion of Parent management, would have an adverse effect on Parent's overall operating results or prospects; or (iii) devote more resources to the development, manufacture, sale or licensing of MikaMonu Products than, in the sole opinion of Parent management, is prudent in the context of Parent's overall business operations. Each of the Shareholder acknowledges that neither Parent, Buyer nor any of their Affiliates owes any fiduciary duty or any other implied duty to the Shareholders by virtue of the Earn-Out Provisions or otherwise.

(b) General Operations. During the Earn-Out Period:

(i) Parent will maintain the MikaMonu Business Unit as a separate business unit of Parent or a Subsidiary of Parent (although Parent shall not be required to maintain the Company as a separate legal entity).

(ii) Parent will establish and maintain appropriate systems and controls for the purpose of accurately tracking and recording MikaMonu Revenues.

(iii) The MikaMonu Business Unit will be operated, in all material respects, pursuant to the same policies and procedures, including financial and budgetary procedures, as are applicable to Parent's other divisions and business units and shall be accorded no special status or priority by virtue of the Earn-Out Provisions or otherwise.

(iv) Employees of the MikaMonu Business Unit will be subject to standard Parent policies and procedures.

(v) Akerib shall initially serve as a Vice President of Parent and a Vice President of the MikaMonu Business Unit in accordance with the Employment Agreement. Neither the Earn-Out Provisions nor any other provision of this Agreement shall modify the terms of the Employment Agreement or limit in any manner the rights of either Parent or Akerib as set forth therein, including, without limitation, their respective rights thereunder to terminate Akerib's employment.

(vi) Parent will consult with Akerib, so long as he serves as an officer of the MikaMonu Business Unit, and elicit his views, to the extent reasonably practicable, before making strategic changes materially affecting the operations of the MikaMonu Business Unit or which could reasonably be expected to have a material adverse effect on MikaMonu Revenues during the Earn-Out Period.

(c) In the event of a Change of Control Transaction involving Parent or the MikaMonu Business Unit, the successor shall be obligated to comply with the provisions of this Section 2.11, *mutatis mutandis*, and the defined terms MikaMonu Business Unit, MikaMonu IP, MikaMonu Products, MikaMonu Revenues and MikaMonu Technology shall be deemed to also include and apply to the successor *mutatis mutandis*.

Section 2.12. Buy-Back Option.

(a) Without derogating from the provisions of Section 2.11, in the event that Parent (or its successor in the event of a Change in Control Transaction) determines to discontinue development of the MikaMonu Technology and/or the MikaMonu IP prior to the recognition of any MikaMonu Revenues, Parent shall deliver written notice to the Shareholders' Representative of such determination (the "Discontinuation Notice"). In such event, the Shareholders may, by written notice delivered by the Shareholders' Representative to Parent not more than thirty (30) days following delivery of the Discontinuation Notice (the "Buy-Back Notice"), elect to purchase from Parent, and/or any Subsidiary of Parent then operating the MikaMonu Business Unit, all of the MikaMonu Technology and/or the MikaMonu IP.

(b) In the event of such an election, Parent and the Shareholders' Representative shall promptly meet and attempt in good faith to agree upon the fair value of the MikaMonu Technology and/or MikaMonu IP. In the event that the parties are unable to agree on such fair value within thirty (30) days following delivery of the Buy-Back Notice, the fair value of the MikaMonu Technology and/or MikaMonu IP shall be determined by an independent appraisal firm agreed upon by Parent and the Shareholders' Representative. Each party shall, within ten (10) Business Days after the selection of such appraisal firm, deliver to such firm the information such party wishes to have considered by such firm in making its determination. Each party shall promptly provide to such appraisal firm any additional information relevant to the valuation determination as such firm shall request. Such appraisal firm shall present its valuation determination within thirty (30) Business Days after submission of such dispute to the firm. Parent and the Shareholders agree that the valuation determination by such appraisal firm shall be binding and conclusive among the parties. The fees of such appraisal firm shall be borne by the party or parties whose last proposed valuation submitted to the other party or parties prior to the selection of the appraisal firm is furthest from the final determination of the fair value of the MikaMonu Technology and/or MikaMonu IP by such firm.

(c) The closing of the purchase and sale of the MikaMonu Technology and/or the MikaMonu IP shall take place at a time and place specified by Parent not later than thirty (30) Business Days following the determination of the fair value of the MikaMonu Technology and/or the MikaMonu IP pursuant to Section 2.12(b). At such closing, the Shareholders shall deliver to Parent cash, subject to any applicable withholding requirements, in the amount of such fair value against delivery of the MikaMonu Technology and/or the MikaMonu IP together with

customary documents of transfer and assignment reasonably satisfactory to the Shareholders' Representative.

(d) In the event that the Shareholders purchase the MikaMonu Technology and/or the MikaMonu IP pursuant to this Section 2.12, Buyer and Parent shall retain a non-exclusive royalty-free license to use the MikaMonu Technology and/or MikaMonu IP so purchased to manufacture, sell or otherwise distribute MikaMonu Products that have been developed, or for which development is substantially complete, on the date of the Discontinuation Notice; provided that such license shall not terminate or otherwise change the Shareholders' rights to receive further Deferred Cash Consideration and Earn-Out Consideration to the extent it becomes payable hereunder.

(e) In the event that the Shareholders purchase the MikaMonu Technology and/or the MikaMonu IP pursuant to this Section 2.l2, the Shareholders shall be relieved of (i) all contractual obligations prohibiting them from competing with the Company, Parent or any Subsidiary of Parent, including Akerib's obligations under Sections 2 and 3 of the Non-Competition Agreement, and (ii) any invention assignment and confidentiality obligations with respect to the MikaMonu Technology and/or the MikaMonu IP that they are purchasing.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

In order to induce Parent and Buyer to enter into and perform this Agreement and to consummate the Contemplated Transactions, the Company hereby represents and warrants to Parent and Buyer as follows as of the date of this Agreement and as of the Closing Date:

Section 3.01. Organization; Subsidiaries.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Israel and has full corporate power and authority to own, lease and operate its properties and to carry on the Business as it is now being conducted. The Company is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in any jurisdiction in which it is required to so qualify. The Company has delivered to Buyer accurate and complete copies of the Organizational Documents of the Company.

(b) MikaMonu Group, Inc. ("MGI") is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, U.S.A. MGI has never owned any property or assets, has never had any employees, has no Contractual Obligations, has no Liabilities, and has conducted no business whatsoever in any jurisdiction. The Company has delivered or made available to Parent accurate and complete copies of the Organizational Documents of MGI.

(c) The Company does not now have, and since its inception has not had, any Subsidiaries except MGI.

Section 3.02. Power and Authorization.

(a) Contemplated Transactions. The Company has all requisite power and authority necessary for the execution, delivery and performance by it of this Agreement and each Ancillary Agreement to which it is or will be a party. The execution, delivery and performance by the Company of this Agreement and each such Ancillary Agreement to which it is or will be a party have been duly authorized, by all necessary action on the part of the Board of Directors and the Shareholders. This Agreement and each Ancillary Agreement to which the Company is, or will be at Closing, a party (i) have been (or, in the case of Ancillary Agreements to be entered into at Closing, will be when executed and delivered) duly executed and delivered by the Company and (ii) is (or in the case of Ancillary Agreements to be entered into at the Closing, will be when executed and delivered) a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms.

(b) Conduct of Business. The Company has all requisite power and authority necessary to own, lease, operate and use its Assets and carry on the Business.

Section 3.03. Authorization of Governmental Authorities. Except as disclosed in Section 3.03 of the Company Disclosure Schedule, no action by (including any authorization by or consent or approval of), or in respect of, or filing with, any Governmental Authority is required by or on behalf of the Company or in respect of the Company, the Business or any Assets of the Company for, or in connection with, (a) the valid and lawful authorization, execution, delivery and performance by the Company of this Agreement or any Ancillary Agreement to which it is, or will be at Closing, a party or (b) the consummation of the Contemplated Transactions.

Section 3.04. Noncontravention. Except as disclosed in Section 3.04 of the Company Disclosure Schedule, none of the authorization, execution, delivery or performance by the Company of this Agreement or any Ancillary Agreement to which it is, or will be at Closing, a party, nor the consummation of the Contemplated Transactions, will:

(a) assuming the taking of each action by (including the obtaining of each necessary authorization, consent or approval), or in respect of, and the making of all necessary filings with, Governmental Authorities, in each case, as disclosed in Section 3.03 of the Company Disclosure Schedule, conflict with or result in a breach or violation of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, any Legal Requirement applicable to the Company, the Business or any Assets of the Company; or

(b) conflict with or result in a breach or violation of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, or require any action by (including any authorization, consent or approval) or notice to any Person, or require any offer to purchase or prepayment of any Liability under, or result in the creation of any Encumbrance upon or forfeiture of any of the rights, properties or assets of the Company under, any of the terms, conditions or provisions of (i) any Permit applicable to or otherwise affecting the Company, the Business or any Assets of the Company,

(ii) any Contractual Obligation to which the Company is a party or by which it is bound, or (iii) the Organizational Documents of the Company.

Section 3.05. Capitalization of the Company.

(a) Authorized and Outstanding Equity Interests. The entire authorized capital stock (or, where applicable, other Equity Interests) of the Company and MGI are as set forth in Section 3.05(a) of the Company Disclosure Schedule. All of the outstanding Equity Interests of the Company are held of record and beneficially owned by the Persons in the respective amounts set forth in Section 3.05(a) of the Company Disclosure Schedule. Except as set forth in Section 3.05(a) of the Company Disclosure Schedule, neither the Company nor MGI has issued or agreed to issue any Equity Interests and neither holds shares of its capital stock (or other Equity Interests) in its treasury. The Company has delivered or made available to Parent accurate and complete copies of the stock ledger (or equivalent records) of the Company and MGI, which records reflect all issuances, transfers, repurchases and cancellations of shares of capital stock (or other Equity Interests) of the Company and MGI. The Company is the record and beneficial owner of all of the Equity Interests of MGI. All of the outstanding shares of capital stock (or, where applicable, other Equity Interests) of the Company and MGI have been duly authorized, validly issued and are fully paid and non-assessable. Neither the Company nor MGI has violated any Israeli, United States federal or state securities laws, any other similar Legal Requirement or any preemptive or other similar rights of any Person in connection with the issuance, repurchase or redemption of any of its Equity Interests.

(b) Encumbrances on Equity Interests, etc. (i) There are no preemptive rights or other similar rights in respect of any Equity Interests in the Company or MGI, (ii) there are no Encumbrances on, or other Contractual Obligations relating to, the ownership, transfer or voting of any Equity Interests in the Company or MGI, or otherwise affecting the rights of any holder of the Equity Interests in the Company or MGI, (iii) except for the Contemplated Transactions, there is no Contractual Obligation, or provision in the Organizational Documents of the Company or MGI which obligates the Company or MGI to purchase, redeem or otherwise acquire, or make any payment (including any dividend or distribution) in respect of, any Equity Interest in the Company or MGI and (iv) there are no existing rights under any Contractual Obligations with respect to registration of any Equity Interests in the Company or MGI under Israeli or United States federal securities laws.

Section 3.06. Financial Matters.

(a) Financial Statements. Section 3.06 of the Company Disclosure Schedule contains copies of each of the following:

(i) the audited consolidated balance sheet of the Company as of December 31, 2014 and the related consolidated statements of income and changes in shareholders' equity for the two years then ended, accompanied by the independent auditors' report of Erlichman & Co. Certified Public Accountants (Isr.), the Company's auditors (the "Audited Financials"); and

(ii) the unaudited consolidated balance sheet of the Company as of September 30, 2015 (the "Reference Balance Sheet" and the date thereof, the "Reference Balance Sheet Date"), and the related unaudited consolidated statements of income and changes in shareholders' equity for the nine (9) months then ended (collectively with the Audited Financials, the "Financials").

(b) Compliance with Israeli GAAP, etc. The Financials (including the notes thereto) (i) were prepared in accordance with the books and records of the Company, (ii) have been prepared in accordance with Israeli GAAP, consistently applied (in the case of the Financials described in clause (a) (ii) above, subject to normal year-end adjustments, the effect of which will not, individually or in the aggregate, be materially adverse) and (iii) fairly present the consolidated financial position of the Company as of the respective dates thereof and the consolidated results of the operations of the Company and changes in its shareholders' equity for the respective periods covered thereby.

(c) Absence of Undisclosed Liabilities. The Company does not have any material Liabilities except for (i) Liabilities set forth on the face of the Reference Balance Sheet and (ii) Liabilities incurred in the Ordinary Course of Business since the Reference Balance Sheet Date (none of which results from, arises out of, or relates to any breach or violation of, or default under, a Contractual Obligation or Legal Requirement).

(d) Accounts Receivable. All accounts and notes receivable reflected on the Reference Balance Sheet and all accounts and notes receivable arising subsequent to the Reference Balance Sheet Date and prior to the Closing Date have arisen or will arise in the Ordinary Course of Business of the Company, represent or will represent legal, valid, binding and enforceable obligations owed to the Company and, subject only to consistently recorded reserves for bad debts set forth on the Reference Balance Sheet have been, or will be, collected or are, or will be, collectible in the aggregate recorded amounts thereof in accordance with their terms and, to the Company's Knowledge, will not be subject to any contests, claims, counterclaims or setoffs.

(e) Inventory. The Company holds no inventory.

(f) Banking Facilities. Section 3.06(f) of the Company Disclosure Schedule sets forth an accurate and complete list as of the date of this Agreement of (i) each bank, savings and loan or similar financial institution with which the Company has an account or safety deposit box or other similar arrangement, and any numbers or other identifying codes of such accounts, safety deposit boxes or such other arrangements maintained by the Company thereat, and (ii) the names of all Persons authorized to draw on any such account or to have access to any such safety deposit box facility or such other arrangement.

Section 3.07. Absence of Certain Developments. From December 31, 2014, through the date of this Agreement, (a) no event, change, fact, condition or circumstance has occurred or arisen that has had, or would reasonably be expected to have, a Material Adverse Effect, and (b) the Business has been conducted in all material respects in the Ordinary Course of Business of the Company and (c) the Company has suffered no loss, damage, destruction or eminent

domain taking, whether or not covered by insurance, with respect to any of its material Assets or the Business.

Section 3.08. Debt; Guarantees. The Company has no Liabilities in respect of Debt or any Guarantee of any Debt or other Liability of any Person other than Liabilities incurred on behalf of the Shareholders in respect of Shareholder Transaction Expenses which either (i) are reimbursable to the Company by the Shareholders or (ii) will result in a reduction of the Closing Cash Consideration pursuant to Section 2.03(b).

Section 3.09. Assets.

(a) Ownership of Assets. The Company has good and marketable title to, or, in the case of property held under a lease or other Contractual Obligation, a sole and exclusive, Enforceable leasehold interest in, or adequate rights to use, all of its properties, rights and assets, whether real or personal and whether tangible or intangible, including all assets reflected in the Reference Balance Sheet or acquired after the Reference Balance Sheet Date, except for such assets that have been sold or otherwise disposed of since the Reference Balance Sheet Date in the Ordinary Course of Business (collectively, the "Assets"). None of the Assets is subject to any Encumbrance other than a Permitted Encumbrance.

(b) Sufficiency of Assets. The Assets comprise all of the assets, properties and rights of every type and description, whether real or personal, tangible or intangible, that are currently being used in the conduct of the Business.

(c) Condition of Tangible Assets. All of the furniture, fixtures and equipment included in the Assets and all of the other tangible personal property included in the Assets (i) are in all material respects adequate and suitable for their present uses, (ii) are in good working order, operating condition and state of repair (ordinary wear and tear excepted), and (iii) have been maintained in all material respects in accordance with normal industry practice.

(d) Investments. The Company (i) does not directly or indirectly, own or control any Equity Interest in any Person that is not a Subsidiary of the Company and (ii) is not subject to any obligation to make any investment (in the form of a loan, capital contribution or otherwise) in any Person.

Section 3.10. Real Property.

(a) The Company does not own, and since its inception has never owned, any real property. Section 3.10(a) of the Company Disclosure Schedule sets forth a list of the addresses of all real property leased or subleased by, or for which a right to use or occupy has been granted to, the Company (the "Real Property"). Section 3.10(a) of the Company Disclosure Schedule identifies with respect to each parcel of Real Property, each written or oral lease, sublease or other Contractual Obligation or arrangement (written or oral) under which such Real Property is occupied or used, including the date of and legal name of each of the parties to such lease, sublease or other Contractual Obligation or arrangement, and each amendment, modification or supplement thereto (the "Real Property Leases").

(b) There are no written or oral leases, subleases, licenses, concessions, occupancy agreements or other Contractual Obligations or arrangements granting to any other Person the right of use or occupancy of any of the Real Property, and there is no Person other than the Company in possession of any of the Real Property.

(c) The Company has delivered or made available to Parent accurate and complete copies of any written Real Property Leases and accurate and complete descriptions of any oral Real Property Leases, in each case as amended or otherwise modified and in effect, together with extension notices and other material correspondence, notices or memoranda of lease, estoppel certificates and subordination, non-disturbance and attornment agreements related thereto.

(d) No eminent domain or condemnation Action is pending or, to the Company's Knowledge, threatened, that would preclude or materially impair the use of any Real Property. The current use of the Real Property by the Company does not violate any Legal Requirement or restrictive covenant of record.

Section 3.11. Intellectual Property.

(a) Company IP. The Company (i) exclusively owns the entire right, title and interest in and to all Owned Intellectual Property Rights free and clear of all Encumbrances (other than Permitted Encumbrances) and (ii) has the right to use all Licensed Intellectual Property Rights free and clear of all Encumbrances (other than Permitted Encumbrances and the covenants, conditions and restrictions under which such Licensed Intellectual Property Rights are licensed). Except, with respect to the Company Intellectual Property Rights licensed by the Company under the Outbound IP Contracts identified in Section 3.11(d) of the Company Disclosure Schedule, in each case, to the extent provided in such IP Contracts, none of the Company Intellectual Property Rights is in the possession, custody, or control of any Person other than the Company. The Company is not a party to any Inbound IP Contract.

(b) Infringement. (i) The conduct of the Business as currently conducted has not infringed upon, misappropriated, or otherwise violated any Intellectual Property Rights of any Person, and (ii) the Company has not (A) received any charge, complaint, claim, demand, or notice alleging interference, infringement, misappropriation, or other violation of the Intellectual Property Rights of any Person in connection with the conduct of the Business and/or the design, development, manufacture, use, sale, offer for sale, promotion, marketing, distribution, export or import of the Company Products or (B) agreed to or otherwise incurred any Contractual Obligation to indemnify any Person for or against any interference, infringement, misappropriation, or other violation with respect to any Intellectual Property Rights, except as provided in the Outbound IP Contracts. No Person has infringed upon, misappropriated, or otherwise violated any Company Intellectual Property Rights.

(c) Scheduled Intellectual Property Rights. Section 3.11(c) of the Company Disclosure Schedule contains a complete and accurate list of all patents and patent applications (whether pending or in the process of preparation), registered trademarks, applications for trademark registration, registered copyrights, applications for copyright registrations, and domain names owned by the Company (collectively, the "Company Registrations"). Section 3.11(c) of

the Company Disclosure Schedule also identifies (i) each unregistered trademark, service mark, trade name, brand name, slogan or trade dress, (ii) each unregistered copyright and (iii) a general description of the trade secrets and Company Products, in each case that is owned by or licensed to the Company. For purposes of this Agreement, all items listed in Section 3.11(c) of the Company Disclosure Schedule are referred to as "Scheduled Intellectual Property Rights". For each of the Company Registrations, Section 3.11(c) of the Company Disclosure Schedule includes the following information: (i) for each patent and patent application, the title, patent number or application serial number, jurisdiction, filing date, date issued (if applicable), inventors, owner of record, and present status thereof; (ii) for each registered trademark and trademark application, the trademark, application serial number or registration number, jurisdiction, filing date, registration date (if applicable), class of goods or services covered, description of goods or services, owner of record, and present status thereof; (iii) for each domain name, the registration date, any renewal date, owner of record, and name of the registrar; (iv) for each copyright registration and copyright application, the title of the work, number and date of such registration or application, owner of record, and jurisdiction; and (v) any actions that must be taken within ninety (90) days after the date hereof for the purposes of obtaining, maintaining, perfecting, preserving, or renewing any Company Registrations, including the payment of any registration, maintenance, or renewal fees or the filing of any responses to office actions, documents, applications, or certificates. Each of the Company Registrations (other than applications), to the Company's Knowledge, is valid and subsisting, and none of such Company Registrations have ever been found to be invalid or unenforceable for any reason in any Action.

(d) IP Contracts. Section 3.11(d) of the Company Disclosure Schedule identifies under separate headings each Contractual Obligation, whether written or oral, (i) under which the Company uses or licenses Licensed Intellectual Property Rights that any Person except the Company owns (other than licenses for generally available off-the-shelf software) (the "Inbound IP Contracts"), (ii) under which the Company has granted any Person any right or interest in any Company Intellectual Property Rights (the "Outbound IP Contracts") and (iii) that otherwise affects the Company's use of or ownership rights in the Company Intellectual Property Rights (including settlement agreements and covenants not to sue) (such Contractual Obligations, together with the Inbound IP Contracts and Outbound IP Contracts, the "IP Contracts"). Except as provided in the Inbound IP Contracts, or as otherwise disclosed in Section 3.11(d) of the Company Disclosure Schedule, the Company does not, as of the Closing Date, owe any royalties or other payments to any Person for the use of any Company Intellectual Property Rights or the manufacture, use, sale, offer for sale, marketing, promotion and/or distribution of any Company Products. The Company has delivered or made available to Parent accurate and complete copies of each of the IP Contracts (or, where an IP Contract is an oral agreement, an accurate and complete written description of such IP Contract), in each case, as amended or otherwise modified and in effect.

(e) Title to Company Intellectual Property Rights. With respect to (i) each item of Owned Intellectual Property Rights, and (ii) to the Company's Knowledge, each item of Licensed Intellectual Property Rights licensed to the Company, such item or right is not subject to any outstanding Governmental Order specific to such Company Intellectual Property Rights, and no Action (including any opposition, interference, or re-examination) is pending or, to the Company's knowledge, threatened, which challenges the legality, validity, enforceability, use, or ownership of such right or item. No funding from or facilities of any Governmental Authority,

granting agency, university, college, other academic institution or research center was used in the creation or development of any Company Intellectual Property. Other than standard reserve duty with the Israeli military, no current or former employee, officer, consultant or contractor of the Company who was involved in, or who contributed to, the conception, creation, design, or development of any of the Company Intellectual Property Rights, has performed services for or was an employee of any university, college, other educational institution, Governmental Authority, granting agency or research center while such employee, officer, consultant, or contractor was also performing services for the Company or during the time period in which such employee, officer, consultant or contractor invented, created or developed any Company Intellectual Property Rights. No facilities or funding of any university, college, or other educational institution or research center or funding from any Governmental Authority or granting agency was used in the creation or development of any Company Intellectual Property.

(f) Sufficiency. The Company Intellectual Property Rights constitute all of the Intellectual Property Rights used in the conduct of the Business, as currently being conducted.

(g) Confidentiality and Invention Assignments. The Company has maintained commercially reasonable practices to protect the confidentiality of the Company's confidential information and trade secrets and has required all current and former employees, and all contractors and other Persons with access to the Company's confidential information and/or trade secrets to execute Enforceable Contractual Obligations requiring them to maintain the confidentiality of such information and/or trade secrets and use such information and/or trade secrets only for the benefit of the Company. All current and former employees of the Company and all contractors of the Company who contributed or are contributing to the creation or development of the Company Products and/or the Company Intellectual Property Rights have executed Enforceable Contractual Obligations that assign to the Company and its Subsidiaries all of such Person's Intellectual Property Rights in such contribution and, to the extent such Intellectual Property Rights are not assignable such as pursuant to Section 45 of the Israeli Copyright Law, that waive all such Intellectual Property Rights in such contribution. The Company has delivered or made available to Parent accurate and complete copies of such Contractual Obligations. The Company does not and will not owe any compensation or remuneration to any of the Shareholders or any current or former employee, officer, director, consultant, contractor or customer in relation to any Intellectual Property Rights owned or purported to be owned by the Company, including with respect to any patent that is based on an invention of, or copyright that is based on a work of, any current or former employee, officer, director, consultant, contractor, or customer of the Company. All current and former founders, employees, contractors, consultants and other service providers that have contributed, in any way, to the conception, design, development, implementation, improvement, testing or have otherwise contributed to bringing any Company Product, software or service to market have executed any and all necessary agreements that would waive any right or interest in and to any royalty or other remuneration provided by local custom, administrative regulation, governmental statute or otherwise (including under Section 134 of the Israeli Patent Law, 1967 and any other applicable law).

(h) Open Source Software. There is no Publicly Available Software contained in or used by the Company in the design and development of Company Products or

any product or service of the Company. None of the Company Products constitute, contain, or are distributed by the Company together with Publicly Available Software, and none of the Company Products are subject to any IP Contract or other Contractual Obligation of any Publicly Available Software that would require the Company to divulge to any Person any source code or trade secret or to grant, or purport to grant, to any Person, any rights or immunities under the Owned Intellectual Property Rights or to any Licensed Intellectual Property Rights in a manner which would exceed or violate the Company's license to such Licensed Intellectual Property Rights.

(i) Privacy and Data Security. The Company does not currently use, aggregate or disseminate any personally-identifiable information concerning individuals. To the Company's Knowledge, there have been no security breaches relating to, violations of any security policy regarding, or any unauthorized access to, any proprietary data or information of the Company or any security breaches by the Company relating to, violations by the Company of any security policy regarding, or any unauthorized access by the Company to, any proprietary data or information of any third party used by the Company in connection with the Business.

(j) Encryption Technology. The Company does not currently develop, and has not to date developed, encryption technology or products with encryption technology, technology with military applications, or other encryption technology, the development, commercialization or export of which is restricted under any applicable Legal Requirement or which would require the Company to obtain a Permit from the Israeli Ministry of Defense or any other authorized body thereof pursuant to Section 2(a) of the Control of Products and Services Declaration (Engagement in Encryption) 1974, as amended, or the Control of Products and Services Order (Export of Warfare Equipment and Defense Information) 1991, as amended.

(k) Government Grants. Neither the Office of Chief Scientist of the Israeli Ministry of Industry, Trade and Labor (the "OCS") nor any other Governmental Authority has any ownership interest in or right to restrict or demand royalties in relation to the sale, licensing, distribution or transfer of any Company Intellectual Property Rights or Company Products. All Company Intellectual Property Rights and Company Products are transferable, conveyable and/or assignable by the Company to any entity located in any jurisdiction in the world without any restriction, constraint, control, supervision, payment requirement or limitation that could be imposed by the OCS.

Section 3.12. Legal Compliance; Illegal Payments; Permits.

(a) Legal Compliance. The Company is not, in any material respect, in breach or violation of, or default under, its Organizational Documents or any Legal Requirement.

(b) Illegal Payments, Foreign Corrupt Practices Act, etc. In the conduct of the Business, the Company (including its Representatives) has not (i) directly or indirectly, given, or agreed to give, any illegal gift, contribution, payment or similar benefit to any supplier, customer, governmental official or employee or other Person who was, is or may be in a position to help or hinder the Company (or assist in connection with any actual or proposed transaction) or made, or agreed to make, any illegal contribution, or reimbursed any illegal political gift or contribution made by any other Person, to any candidate for public office or (ii) established or

maintained any unrecorded fund or asset or made any false entries on any books or records for any purpose. Without limiting the foregoing, the Company and, to the Company's Knowledge, each employee, Representative and agent of the Company, has complied with and is in compliance with, and none of them has taken any action that has violated or would reasonably be expected to result in a failure to comply with or a violation of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder, the OECD Convention on Combating Bribery of Foreign Public Officials in International Transactions, dated 21 November 1977, Article 5 (Bribery Offenses) of Chapter 9 of the Israeli Penal Law, 1977, the Israeli Prohibition on Money Laundering Law, 2000, or any other Legal Requirements that prohibit commercial bribery, domestic corruption or money laundering, and the standards established by the Financial Action Task Force on Money Laundering.

(c) Permits. The Company has been duly granted all material Permits necessary for the conduct of the Business by it and the ownership use and operation of its Assets. Section 3.12(c) of the Company Disclosure Schedule describes each Permit affecting, or relating to, the Assets or the Business together with the Governmental Authority responsible for issuing such Permit. Except as disclosed in Section 3.12(c) of the Company Disclosure Schedule, (i) the Permits listed or required to be listed thereon are valid and in full force and effect, (ii) the Company is not, in any material respect, in breach or violation of, or default under, any such Permit and (iii) to the Company's Knowledge, no fact, situation, circumstance, condition or other basis exists which, with notice or lapse of time or both, would constitute a material breach, violation or default under such Permit or give any Governmental Authority grounds to suspend, revoke or terminate any such Permit.

Section 3.13. Tax Matters.

(a) The Company has duly and timely filed (taking into account any valid extensions of time), or has caused to be duly and timely filed (taking into account any valid extensions of time) on its behalf, all Tax Returns with the appropriate Taxing Authority in all jurisdictions in which such Tax Returns are required to be filed by the Company or MGI, and all such Tax Returns are correct, true and accurate in all material respects and have been prepared in compliance with all applicable Legal Requirements. All Taxes required to be paid by the Company and MGI that have become due and payable (regardless of whether such Taxes are shown on any Tax Return) have been duly and timely paid in full. With respect to any Taxes where payment is not yet due or owing, the Company and MGI have established, in accordance with Israeli GAAP, an adequate accrual for all such Taxes through the end of the last period for which the Company and MGI ordinarily record items on their books and records. Appropriate and sufficient accruals for Tax Liabilities as of the Reference Balance Sheet Date are included in the Reference Balance Sheet. The Company has not incurred any liability for Taxes since the Reference Balance Sheet Date other than in the Ordinary Course of Business. Any required estimated Tax payments sufficient to avoid any underpayment penalties have been made by or on behalf of the Company and MGI. The Tax Returns of the Company and MGI have been properly submitted to the applicable Governmental Authority and, as of the date of this Agreement, no deficiencies have been asserted as a result of any related Tax examinations.

(b) All Taxes required to have been withheld and paid by or with respect to the Company or MGI have been duly and timely withheld and paid to the appropriate Taxing

Authority. The Company and MGI have complied in all material respects with all applicable Legal Requirements relating to the payment and withholding of Taxes from payments made or deemed made by them, and their records contain all information and documents necessary to comply with, all requirements of applicable Legal Requirements relating to information reporting, filing, withholding and other similar requirements.

(c) The Company and MGI are not and have never been subject to Tax in any country other than their respective country of incorporation (i) by virtue of being treated as a resident of that country or (ii) by virtue of having a permanent establishment or other place of business in that country.

(d) There is no current, pending or, to the Knowledge of the Company, threatened audit, discussion, examination, or other administrative or judicial proceeding by a Governmental Authority concerning the Taxes or Tax Returns of the Company or MGI. Neither the Company nor MGI has received any written claim by a Governmental Authority in a jurisdiction where it does not file Tax Returns pursuant to which the Company or MGI is or may be subject to taxation, or required to file Tax Returns, in that jurisdiction, and to the Company's Knowledge, there is no reasonable basis for any such Governmental Authority to assert such a claim against the Company or MGI. No issue has been raised by a Governmental Authority in any prior examination of the Company or MGI which, by application of the same or similar principles, could reasonably be expected to result in a proposed deficiency for any subsequent taxable period. Except as disclosed in Section 3.13(d) of the Company Disclosure Schedule, there are no matters under discussion between the Company or MGI and any Governmental Authority, or with respect to Taxes that are likely to result in an additional liability for Taxes with respect to the Company or MGI.

(e) Other than any Tax Returns that have not yet been required to be filed (taking into account any extensions), the Company has made available to Parent complete copies of (i) all income, franchise and all other material Tax Returns of the Company and MGI relating to the taxable periods with respect to which the applicable statute of limitation has not already expired, (ii) any audit report issued relating to any Taxes due from or with respect to the Company or MGI, (iii) any closing or settlement agreements entered into by or with respect to the Company or MGI with any Governmental Authority, (iv) all written communications to, or received by the Company or MGI from, any Governmental Authority including Tax rulings and Tax decisions and (v) all Tax opinions and legal memoranda and similar documents for the Company or MGI, in each case under (ii) to (iv), for all taxable periods since inception.

(f) Except as disclosed in Section 3.13(f) of the Company Disclosure Schedule, neither the Company nor MGI has received, or is subject to, any letter ruling from the Internal Revenue Service, the ITA (or any comparable ruling from any other Governmental Authority), and no request for such a ruling is currently pending, whether or not in connection with the Contemplated Transactions.

(g) There has been no waiver of any statute of limitations in respect of the Taxes or Tax Returns of the Company or MGI or any extension of time with respect to an assessment or deficiency relating to Taxes of the Company or MGI that is currently in effect. Except as disclosed in Section 3.13(g) of the Company Disclosure Schedule, no power of

attorney granted by the Company or MGI with respect to Taxes or Tax Returns is currently in force.

(h) There is no taxable income of the Company that will be required under applicable Legal Requirements to be reported by Buyer or the Company or any of their Affiliates for a taxable period beginning after the Closing Date which taxable income was realized (and reflects economic income arising) prior to the Closing Date.

(i) The Company does not maintain any equity plan intended to qualify as a capital gain route plan under Section 102(b)(2) of the Ordinance.

(j) There are no liens for Taxes upon any property or Assets of the Company or MGI other than Permitted Encumbrances.

(k) Neither the Company nor MGI (i) is a party to, bound by or has an obligation under any Tax allocation, sharing or indemnity agreements or similar arrangements or (ii) has any Liability for the Taxes of any Person other than the Company or MGI, or as a transferee or successor, or by contract or otherwise other than as members of a Consolidated Group the common buyer of which is the Company.

(l) Except as disclosed in Section 3.13(l) of the Company Disclosure Schedule, the Company has provided or made available to Parent all documentation relating to any applicable Tax holidays or incentives, including but not limited to dividend distribution out of exempt income under the Law for Encouragement of Capital Investments, 1959, and none of the Tax holidays or incentives will be jeopardized by the Contemplated Transactions. Except as disclosed in Section 3.13(l) of the Company Disclosure Schedule, the Company is in full compliance with all requirements for any applicable Tax holidays or incentives including but not limited to dividend distribution out of exempt income under the Law for Encouragement of Capital Investments, 1959. Except as disclosed in Section 3.13(l) of the Company Disclosure Schedule, no prior approval of any Governmental Authority is required in order to consummate the transactions contemplated by this Agreement, or to preserve entitlement of the Company or MGI to any such incentive, subsidy or benefit.

(m) Except as disclosed in Section 3.13(m) of the Company Disclosure Schedule, the Company has made a valid election to be treated as a "Preferred Enterprise" (Mifaal Moadaf) under the Law for Encouragement of Capital Investments, 1959. The Company made full, accurate, and complete disclosure of all facts in all correspondence, filings and formal applications made to any Governmental Authority in order to qualify as a Preferred Enterprise. Except as disclosed in Section 3.13(m) of the Company Disclosure Schedule, the Company has not revoked any election relating to its status as a Preferred Enterprise, or undertaken any action disqualifying it from qualifying as a Preferred Enterprise. Except as disclosed in Section 3.13(m) of the Company Disclosure Schedule, the Company is in compliance with any applicable Legal Requirement and any Tax ruling and has duly fulfilled all conditions, undertakings and other obligations relating to its status as a Preferred Enterprise. Except as disclosed in Section 3.13(m) of the Company Disclosure Schedule, no event has occurred, and no circumstance or condition exists prior to the Closing, that could reasonably be expected to give rise to or serve as the basis for (i) the annulment, revocation, withdrawal, suspension,

cancellation, recapture or modification of such Preferred Enterprise status, or (ii) a requirement that the Company return or refund any benefits provided under any governmental grant.

(n) Neither the Company nor MGI is subject to any restrictions or limitations pursuant to Part E2 of the Ordinance or pursuant to any Tax ruling made with reference to the provisions of Part E2.

(o) Neither the Company nor MGI is participating or engaging in, or has ever participated or engaged in, any transaction listed in Section 131(g) of the Ordinance and the Income Tax Regulations (Reportable Tax Planning), 5767-2006 promulgated thereunder, or any equivalent transaction required to be reported to any Governmental Authority regarding tax planning.

(p) The Company is not and has never been a real property corporation (Igud Mekarke'in) within the meaning Section 1 of the Israeli Land Taxation Law (Appreciation and Acquisition), 5723-1963.

(q) The Company is duly registered for the purposes of Israeli value added Tax ("VAT") and has complied in all respects with all requirements concerning value added Taxes. The Company (i) has not made any exempt transactions (as defined in the Israel Value Added Tax Law of 1975) which does not comply with applicable Legal Requirements, and there are no circumstances by reason of which there might not be an entitlement to full credit of all VAT chargeable or paid on inputs, supplies, and other transactions and imports made by it, except in accordance with the provisions of applicable Legal Requirements; (ii) has collected and timely remitted to the relevant taxing authority all output VAT which it is required to collect and remit under any applicable Legal Requirement; and (iii) has not received a refund for input VAT for which they are not entitled under any applicable Legal Requirement.

(r) The Company (i) is classified as a corporation for U.S. federal income tax purposes, (ii) has been so classified since the date of its inception and (iii) has not taken any actions or filed any elections inconsistent with such classification.

(s) Neither the Company nor MGI is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code.

(t) The Company and MGI have complied in all respects with all applicable Legal Requirements relating to the payment and withholding of Taxes from payments made or deemed made to any Person. All Persons that the Company and MGI have engaged as employees and independent contractors are properly classified as employees and independent contractors, as applicable, in accordance with the Code, the Ordinance and any other applicable Legal Requirements and for employee benefits purposes. The Company and MGI have withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder, or other third party. The Company and MGI are in full compliance with, and their records contain all information and documents necessary to comply with, all applicable information reporting and withholding requirements with respect to Persons that have been engaged by the Company or MGI under all applicable Legal Requirements.

(u) The prices and terms for the provision of any loan, property or services by or to the Company and MGI are at arm's length for purposes of the relevant transfer pricing laws and all related documentation required by such laws has been timely prepared or obtained and retained. The Company and MGI comply, and have always been compliant with the requirements of Section 85A of the Ordinance and the regulations promulgated thereunder.

(v) Other than limitations imposed by applicable Legal Requirements as a result of the Contemplated Transactions, there currently are no limitations on the utilization (in accordance with applicable Legal Requirements) of the net operating losses, built-in-losses, capital losses, Tax credits, or other similar items of the Company or of MGI nor limitations on the Company's, or MGI's, ability to use (in accordance with applicable Legal Requirements) such net operating losses, built-in-losses, capital losses, Tax credits, or other similar items.

(w) As of the Closing Date, the Company is in possession of all books and records with respect to Tax matters pertinent to the Company relating to any Pre-Closing Tax Period required to be maintained by it under applicable Legal Requirements.

(x) Notwithstanding any disclosure contained in the Company Disclosure Schedule related to the representations and warranties contained in this Section 3.13, for purposes of the Shareholders' liability under Section 9.01(a)(i) and/or Article X, all qualifications contained in this Section 3.13 that refer to the Company Disclosure Statement shall be ignored.

Section 3.14. Employee Benefit Plans. The Company has never sponsored, maintained, contributed to or incurred any Liability with respect to any Employee Plan. Except as required by applicable Israeli Legal Requirements, the Company does not provide to its employees any health, life insurance, disability insurance, retirement benefits or any similar benefits. Section 3.14 of the Company Disclosure Schedule contains a list and description of all benefits so provided. Except as disclosed in Section 3.14 of the Company Disclosure Schedule, the Company is in full compliance with all Legal Requirements related to the provision of pension, life insurance, disability insurance, retirement benefits or any similar benefits, and, except as disclosed in Section 3.14 of the Company Disclosure Schedule, all of such benefits are fully funded as of the date hereof. There is no Action pending or, to the Company's Knowledge threatened, relating to any such benefits, and to the Knowledge of the Company there is no basis for any such Action.

Section 3.15. Environmental Matters. The Company is, and since its inception has been, in compliance in all material respects with all Environmental Laws. There has been no storage, release or threatened release of any material amount of any Hazardous Substance on, upon, into or from any site currently or heretofore owned, leased or otherwise operated, used or occupied by the Company.

Section 3.16. Contracts.

(a) Contracts. Except as disclosed in the applicable subsection in Section 3.16 of the Company Disclosure Schedule (which is arranged in subsections numbered

(i) to (xiv) to correspond to the subsections of this Section 3.16), neither the Company nor MGI is bound by or a party to:

(i) any Contractual Obligation (or group of related Contractual Obligations) for the purchase, sale, construction, repair or maintenance of inventory, raw materials, commodities, supplies, goods, products, equipment or other property, or for the furnishing or receipt of services, in each case, the performance of which will extend over a period of more than one year or which provides for (or would be reasonably expected to involve) annual payments to or by the Company in excess of $25,000 or aggregate payments to or by the Company in excess of $50,000;

(ii) any Contractual Obligation relating to the acquisition or disposition by the Company of (A) any business (whether by merger, consolidation or other business combination, sale of securities, sale of assets or otherwise) or (B) any material Asset (other than in the Ordinary Course of Business of the Company);

(iii) any Contractual Obligation concerning or consisting of a partnership, limited liability company, joint venture or similar agreement;

(iv) any Contractual Obligation under which the Company has permitted any Asset to be subject to any Encumbrance (other than by a Permitted Encumbrance);

(v) any Contractual Obligation (A) under which the Company has created, incurred, assumed or guaranteed any Debt or (B) under which any other Person has guaranteed any Debt of the Company;

(vi) any Contractual Obligation containing covenants that in any way purport to (A) restrict any business activity (including the solicitation, hiring or engagement of any Person or the solicitation of any customer) of the Company or any Affiliate thereof or (B) limit the freedom of the Company or any Affiliate thereof to engage in any line of business or compete with any Person;

(vii) any Contractual Obligation under which the Company is, or may become, obligated to incur any severance pay or Compensation obligations that would become payable by reason of this Agreement or the Contemplated Transactions;

(viii) any Contractual Obligation under which the Company is, or may, have any Liability to any investment bank, broker, financial advisor, finder or other similar Person (including an obligation to pay any legal, accounting, brokerage, finder's, or similar fees or expenses) in connection with this Agreement or the Contemplated Transactions;

(ix) any Contractual Obligation providing for the employment or consultancy of any Person on a full-time, part-time, consulting or other basis or otherwise providing Compensation or other benefits to any officer, director, employee or consultant;

(x) any agency, dealer, distributor, sales representative or marketing agreement or any other similar Contractual Obligation;

(xi) any outstanding general or special powers of attorney executed by or on behalf of the Company;

(xii) any Contractual Obligation, other than Real Property Leases, relating to the lease or license of any Asset, including Company Products and Intellectual Property Rights that is not included in Section 3.11(d) of the Company Disclosure Schedule;

(xiii) any Contractual Obligation under which the Company has advanced or loaned an amount to any of its Affiliates or employees other than in the Ordinary Course of Business; and

(xiv) any other Contractual Obligation between the Company and any Shareholder (or Affiliate or Family Member thereof) that is currently in effect or will be in effect after the Closing.

The Company has delivered or made available to Parent accurate and complete copies of each written Contractual Obligation listed in Section 3.16 of the Company Disclosure Schedule, in each case, as amended or otherwise modified and in effect. The Company has delivered or made available to Parent a written summary setting forth all of the material terms and conditions of each oral Contractual Obligation listed in Section 3.16 of the Company Disclosure Schedule.

(b) Enforceability, *etc.* Each Contractual Obligation required to be disclosed in Section 3.10(a) (*Real Property*), Section 3.11(d) (*IP Contracts*), Section 3.16 (*Contracts*), Section 3.19 (*Customers or Suppliers*) or Section 3.22 (*Insurance*) of the Company Disclosure Schedule (each, a "Material Company Contract") is Enforceable against the Company and, to the Company's Knowledge, Enforceable against each other party to such Contractual Obligation, and is in full force and effect, and, subject to obtaining any necessary consents disclosed in Sections 3.03 or 3.04 of the Company Disclosure Schedule, will continue to be so Enforceable against the Company and, to the Company's Knowledge, Enforceable against each other party and in full force and effect on identical terms following the consummation of the Contemplated Transactions.

(c) Breach, *etc.* Neither the Company, nor, to the Company's Knowledge, any other party to any Material Company Contract is in material breach or violation of, or default under, or has repudiated any material provision of, any Material Company Contract.

Section 3.17. Government Contracts. The Company is not, and since its inception has never been, a party to any Government Contract or Government Subcontract.

Section 3.18. Related Party Transactions. No Shareholder or Affiliate of any Shareholder and no officer or director (or equivalent) of the Company or MGI (or, to the Company's Knowledge, any Family Member of any such Person or any entity in which any such Person or any such Family Member owns a material interest): (a) has any material interest in any material Asset owned or leased by the Company or used in connection with the Business or

(b) has engaged in any material transaction, arrangement or understanding with the Company (other than payments made to, and other Compensation provided to, officers and directors in their capacities as employees of the Company in the Ordinary Course of Business of the Company).

Section 3.19. Customers and Suppliers. Section 3.19 of the Company Disclosure Schedule sets forth a complete and accurate list of (a) the customers of the Company during the nine (9) month period ended on the Reference Balance Sheet Date, indicating existing Contractual Obligations with each such customer by product or service provided and (b) the suppliers of materials, products or services to the Company during the nine (9) month period ended on the Reference Balance Sheet Date, indicating any Contractual Obligations for continued supply from each such supplier. Except as disclosed in Section 3.19 of the Company Disclosure Schedule, none of such customers or suppliers has cancelled, terminated or otherwise materially altered (including any material reduction in the rate or amount of sales or purchases or material increase in the prices charged or paid, as the case may be) or notified the Company of any intention to do any of the foregoing or otherwise threatened in writing to cancel, terminate or materially alter (including any material reduction in the rate or amount of sales or purchases or material increase in the prices charged or paid as the case may be) its relationship with the Company.

Section 3.20. Labor Matters.

(a) Section 3.20 of the Company Disclosure Schedule contains a list of all employees of the Company as of the date of this Agreement, and correctly reflects: (i) their dates of employment; (ii) their job titles and positions; (iii) classification as full-time, part-time or hourly; (iv) classification as exempt or non-exempt under applicable overtime, wage and hour regulation, including the Hours of Work and Rest Law, 1951; (v) all benefits to which each such Person is entitled, including their hourly rate of compensation (in case of hourly workers), monthly base salary and annual salary, any other compensation payable to them, whether in cash or otherwise (including housing allowances, compensation payable pursuant to bonus, deferred compensation, travel allowances or commission arrangements), social benefits (including *bituach menahalim* and *keren hishtalmut*), and their dates and term (if applicable) of employment; (vi) the number of hours and days of sick time to which such employees are entitled and which have accrued and the aggregate dollar amounts thereof; (vii) the vacation days to which such employees are entitled, annual entitlement to vacation days and their accrued and unpaid vacation (represented both in terms of the number of days as well as the dollar value); (viii) length of notice period required in order to terminate their employment; (ix) automobiles and other benefits in kind; (x) whether such employee is subject to the arrangement set forth in Section 14 of the Israeli Severance Pay Law, 1963 (the "Section 14 Arrangement") (and, to the extent such employee is subject to the Section 14 Arrangement, an indication of whether such arrangement has been applied to such person from the commencement date of his employment and on the basis of his entire salary); (xi) the most recent compensation increase including the amount thereof; (xii) whether the employee is on leave or scheduled to be on leave (and if so, the category of leave, the date on which such leave commenced or will commence and the date of expected return to work) and (xiii) visa status, if applicable. There are no written or unwritten policies or customs of the Company that, by extension, could entitle any service provider of the Company to benefits in addition to those to which he/she is entitled pursuant to applicable Legal

Requirements (including unwritten customs or practices). The Company has not engaged any consultants, sub-contractors or freelancers who, according to Israeli Legal Requirements, would be entitled to the rights of an employee vis-à-vis such engagement, including rights to severance pay, vacation, recuperation pay ("*dmei havra'a*") and other employee-related statutory benefits.

(b) There are no labor troubles (including any work slowdown, lockout, stoppage, picketing or strike) pending, or to the Company's Knowledge, threatened between the Company and its employees, and there have been no such troubles since the Company's inception. No employee of the Company is represented by a labor union. The Company is not a party to, or otherwise subject to, any collective bargaining agreement or other labor union contract. No petition has been filed or proceedings instituted by an employee or group of employees of the Company with any labor relations board seeking recognition of a bargaining representative. To the Company's Knowledge, there is no organizational effort currently being made or threatened by, or on behalf of, any labor union to organize employees of the Company. No officer's employment with the Company has been terminated for any reason nor has any such officer notified the Company of his or her intention to resign or retire.

Section 3.21. Litigation; Governmental Orders.

(a) Litigation. There is no Action to which the Company is a party (either as plaintiff or defendant) or to which its Assets are or may be subject that is pending, or to the Company's Knowledge, threatened, nor, to the Company's Knowledge, is there any basis for any of the foregoing. There is no Action which the Company currently intends to initiate.

(b) Governmental Orders. No Governmental Order has been issued that is applicable to the Company or MGI, any of their Assets or the Business.

Section 3.22. Insurance. There are no insurance policies by which the Company or MGI, or any of their Assets, employees, officers or directors or the Business have been insured since January 1, 2014. No insurer (a) has questioned, denied or disputed coverage of any claim pending under any insurance policy of the Company or (b) has threatened to cancel any such policy.

Section 3.23. Books and Records. The minute books and stock record books of the Company and MGI, all of which have been made available to Parent, are complete and correct in all material respects and have been maintained in accordance with sound business practices and all applicable Legal Requirements. The minute books of the Company and MGI contain accurate and complete records of all meetings, and actions taken by written consent, of the shareholders, the board of directors and any committees of the board of directors of the Company and MGI, respectively, and no meeting, or action taken by written consent, of any such shareholders, board of directors or committee has been held for which minutes have not been prepared and are not contained in such minute books. At the Closing, all such books and records will be in the possession of the Company. The Company has not taken any action that is inconsistent with any resolution adopted by its shareholders, board of directors, any equivalent body or any committee thereof.

Section 3.24. No Brokers. The Company has no Liability of any kind to, and is not subject to any claim of, any broker, finder or agent in connection with the Contemplated Transactions.

ARTICLE IV
INDIVIDUAL REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS.

Each Shareholder, severally, and not jointly, hereby represents and warrants to Buyer and Parent, solely as to such Shareholder, that as of the date of this Agreement and as of the Closing Date:

Section 4.01. Power and Authorization. This Agreement and each Ancillary Agreement to which such Shareholder is, or will be at Closing, a party (a) have been (or, in the case of Ancillary Agreements to be entered into at the Closing, will be when executed and delivered) duly executed and delivered by such Shareholder and (b) is (or, in the case of Ancillary Agreements to be entered into at the Closing, will be when executed and delivered) a legal, valid and binding obligation of such Shareholder, Enforceable against such Shareholder in accordance with its terms.

Section 4.02. Authorization of Governmental Authorities. No action by (including any authorization, consent or approval), or in respect of, or filing with, any Governmental Authority is required for, or in connection with, the valid and lawful (a) authorization, execution, delivery and performance by such Shareholder of this Agreement and each Ancillary Agreement to which such Shareholder is, or will be at Closing, a party or (b) consummation of the Contemplated Transactions by such Shareholder.

Section 4.03. Noncontravention. Neither the execution, delivery and performance by such Shareholder of this Agreement or any Ancillary Agreement to which such Shareholder is, or will be at Closing, a party nor the consummation of the Contemplated Transactions by such Shareholder will:

(a) assuming the taking of all necessary action by (including the obtaining of each necessary authorization, consent or approval) or in respect of, and the making of all filings with, Governmental Authorities violate any provision of any Legal Requirement applicable to such Shareholder; or

(b) conflict with or result in a breach or violation of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, or require any action by (including any authorization, consent or approval) or notice to any Person, or result in the creation of any Encumbrance upon any Shares of such Shareholder under, any of the terms, conditions or provisions of (i) any Governmental Order applicable to or otherwise affecting such Shareholder or its assets or properties, or (ii) any material Contractual Obligation of such Shareholder.

Section 4.04. Title. Such Shareholder is the record and beneficial owner of the outstanding Equity Interests in the Company set forth opposite such Shareholder's name in Section 4.04 of the Company Disclosure Schedule, and such Shareholder has good and

marketable title to such Equity Interests, free and clear of all Encumbrances. Such Shareholder has full right, power and authority to transfer and deliver to Buyer valid title to the Shares held by such Shareholder, free and clear of all Encumbrances. Immediately following the Closing, Buyer will be the record and beneficial owner of such Shares and have good and marketable title to such Shares, free and clear of all Encumbrances except as are imposed by Buyer. Except pursuant to this Agreement, there is no Contractual Obligation pursuant to which such Shareholder has, directly or indirectly, granted any option, warrant or other right to any Person to acquire any Equity Interests in the Company. Except as disclosed in Section 4.04 of the Company Disclosure Schedule, such Shareholder is not a party to, and the Equity Interests in the Company set forth opposite such Shareholder's name in Section 4.04 of the Company Disclosure Schedule are not subject to, any shareholders agreement, voting agreement, voting trust, proxy or other Contractual Obligation relating to the transfer or voting of such Equity Interests.

Section 4.05. No Brokers. Such Shareholder has no Liability of any kind to any broker, finder or agent with respect to the Contemplated Transactions.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF BUYER.

In order to induce the Shareholders and the Company to enter into and perform this Agreement and to consummate the Contemplated Transactions, each of Buyer and Parent, jointly and severally, represents and warrants to the Company and each of the Shareholders that as of the date of this Agreement and as of the Closing Date:

Section 5.01. Organization.

(a) Parent is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware, U.S.A. and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted.

(b) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the Cayman Islands and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Parent is the record and beneficial owner of all of the Equity Interests of Buyer.

Section 5.02. Power and Authorization. Each of Parent and Buyer has all requisite power and authority necessary for the execution, delivery and performance by it of its obligations under this Agreement and each Ancillary Agreement to which it is or will be a party. The execution, delivery and performance by each of Parent and Buyer of this Agreement and each Ancillary Agreement to which it is or will be a party and the consummation of the Contemplated Transactions by each of Parent and Buyer are within the power and authority of Parent and/or Buyer, as the case may be, and have been duly authorized by all necessary corporate action on the part of Parent and Buyer. This Agreement and each Ancillary Agreement to which Parent and/or Buyer is, or will be at Closing, a party (a) have been (or, in the case of Ancillary Agreements to be entered into at the Closing, will be when executed and delivered) duly executed and delivered by Parent and/or Buyer, as the case may be, and (b) is (or in the case

of Ancillary Agreements to be entered into at the Closing, will be when executed and delivered) a legal, valid and binding obligation of Parent and/or Buyer, as the case may be, Enforceable against Parent and/or Buyer in accordance with its terms.

Section 5.03. Authorization of Governmental Authorities. No action by (including any authorization, consent or approval), or in respect of, or filing with, any Governmental Authority is required for, or in connection with, the valid and lawful (a) authorization, execution, delivery and performance by Parent or Buyer of this Agreement and each Ancillary Agreement to which it is, or will be at Closing, a party or (b) consummation of the Contemplated Transactions by Parent and Buyer.

Section 5.04. Noncontravention. None of the authorization, execution, delivery and performance by either Parent or Buyer of this Agreement or any Ancillary Agreement to which either of them is, or will be at Closing, a party nor the consummation of the Contemplated Transactions will:

(a) violate any provision of any Legal Requirement applicable to Parent or Buyer; or

(b) conflict with or result in a breach or violation of, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in termination of, or accelerate the performance required by, or result in a right of termination or acceleration under, or require any action by (including any authorization, consent or approval) or notice to any Person under, any of the terms, conditions or provisions of (i) any Governmental Order applicable to or otherwise affecting Parent or Buyer or any of their respective assets or properties, (ii) any material Contractual Obligation of Parent or Buyer, or (iii) the Organizational Documents of Parent or Buyer.

Section 5.05. No Brokers. Neither Parent nor Buyer has Liability of any kind to any broker, finder or agent with respect to the Contemplated Transactions for which any of the Shareholders could be liable.

Section 5.06. Financing. Buyer has or will have sufficient cash and/or available borrowing capacity to pay the Purchase Consideration as and when it becomes payable hereunder and to make all other payments of fees and expenses in connection with the negotiation and Closing of the Contemplated Transactions.

Section 5.07. SEC Filings. Parent has timely filed all forms and reports required to be filed with the SEC including, without limitation, all exhibits required to be filed therewith (including any forms, reports and documents incorporated by reference therein or filed after the date thereof) (the "Parent SEC Reports"). The Parent SEC Reports: (i) at the time they were filed complied in all material respects with the applicable requirements of the Securities Act and/or the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, and with the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated thereunder, in each case applicable to such Parent SEC Reports at the time they were filed; and (ii) did not at the time they were filed (or, if later filed, amended or superseded, then on the date of such later filing) contain any untrue statement of a material fact or omit to

state a material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

ARTICLE VI
COVENANTS OF THE PARTIES

Section 6.01. Commercially Reasonable Efforts; Notices and Consents. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use its commercially reasonable efforts to take or cause to be taken all actions, to file or cause to be filed all documents, to give or cause to be given all notices to Governmental Authorities or other Persons, to obtain or cause to be obtained all authorizations, consents, waivers, approvals, permits or orders from Governmental Authorities or other Persons, and to do or cause to be done all other things necessary, proper or advisable, in order to consummate and make effective the Contemplated Transactions (including satisfaction, but not waiver, of the closing conditions set forth in Articles VII and VIII) and to allow the Business to be operated following the Closing in the same manner as it is being operated prior to the Closing.

Section 6.02. Expenses. Each party will pay its own respective financial advisory, legal, accounting and other expenses incurred by it or for its benefit in connection with the preparation and execution of this Agreement and the Ancillary Agreements, the compliance herewith and therewith and the Contemplated Transactions. All Shareholder Transaction Expenses not paid by the Shareholders or reimbursed to the Company by the Shareholders prior to the Closing will be borne by the Shareholders by means of an adjustment to the Closing Cash Consideration pursuant to Section 2.03 or, to the extent such Shareholder Transaction Expenses, or the amount thereof, are determined after the Closing, by the Shareholders directly promptly upon delivery of an invoice by Parent. The Company has delivered or made available to Parent a complete and accurate list and description of all Shareholder Transaction Expenses.

Section 6.03. Confidentiality.

(a) Each Shareholder acknowledges that the success of the Company after the Closing depends upon the continued preservation of the confidentiality of certain information possessed by such Shareholder, that the preservation of the confidentiality of such information by such Shareholder is an essential premise of the bargain between the parties, and that Parent and Buyer would be unwilling to enter into this Agreement in the absence of this Section 6.03(a). Accordingly, each Shareholder hereby severally agrees with Parent and Buyer that such Shareholder shall not, and that such Shareholder shall cause its Affiliates and Representatives not to, at any time on or after the Closing Date, directly or indirectly, without the prior written consent of Parent, disclose or use, any information involving or relating to the Business or the Company (other than in the case of a Shareholder that is a director, officer or employee of the Company, in the course of fulfilling his or her duties to the Company in such capacity); provided, that the information subject to this Section 6.03(a) will not include any information generally available to, or known by, the public (other than as a result of disclosure in violation hereof); provided, further, that the provisions of this Section 6.03(a) will not prohibit any retention of copies of records or disclosure (A) required by any applicable Legal Requirement so long as reasonable prior notice is given to Parent of such disclosure and a reasonable opportunity is afforded Parent to contest the same or (B) made in connection with the enforcement of any

right or remedy relating to this Agreement or the Contemplated Transactions. Each Shareholder agrees that it shall be responsible for any breach or violation of the provisions of this Section 6.03(a) by any of its Affiliates or Representatives.

(b) Notwithstanding the foregoing, each of the parties hereto and their respective Representatives may disclose to any and all Persons the tax treatment and tax structure of the Contemplated Transactions and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure, all as contemplated by Treasury Regulation Section 1.6011-4(b)(3)(iii).

Section 6.04. Publicity. No public announcement or disclosure (including any general announcement to employees, customers or suppliers) will be made by any party with respect to the subject matter of this Agreement or the Contemplated Transactions without the prior written consent of Parent, the Company and the Shareholders' Representative; provided, that the provisions of this Section 6.04 shall not prohibit (a) any disclosure required by any applicable Legal Requirements (in which case the disclosing party will provide the other parties with the opportunity to review and comment in advance of such disclosure) or (b) any disclosure made in connection with the enforcement of any right or remedy relating to this Agreement or any Ancillary Agreement or the Contemplated Transactions.

Section 6.05. Intellectual Property. Prior to the Closing Date, the Shareholders shall make and record any necessary filings with the applicable Governmental Authorities so that the Company will appear in their records as owner of all registrations of and applications related to the Owned Intellectual Property Rights.

Section 6.06. Further Assurances. From and after the Closing Date, upon the request of either the Shareholders' Representative or Parent, each of the parties hereto shall do, execute, acknowledge and deliver all such further acts, assurances, deeds, assignments, transfers, conveyances and other instruments and papers as may be reasonably required or appropriate to carry out the Contemplated Transactions. No Shareholder shall take any action that is designed or intended to have the effect of discouraging any lessor, licensor, supplier, distributor or customer of the Company or other Person with whom the Company has a relationship from maintaining the same relationship with the Company after the Closing as it maintained prior to the Closing. Each Shareholder shall refer all customer inquiries relating to the Business to the Company from and after the Closing.

Section 6.07. Certain Employment and Employee Benefits Matters. Except as specifically provided herein, neither Buyer nor Parent is under any obligation to hire or retain any employee, independent contractor or consultant, or provide any employee, independent contractor or consultant with any particular benefits, or make any payments or provide any benefits to those employees, independent contractors or consultants whom Parent chooses not to employ or subsequently terminates, except as otherwise required by applicable Legal Requirements.

Section 6.08. Release by Shareholders. Effective as of the Closing, each of the Shareholders hereby releases the Company, its successors and assigns and its Affiliates, directors and officers from any claim, demand, lien, liability, debt, right, set-off, trespass, tort, wrong,

covenant, action, suit, expense, damage, judgment, order and liability of whatever kind or nature, in law or in equity, under contract, in tort, by statute or otherwise, whether known or unknown, vested or contingent, suspected or unsuspected and whether or not concealed or hidden, that were or could have been asserted in any suit, arbitration or mediation, in any jurisdiction, state, federal or otherwise, under any law, state, federal or otherwise, arising out of or relating to, in whole or in part, any action, omission, incident, event, fact or circumstance existing or occurring on or prior to the Closing Date (collectively, "Claims") and relating to (i) any claim that such Shareholder or any Affiliate or Family Member of such Shareholder has any right to acquire (by purchase or otherwise) any Equity Interest in the Company, receive any bonus or similar amount from the Company or acquire any asset of the Company or (ii) any right to indemnification or contribution by the Company.

ARTICLE VII
CONDITIONS TO THE OBLIGATIONS OF PARENT AND BUYER AT THE CLOSING.

The obligations of Parent and Buyer to consummate the Contemplated Transactions are subject to the fulfillment, or, to the extent permitted by law, waiver by Parent, of each of the following conditions:

Section 7.01. Delivery of Securities; Instruments of Transfer. Each of the Shareholders will have delivered to Buyer a certificate or certificates, duly endorsed (or accompanied by one or more duly executed transfer powers) evidencing all of the Shares to be transferred to Buyer hereunder by such Shareholder.

Section 7.02. Delivery of Closing Certificates. The Company and the Shareholders shall have delivered to Buyer the following:

(a) Compliance Certificate. A certificate, dated as of the Closing Date, signed by the Chief Executive Officer or a director of the Company certifying as to (i) the names and incumbency of each of the officers of the Company executing this Agreement or any Ancillary Agreement, (ii) the Organizational Documents of the Company, (iii) all resolutions adopted by the Board of Directors and Shareholders of the Company in connection with this Agreement and the Contemplated Transactions and (iv) such other matters as reasonably requested by counsel for Parent and Buyer; and

(b) Good Standing Certificate. A certificate of good standing with respect to MGI issued by the relevant Governmental Authority of its jurisdiction of organization, as of a recent date.

Section 7.03. Qualifications. No provision of any applicable Legal Requirement and no Governmental Order will prohibit the consummation of any of the Contemplated Transactions.

Section 7.04. Absence of Litigation. No Action will be pending or threatened which seeks, nor will there be any Governmental Order in effect, (a) which would prevent consummation of any of the Contemplated Transactions, (b) which would result in any of the Contemplated Transactions being rescinded following consummation, (c) which would limit or otherwise adversely affect the right of Buyer (or any Affiliate thereof) to own the Shares

(including the right to vote the Shares), to control the Company, or to operate all or any portion of the Business or Assets or any portion of the business or assets of Buyer or any of its Affiliates or (d) would compel Buyer or any of its Affiliates to dispose of all or any portion of either the Business or Assets or the business or assets of Buyer or any of its Affiliates.

Section 7.05. Consents, etc. All actions by (including any authorization, consent or approval) or in respect of (including notice to), or filings with, any Governmental Authority or other Person that are required to consummate the Contemplated Transactions, as disclosed in Schedule 7.05 or as otherwise reasonably requested by Parent, will have been obtained or made, in a manner reasonably satisfactory in form and substance to Parent, and no such authorization, consent or approval will have been revoked.

Section 7.06. Proceedings and Documents. All corporate and other proceedings of the Company in connection with the Contemplated Transactions and all documents incident thereto will be reasonably satisfactory in form and substance to Parent and its counsel, and they will have received all such counterpart original and other copies of such documents as they may reasonably request prior to the Closing.

Section 7.07. Ancillary Agreements. Each of the Ancillary Agreements will have been executed and delivered to Parent and Buyer by each of the other parties thereto.

Section 7.08. Resignations. Buyer will have received the resignations, effective as of the Closing, of each officer and director of the Company and MGI, other than Akerib.

Section 7.09. No Material Adverse Change. Since the Reference Balance Sheet Date, there will not have occurred or arisen any events, changes, facts, conditions or circumstances, nor will there exist any events, changes, facts, conditions or circumstances, which individually or in the aggregate have resulted in or would reasonably be expected to result in a Material Adverse Effect.

ARTICLE VIII
CONDITIONS TO THE OBLIGATIONS OF THE COMPANY AND THE SHAREHOLDERS AT THE CLOSING.

The obligations of the Company and the Shareholders to consummate the Contemplated Transactions are subject to the fulfillment, or, to the extent permitted by law, waiver by the Shareholders' Representative (who shall act for all the Shareholders for such purposes) of each of the following conditions:

Section 8.01. Qualifications. No provision of any applicable Legal Requirement and no Governmental Order will prohibit the consummation of any of the Contemplated Transactions.

Section 8.02. Absence of Litigation. No Action will be pending or threatened which seeks a Governmental Order, nor will there be any Governmental Order in effect, (a) which would prevent consummation of any of the Contemplated Transactions or (b) which would result in any of the Contemplated Transactions being rescinded following consummation.

Section 8.03. Ancillary Agreements. Each of the Ancillary Agreements to which any of the Shareholders or the Shareholders' Representative are party will have been executed and delivered to the Shareholders' Representative by each of the other parties thereto (other than the Company, the Shareholders, and the Shareholders' Representative).

ARTICLE IX
INDEMNIFICATION.

Section 9.01. Indemnification by the Shareholders.

(a) Indemnification. Subject to the limitations set forth in this Article IX, from and after the Closing, each Shareholder shall, severally and not jointly, in accordance with their respective Pro Rata Percentages (or in the case of subclauses (iii) and (iv) below, severally and solely as to itself) indemnify and hold harmless Parent and its Affiliates (including, following the Closing, the Company and MGI), and the Representatives, Affiliates, successors and assigns of each of the foregoing Persons (each, a "Parent Indemnified Person"), from, against and in respect of any and all Actions, Liabilities, Governmental Orders, Encumbrances, losses, damages, bonds, dues, assessments, fines, penalties, Taxes, fees, costs (including costs of investigation, defense and enforcement of this Agreement), expenses or amounts paid in settlement (in each case, including reasonable attorneys' and experts' fees and expenses), whether or not involving a Third Party Claim (collectively, "Losses"), incurred or suffered by the Parent Indemnified Persons or any of them as a result of, arising out of or relating to, directly or indirectly:

(i) any fraud or intentional misrepresentation on the part of the Company (or any Representative thereof) or any breach of, or inaccuracy in, any representation, warranty or statement made by or on behalf of the Company in this Agreement or in any Schedule or certificate delivered by or on behalf of the Company pursuant to this Agreement (in each case, assuming that all qualifications contained in this Agreement and each such Schedule or certificate as to materiality, the phrase "substantial compliance", the words "material" and "materially" and all similar phrases and words were deleted therefrom);

(ii) any breach or violation of any covenant or agreement of the Company in this Agreement to the extent required to be performed or complied with by the Company at or prior to the Closing pursuant to this Agreement;

(iii) any fraud or intentional misrepresentation on the part of such Shareholder (or any Representative thereof) or any breach of, or inaccuracy in, any representation, warranty or statement made by or on behalf of such Shareholder in this Agreement or in any Schedule or certificate delivered by or on behalf of such Shareholder pursuant to this Agreement (in each case, assuming that all qualifications contained in this Agreement and each such Schedule or certificate as to materiality, the phrase "substantial compliance", the words "material" and "materially" and all similar phrases and words were deleted therefrom);

(iv) any breach or violation of any covenant or agreement of such Shareholder (including under this Article IX) in or pursuant to this Agreement; or

(v) Any Shareholder Transaction Expenses, to the extent not paid by the Shareholders prior to the Closing, reimbursed to the Company by the Shareholders prior to the Closing or reflected as an adjustment to the Closing Cash Consideration pursuant to Section 2.03.

(b) Monetary Limitations. The Shareholders will have no obligation to indemnify the Parent Indemnified Persons pursuant to Section 9.01(a) in respect of Losses arising from the breach of, or inaccuracy in, any representation, warranty or statement described therein unless and until the aggregate amount of all such Losses incurred or suffered by the Parent Indemnified Persons exceeds $50,000 (at which point the Shareholders will indemnify the Parent Indemnified Persons for all such Losses), and, the Shareholders' aggregate liability in respect of claims pursuant to Sections 9.01(a)(i) will be subject to the limitations set forth in Section 9.08; provided, that the foregoing limitations will not apply to claims for indemnification (i) based upon fraud or intentional misrepresentation, (ii) pursuant to Section 9.01(a)(v) or (iii) pursuant to Article X (*Tax Matters*).

Section 9.02. Indemnification by Parent.

(a) Indemnification. Subject to the limitations set forth in this Article IX, from and after the Closing, Parent shall indemnify and hold harmless each of the Shareholders and each of their respective Affiliates, and the Representatives, Affiliates, successors and assigns of each of the foregoing Persons (each, a "Shareholder Indemnified Person"), from, against and in respect of any and all Losses incurred or suffered by the Shareholder Indemnified Persons or any of them as a result of, arising out of or relating to, directly or indirectly:

(i) any fraud or intentional misrepresentation on the part of Parent or Buyer (or any Affiliate or Representative thereof or) any breach of, or inaccuracy in, any representation, warranty or statement made by or on behalf of Parent or Buyer in this Agreement or in any Schedule or certificate delivered by or on behalf of Parent or Buyer pursuant to this Agreement (in each case, assuming that all qualifications contained in this Agreement and each such Schedule or certificate as to materiality, including each qualifying reference to the phrase "substantial compliance", the words "material" and "materially" and all similar phrases and words were deleted therefrom); or

(ii) any breach or violation of any covenant or agreement of Parent or Buyer (including under this Article IX) or any covenant or agreement of the Company to the extent required to be performed or complied with by the Company after the Closing, in either case pursuant to this Agreement.

(b) Monetary Limitations. Parent will have no obligation to indemnify the Shareholder Indemnified Persons pursuant to Section 9.02(a) in respect of Losses arising from the breach of, or inaccuracy in, any representation, warranty or statement described therein unless and until the aggregate amount of all such Losses incurred or suffered by the Shareholder Indemnified Persons exceeds $50,000 (at which point the Buyer will indemnify the Shareholder

Indemnified Persons for all such Losses); provided, that the foregoing limitations will not apply to claims for indemnification based upon fraud or intentional misrepresentation.

Section 9.03. Time for Claims; Notification of Opportunity to Cure; Notice of Claims.

(a) Time for Claims. No claim may be made or suit instituted seeking indemnification pursuant to Section 9.01(a), 9.02(a) for any breach of, or inaccuracy in, any representation, warranty or statement or seeking indemnification under Section 9.04 unless a written notice is provided to the Indemnifying Party prior to the earlier of (i) the date that is eighteen (18) months following the Closing Date and (ii) the expiration of the applicable statute of limitations for such claim (taking into account any applicable tolling periods or extensions); provided that in the case of any breach of, or inaccuracy in, the representations and warranties set forth in Sections 3.01 (*Organization; Subsidiaries*), 3.02 (*Power and Authorization*), 3.04(b)(iii) (*Noncontravention*), 3.05 (*Capitalization*), 3.08 (*Debt; Guarantees*), 3.09(a) (*Ownership of Assets*), 3.12(a) (*Legal Compliance*), 3.12(b) (*Illegal Payments*), 3.13 (*Tax Matters*) or 3.14 (*Employee Benefit Plans*), 3.24 (*No Brokers*), 4.04 (*Power and Authorization*), 4.04 (*Title*), 4.05 (*No Brokers*), 5.01 (*Organization*), 5.02 (*Power and Authorization*), 5.04(b)(iii) (*Noncontravention*) or 5.05 (*No Brokers*); the foregoing period shall be extended until the earlier of (A) the date that is eighteen (18) months following the last payment actually made to the Shareholders of Deferred Cash Consideration and (B) the expiration of the applicable statute of limitations for such claim (taking into account any applicable tolling periods or extensions). The applicable period during which claims for indemnification may be made, as set forth in this Section 9.03, is referred to herein as the "Indemnification Period."

(b) Notification and Opportunity to Cure. In the event that any Indemnified Person has a claim for indemnification under this Article IX, before making a claim pursuant to Section 9.03(b), such Indemnified Person shall provide to each Indemnifying Party (with all such notifications to the Shareholders being given to the Shareholders' Representative) written notification of such claim and an opportunity to cure such claim within ten (10) Business Days; provided, however, that no such notification need be provided with respect to any claim based on a breach which is not capable of being cured within such period or where such cure period would prejudice the rights of the Indemnified Person.

(c) Written Notice of Indemnification Claims. In the event that any Indemnified Person wishes to make a claim for indemnification under this Article IX (and any applicable cure period pursuant to Section 9.03(b) has expired), the Indemnified Person shall give written notice of such claim to each Indemnifying Party and, in the case of claims by a Parent Indemnified Person, to the Escrow Agent (with all notices to the Shareholders being given to the Shareholders' Representative) within the applicable time limitations specified in Section 9.03(a) and in accordance with the Escrow Agreement. Any such notice shall describe the breach or inaccuracy and other material facts and circumstances upon which such claim is based and the estimated amount of Losses involved, in each case, in reasonable detail in light of the facts then known to the Indemnified Person; provided, that no defect in the information contained in such notice from the Indemnified Person to any Indemnifying Party will relieve such Indemnifying Party from any obligation under this Article IX, except to the extent such failure to include information actually and materially prejudices such Indemnifying Party.

Section 9.04. Third Party Claims.

(a) Notice of Third Party Claims. Promptly after receipt by an Indemnified Person of written notice of the assertion of a claim by any Person who is not a party to this Agreement (a "Third Party Claim") that may give rise to an Indemnity Claim against an Indemnifying Party under this Article IX, and provided that the applicable time limitations specified in Section 9.03(a) have not lapsed, the Indemnified Person shall give written notice thereof to the Indemnifying Party; provided, that no delay on the part of the Indemnified Person in notifying the Indemnifying Party will relieve the Indemnifying Party from any obligation under this Article IX, except to the extent such delay actually and materially prejudices the Indemnifying Party.

(b) Assumption of Defense, etc. The Indemnifying Party will be entitled to participate in the defense of any Third Party Claim that is the subject of a notice given by or on behalf of any Indemnified Person pursuant to Section 9.04(a). In addition, the Indemnifying Party will have the right to control the defense of the Indemnified Person against the Third Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Person so long as (i) the Indemnifying Party gives written notice that they or it will defend the Third Party Claim to the Indemnified Person within fifteen (15) days after the Indemnified Person has given notice of the Third Party Claim under Section 9.04(a) stating that the Indemnifying Party will, and thereby covenants to, indemnify, defend and hold harmless the Indemnified Person from and against the entirety of any and all Losses the Indemnified Person may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (ii) the Indemnifying Party provides the Indemnified Person with evidence reasonably acceptable to the Indemnified Person that the Indemnifying Party will have adequate financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (iii) the Indemnified Person has not been advised by counsel that an actual or potential conflict exists between the Indemnified Person and the Indemnifying Party in connection with the defense of the Third Party Claim, (iv) the Third Party Claim does not relate to or otherwise arise in connection with Taxes or any criminal or regulatory enforcement Action, (v) settlement of, an adverse judgment with respect to, or conduct of the defense of the Third Party Claim by the Indemnifying Party is not, in the good faith judgment of the Indemnified Person, likely to be adverse to the Indemnified Person's reputation or continuing business interests (including its relationships with current or potential customers, suppliers or other parties material to the conduct of its business) and (vi) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently. The Indemnified Person may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim; provided, that the Indemnifying Party will pay the fees and expenses of separate counsel retained by the Indemnified Person that are incurred prior to the Indemnifying Party's assumption of control of the defense of the Third Party Claim.

(c) Limitations on Indemnifying Party Control. The Indemnifying Party will not consent to the entry of any judgment or enter into any compromise or settlement with respect to the Third Party Claim without the prior written consent of the Indemnified Person unless such judgment, compromise or settlement (i) provides for the payment by the Indemnifying Party of money as sole relief for the claimant, (ii) results in the full and general release of all Indemnified Person from all liabilities arising or relating to, or in connection with, the Third Party Claim and

(iii) involves no finding or admission of any violation of Legal Requirements or the rights of any Person and no effect on any other claims that may be made against the Indemnified Person.

(d) Indemnified Person's Control. If the Indemnifying Party does not deliver the notice contemplated by clause (i) of Section 9.04(b), or the evidence contemplated by clause (ii) of Section 9.04(b) or is not otherwise entitled under Section 9.04(b) to assume the defense of a Third Party Claim, within fifteen (15) days after the Indemnified Person has given notice of the Third Party Claim pursuant to Section 9.04(a), or otherwise at any time fails to conduct the defense of the Third Party Claim actively and diligently, the Indemnified Person may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Person need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith). If such notice and evidence is given on a timely basis and the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently but any of the other conditions in Section 9.04(b) is or becomes unsatisfied, the Indemnified Person may defend, and may consent to the entry of any judgment or enter into any compromise or settlement with respect to, the Third Party Claim; provided, that the Indemnifying Party will not be bound by the entry of any such judgment consented to, or any such compromise or settlement effected, without its prior written consent (which consent will not be unreasonably withheld, conditioned or delayed). In the event that the Indemnified Person conducts the defense of the Third Party Claim pursuant to this Section 9.04(d), the Indemnifying Party will (i) advance the Indemnified Person promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses) and (ii) remain responsible for any and all other Losses that the Indemnified Person may incur or suffer resulting from, arising out of, relating to, in the nature of or caused by the Third Party Claim to the fullest extent provided in this Article IX.

(e) Consent to Jurisdiction Regarding Third Party Claim. Parent, each of the Shareholders and the Shareholders' Representative, each hereby consents to the non-exclusive jurisdiction of any court in which any Third Party Claim may be brought against any Indemnified Person for purposes of any claim which such Indemnified Person may have against any such Indemnifying Party pursuant to this Agreement in connection with such Third Party Claim, and in furtherance thereof, the provisions of Section 11.09 are incorporated herein by reference, *mutatis mutandis*.

Section 9.05. Indemnity Escrow; Offset Rights.

(a) For as long as there are remaining funds out of the Indemnity Escrow Amount, any and all amounts payable by the Shareholders as Indemnifying Party to a Parent Indemnified Person will be retained by and distributed to Parent first out of such escrow funds, pursuant to the terms and conditions of the Escrow Agreement.

(b) Any portion of the Indemnity Escrow Amount remaining in escrow on the date which is eighteen (18) months following the Closing Date, less the amount of any claims for indemnification by a Parent Indemnified Person that are pending and unresolved at that date, shall be released from escrow and distributed to the Shareholders pursuant to the terms and conditions of the Escrow Agreement.

(c) To the extent that none of the Indemnity Escrow Amount remains available for the payment of any amounts payable by the Shareholders as Indemnifying Party to a Parent Indemnified Person, Buyer shall have the right to offset and withhold any amount so payable against any Deferred Cash Consideration that otherwise is or thereafter becomes payable hereunder and to instruct the Escrow Agent accordingly pursuant to the terms and conditions of the Escrow Agreement.

(d) If any claim for indemnification by a Parent Indemnified Person is pending or unresolved at the time that any Deferred Cash Consideration otherwise becomes payable hereunder, Buyer shall have the right to withhold from such payment an amount equal to the amount of such claim (provided that it has been, or at the time of such withholding is, asserted in writing pursuant to the terms of this Article IX) until such claim is resolved by mutual agreement or by a final, non-appealable judgment and to instruct the Escrow Agent accordingly pursuant to the terms and conditions of the Escrow Agreement. If it is finally determined that such claim is indemnifiable by the Shareholders under this Article IX, the amount of such claim may be offset against the withheld payment and the remainder, if any, shall be delivered to the Shareholders pursuant to this Agreement and the Escrow Agreement.

(e) Notwithstanding anything in this Agreement to the contrary, the sole recourse of the Parent Indemnified Persons against the Shareholders for indemnification under this Article IX shall be to the escrow funds held with respect to the Indemnity Escrow Amount and the rights of offset provided in Sections 9.05(c) and Section 9.05(d), except for claims based on fraud or intentional misrepresentation.

Section 9.06. Knowledge and Investigation. The right of any Parent Indemnified Person or Shareholder Indemnified Person to indemnification pursuant to this Article IX will not be affected by any investigation conducted or knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing, with respect to the accuracy of any representation or warranty, or performance of or compliance with any covenant or agreement, referred to in Sections 9.01 and 9.02. The waiver of any condition contained in this Agreement or in any Ancillary Agreement based on the breach of any such representation or warranty, or on the performance of or compliance with any such covenant or agreement, will not affect the right of any Parent Indemnified Person or Shareholder Indemnified Person to indemnification pursuant to this Article IX based on such representation, warranty, covenant or agreement.

Section 9.07. Remedies Cumulative. The rights of each Parent Indemnified Person and Shareholder Indemnified Person under this Article IX are cumulative, and each Parent Indemnified Person and Shareholder Indemnified Person will have the right in any particular circumstance, in its sole discretion, to enforce any provision of this Article IX without regard to the availability of a remedy under any other provision of this Article IX.

Section 9.08. Sole Remedy. The parties agree that in addition to rights to specific performance pursuant to Section 11.11, indemnification pursuant to this Article IX and Article X (as limited by the terms thereof), constitutes the sole and exclusive remedy available after the Closing to the Parent Indemnified Persons with respect to any Losses pursuant to this Article IX, and the breach or non-fulfillment of any representation, warranty, agreement, covenant,

condition or any other obligation of the Company or the Shareholders contained in this Agreement.

Section 9.09. Purchase Consideration Adjustment. The parties agree that any indemnification payment made pursuant to this Agreement shall be treated as an adjustment to the Purchase Consideration for Tax purposes, unless otherwise required by applicable Legal Requirements.

ARTICLE X
TAX MATTERS

Section 10.01. Transfer Taxes. All transfer, documentary, sales, use, stamp, value added registration and other such Taxes, and any conveyance fees or recording charges (including any interest or penalties) incurred in connection with the Contemplated Transactions ("Transfer Taxes"), will be paid by the Shareholders. The Shareholders' Representative will, at the expense of the Shareholders, file all necessary Tax Returns and other documentation with respect to all such Taxes, fees and charges and, if required by applicable Legal Requirements, Buyer will (and will cause its Affiliates to) join in the execution of any such Tax Returns and other documentation.

Section 10.02. Tax Indemnification. From and after the Closing, each of the Shareholders, severally (based on their respective Pro Rata Percentage) but not jointly, shall indemnify each Parent Indemnified Person from and against, without duplication, all Losses attributable to (a) Taxes (including reasonable fees and expenses of counsel) (i) imposed on or with respect to the Company or MGI for any period ending on or before the Closing Date and the portion through the end of the Closing Date of any period that includes (but does not end on) the Closing Date (a "Pre-Closing Tax Period"); (ii) arising from any breach of, or inaccuracy in, any representations and warranties of the Company in Section 3.13; or (iii) arising from any breach of, or failure to perform, any of the covenants and agreements set forth in Section 2.10 or this Article X; and (b) any and all claims, actions, suits, proceedings, demands, assessments, judgments, damages, awards, costs and expenses (including third-party fees and expenses) incident to any of the foregoing items or incurred in connection with the enforcement of the rights of any Parent Indemnified Person with respect to the foregoing items.

Section 10.03. Tax Returns. Buyer shall cause to be prepared and filed in a timely manner all Tax Returns required to be filed by the Company to the extent such Tax Returns are due after the Closing Date, after giving the Sellers' Representative a reasonable opportunity to review and comment on any Tax Return which relates to a Pre-Closing Tax Period. With respect to any such Tax Return filed after the Closing Date that relates to any Pre-Closing Tax Period, the Shareholders shall, jointly and severally based on their respective Pro Rata Percentages, pay to the Buyer five (5) days prior to the filing of such Tax Returns the amount of the aggregate Tax liabilities due and tax preparation fees with respect to such Pre-Closing Tax Periods.

Section 10.04. Straddle Period. In the case of any Taxable period that includes (but does not end on) the Closing Date (a "Straddle Period"), the amount of any Taxes of the Company based upon or measured by net income, receipts or gain for the Pre-Closing Tax Period will be determined based on an interim closing of the books as of the close of business on the

Closing Date (and for such purpose, the taxable period of any partnership or other pass-through entity in which the Company holds a beneficial interest will be deemed to terminate at such time). The amount of Taxes other than Taxes of the Company based upon or measured by net income, receipts or gain for a Straddle Period which relate to the Pre-Closing Tax Period will be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction, the numerator of which is the number of days in the taxable period ending on the Closing Date and the denominator of which is the number of days in such Straddle Period.

Section 10.05. Cooperation on Tax Matters. Parent, Buyer, the Company, the Shareholders' Representatives and the Shareholders will cooperate fully, as and to the extent reasonably requested by any of them, in connection with any Tax matters relating to the Company. Such cooperation shall include promptly furnishing such information as the other party may reasonably request with respect to such Tax Returns and Tax proceedings, providing access to relevant books and records and making employees available on a mutually convenient basis to provide additional information and explanation of any materials provided hereunder. The Company shall ensure that, as of the Closing Date, the Company is in possession of all books and records with respect to Tax matters pertinent to the Company relating to any Pre-Closing Tax Period. The party requesting such cooperation will pay the reasonable out-of-pocket expenses of the other parties.

Section 10.06. Tax Contests. Each of Parent and the Shareholders' Representative shall promptly notify the other in writing upon receipt of a written notice of any issues in any pending or threatened Tax audits or assessments with respect to Taxes for any Pre-Closing Tax Periods ("Tax Contest Claims"); provided, however, that no failure or delay by Parent to provide notice of a Tax Contest Claim to the Shareholders' Representative shall reduce or otherwise affect the obligation of the Shareholders hereunder except to the extent the defense of such Tax Contest Claim is actually and materially prejudiced thereby; and provided, further, that (i) Parent shall control the conduct of the Tax Contest Claim, (ii) Parent shall keep the Shareholders' Representative reasonably informed regarding the progress and substantive aspects of any such Tax Contest Claim, including providing the Shareholders' Representative with all written materials relating to such Tax proceeding received from the relevant taxing authority and all written materials submitted to such taxing authority by Parent, Buyer or the Company, (iii) the Shareholders' Representative shall be entitled to participate in any such Tax Contest Claim (to the extent that such Tax Contest Claim relates to Taxes for which Parent Indemnified Persons may be entitled to indemnification) at the cost and expense of the Shareholders, including having an opportunity to comment on any written materials prepared in connection with any such Tax Contest Claim and attending any conferences relating to any such Tax Contest Claim and (iv) neither Parent, Buyer or the Company shall compromise or settle any such Tax Contest Claim (to the extent that such Tax Contest Claim relates to Taxes for which Parent Indemnified Persons may be entitled to indemnification) without obtaining the Shareholders' Representative's prior written consent, which consent shall not be unreasonably withheld. In the event of any conflict between the provisions of this Section 10.06 and any other Section of this Agreement, this Section 10.06 shall control.

Section 10.07. Tax Sharing Agreements. All Tax allocation, sharing or indemnity agreements or arrangements involving the Company shall be terminated as of the Closing Date

and, after the Closing Date, the Company shall not be bound thereby or have any liability thereunder.

Section 10.08. Survival. The indemnification obligations pursuant to this Article X shall survive the Closing until the expiration of the applicable statute of limitations (including any extensions thereof) relevant to each particular item; provided, that if notice of indemnification is provided prior to any such expiration date, any obligation to indemnify for any claim described in such notice shall continue indefinitely until such claim is finally resolved.

Section 10.09. Exclusivity of Article X Regarding Tax Matters. This Article X and not Article IX shall exclusively govern all matters related to the Shareholders' indemnification obligations relating to Taxes under this Agreement. Taxes and any Losses related to such Taxes shall not be subject to any of the limitations set forth in Article IX.

Section 10.10. Treatment of Indemnification Payments. For all Tax purposes, unless otherwise required by applicable Legal Requirements, any payment by Buyer or the Shareholders under this Article X shall be treated as an adjustment to the Purchase Consideration.

Section 10.11. Shareholder Contact Information. The Shareholders' Representative shall provide any contact information or other information regarding the Shareholders reasonably requested by Buyer in order for Buyer to comply with the notice requirements of Treasury Regulations Section 1.338-2(e)(4).

Section 10.12. Disclaimer. Except as specifically provided in this Agreement, neither Parent nor Buyer makes any representations or warranties to the Company or to any of the Shareholders regarding the Tax treatment of the Holdback Amount, or the payment of Deferred Cash Consideration, or any other tax consequences of the Contemplated Transactions to the Company or the Shareholders.

ARTICLE XI
MISCELLANEOUS

Section 11.01. Notices. Any notice, request, demand, claim or other communication required or permitted to be delivered, given or otherwise provided under this Agreement must be in writing and must be delivered personally, delivered by internationally recognized overnight courier service, sent by certified or registered mail, postage prepaid, or (if a facsimile number is provided below) sent by facsimile (subject to electronic confirmation of good facsimile transmission). Any such notice, request, demand, claim or other communication shall be deemed to have been delivered and given (a) when delivered, if delivered personally, (b) the second Business Day after it is deposited with such internationally recognized overnight courier service, (c) the day of sending, if sent by facsimile prior to 5:00 p.m. (Pacific time) on any Business Day or the next succeeding Business Day if sent by facsimile after 5:00 p.m. (Pacific time) on any Business Day or on any day other than a Business Day or (d) five (5) Business Days after the date of mailing, if mailed by certified or registered mail, postage prepaid, in each case, to the following address or, if applicable, facsimile number, or to such other address or addresses or

facsimile number or numbers as such party may subsequently designate to the other parties by notice given hereunder:

If to the Company (prior to the Closing), to:

MikaMonu Group Ltd.
1A, Uri Kesari Street
Tel Aviv 6908065
Israel
Telephone No.: +972-54-253550
Facsimile No.: +972-3-6449432
Attention: Avidan Akerib

with a copy (which shall not constitute notice) to:

Shaked & Co. Law Offices
Electra Building
98 Yigal Alon Street
Tel Aviv 67891
Israel
Telephone No.: +972-3-322-1114
Facsimile No.: +972-3-372-1115
Attention: Lillian Shaked

If to Buyer or Parent (or to the Company after the Closing), to:

1213 Elko Drive
Sunnyvale, CA 94089
U.S.A.
Telephone No.: (408) 331-9802
Facsimile No.: (408) 331-0987
Attention: Douglas M. Schirle

with a copy (which shall not constitute notice) to:

DLA Piper LLP (US)
2000 University Avenue
East Palo Alto, CA 94303
U.S.A.
Telephone No.: (650) 833-2243
Facsimile No.: (650) 687-1200
Attention: Dennis C. Sullivan

If to any of the Shareholders, to such Shareholder in care of the Shareholders' Representative, and if to the Shareholders' Representative, to:

Ruth Orda
1, Begin Street
Givat Shmuel 5442101
Israel
Telephone No.: +972-52-6461437
Facsimile No.: +972-3-532-4655

with a copy (which shall not constitute notice) to:

Shaked & Co. Law Offices
Electra Building
98 Yigal Alon Street
Tel Aviv 67891
Israel
Telephone No.: +972-3-322-1114
Facsimile No.: +972-3-372-1115
Attention: Lillian Shaked

Each of the parties to this Agreement may specify a different address or addresses or facsimile number or facsimile numbers by giving notice in accordance with this Section 11.01 to each of the other parties hereto.

Section 11.02. Succession and Assignment; No Third-Party Beneficiaries. Subject to the immediately following sentence, this Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, each of which such successors and permitted assigns will be deemed to be a party hereto for all purposes hereof. No party may assign, delegate or otherwise transfer either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other parties (with the Shareholders' Representative acting for all of the Shareholders), and any attempt to do so will be null and void *ab initio*; provided, that (a) Parent may assign this Agreement and any or all of its rights and interests hereunder to one or more of its Affiliates or designate one or more of its Affiliates to perform its obligations hereunder, in each case, so long as Parent is not relieved of any liability or obligations hereunder, and any reference to Parent hereunder shall be deemed to apply to such Affiliate or Affiliates *mutatis mutandis*, (b) Parent may assign this Agreement and any or all of its rights and interest hereunder to any purchaser of all or substantially all its assets, provided that such purchaser signs a written undertaking to perform Parent's obligations hereunder and any and all reference to Parent shall be deemed to refer to such purchaser and (c) any of Parent Indemnified Persons may collaterally assign any or all of its rights and obligations hereunder as a Parent Indemnified Person to any provider of debt financing to it or any of its Affiliates. With respect to any of the circumstances set forth in clauses (a) through (c) of this Section 11.02, Parent shall notify in writing the Shareholders' Representative of such assignment and the identity of the successor or purchaser within twenty (20) days of the closing of such assignment. Except as expressly provided herein, this Agreement is for the sole benefit of the parties hereto and their successors and permitted

assignees and nothing herein expressed or implied will give or be construed to give any Person, other than the parties hereto and such successors and permitted assignees, any other right, benefit or remedy of any nature whatsoever under or by reason of this Agreement. For the avoidance of doubt, it is hereby acknowledged and agreed by the parties hereto that an Indemnified Person that is not party hereto is intended to be an express third party beneficiary of this Agreement.

Section 11.03. Amendments and Waivers. No amendment or waiver of any provision of this Agreement will be valid and binding unless it is in writing and signed, in the case of an amendment, by Parent, Buyer, the Company and the Shareholders' Representative (acting for all of the Shareholders), or in the case of a waiver, by the party (or in the case of any or all of the Shareholders, by the Shareholders' Representative) against whom the waiver is to be effective. No waiver by any party of any breach or violation of, default under or inaccuracy in any representation, warranty or covenant hereunder, whether intentional or not, will be deemed to extend to any prior or subsequent breach or violation of, default under, or inaccuracy in, any such representation, warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence. No delay or omission on the part of any party in exercising any right, power or remedy under this Agreement will operate as a waiver thereof.

Section 11.04. Provisions Concerning the Shareholders' Representative.

(a) Appointment. Each Shareholder hereby irrevocably appoints Orda as the sole and exclusive agent, proxy and attorney-in-fact for such Shareholder for all purposes of this Agreement and the Contemplated Transactions, with full and exclusive power and authority to act on such Shareholder's behalf (the "Shareholders' Representative"). The appointment of the Shareholders' Representative hereunder is coupled with an interest, shall be irrevocable and shall not be affected by the death, incapacity, insolvency, bankruptcy, illness or other inability to act of any Shareholder. Without limiting the generality of the foregoing, the Shareholders' Representative is hereby authorized, on behalf of the Shareholders, to:

(i) in connection with the Closing, execute and receive all documents, instruments, certificates, statements and agreements on behalf of and in the name of each Shareholder necessary to effectuate the Closing and consummate the Contemplated Transactions;

(ii) receive and give all notices and service of process, make all filings, enter into all Contractual Obligations, make all decisions, bring, prosecute, defend, settle, compromise or otherwise resolve all claims, disputes and Actions, authorize payments in respect of any such claims, disputes or Actions, and take all other actions, in each case, with respect to the matters set forth in Article II, Article IX or Article X or any other Actions directly or indirectly arising out of or relating to this Agreement or the Contemplated Transactions;

(iii) receive and give all notices, make all decisions and take all other actions on behalf of the Shareholders in connection with the Indemnity Escrow Amount and the escrow funds, including giving any instructions or authorizations to the Escrow Agent to pay from such escrow funds any amounts owed by the Shareholders pursuant to this Agreement or otherwise in connection with the Contemplated Transactions;

(iv) execute and deliver, should it elect to do so in its good faith discretion, on behalf of the Shareholders, any amendment to, or waiver of, any term or provision of this Agreement, or any consent, acknowledgment or release relating to this Agreement; and

(v) take all other actions permitted or required to be taken by or on behalf of the Shareholders under this Agreement and exercise any and all rights that the Shareholders or the Shareholders' Representative are permitted or required to do or exercise under this Agreement.

(b) Liability. The Shareholders' Representative shall not be held liable by any of the Shareholders for actions or omissions in exercising or failing to exercise all or any of the power and authority of the Shareholders' Representative pursuant to this Agreement, except in the case of the Shareholders' Representative's gross negligence, bad faith or willful misconduct. The Shareholders' Representative shall be entitled to rely on the advice of counsel, public accountants or other independent experts that it reasonably determines to be experienced in the matter at issue, and will not be liable to any Shareholder for any action taken or omitted to be taken in good faith based on such advice. The Shareholders will indemnify (in accordance with their Pro Rata Percentages) the Shareholders' Representative from any Losses arising out of her serving as the Shareholders' Representative hereunder, except for Losses arising out of or caused by the Shareholders' Representative's gross negligence, bad faith or willful misconduct. The Shareholders' Representative is serving in her capacity as such solely for purposes of administrative convenience, and is not personally liable in such capacity for any of the obligations of the Shareholders hereunder, and Parent and Buyer agree that they will not look to the personal assets of the Shareholders' Representative, acting in such capacity, for the satisfaction of any obligations to be performed by the Shareholders hereunder.

(c) Reliance on Appointment; Successor Shareholders' Representative. Parent, Buyer and the other Parent Indemnified Persons may rely on the appointment and authority of the Shareholders' Representative granted pursuant to this Section 11.04 until receipt of written notice of the appointment of a successor Shareholders' Representative made in accordance with this Section 11.04. In so doing, Parent, Buyer and the other Parent Indemnified Persons may rely on any and all actions taken by and decisions of the Shareholders' Representative under this Agreement notwithstanding any dispute or disagreement among any of the Shareholders or the Shareholders' Representative with respect to any such action or decision without any Liability to, or obligation to inquire of, any Shareholder, the Shareholders' Representative or any other Person. Any decision, act, consent or instruction of the Shareholders' Representative shall constitute a decision of all the Shareholders and shall be final and binding upon each of the Shareholders. At any time after the Closing, with or without cause, by a written instrument that is signed in writing by holders of at least a majority-in-interest of the Shareholders (determined by reference to their respective Pro Rata Percentages) and delivered to Parent, the Shareholders may remove and designate a successor Shareholders' Representative; provided, that such successor Shareholders' Representative must be reasonably acceptable to Parent. If the Shareholders' Representative shall at any time resign or otherwise cease to function in her capacity as such for any reason whatsoever, and no successor that is reasonably acceptable to Parent is appointed by such holders of a majority-in-interest of the Shareholders within ten (10) Business Days, Parent shall have the right to appoint another Shareholder to act

as the replacement Shareholders' Representative who shall serve as described in this Agreement and, under such circumstances, Parent, Buyer and the other Parent Indemnified Persons shall be entitled to rely on any and all actions taken and decisions made by such replacement Shareholders' Representative.

Section 11.05. Acts of Parent and Buyer. Parent and Buyer shall be jointly and severally liable for each others' obligations to the Shareholders and the Shareholders' Representative under this Agreement and the Ancillary Agreements.

Section 11.06. Entire Agreement. This Agreement, together with the other Ancillary Agreements and any documents, instruments and certificates explicitly referred to herein, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any and all prior discussions, negotiations, proposals, undertakings, understandings and agreements, whether written or oral, with respect thereto. There are no restrictions, promises, warranties, covenants, or undertakings, other than those expressly provided for herein and therein.

Section 11.07. Counterparts; Facsimile Signature. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute but one and the same instrument. This Agreement will become effective when duly executed and delivered by each party hereto. Counterpart signature pages to this Agreement may be delivered by facsimile or electronic delivery (*i.e.*, by email of a PDF signature page) and each such counterpart signature page will constitute an original for all purposes.

Section 11.08. Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction will not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. In the event that any provision hereof would, under applicable Legal Requirements, be invalid or unenforceable in any respect, each party hereto intends that such provision will be construed by modifying or limiting it so as to be valid and enforceable to the maximum extent compatible with, and possible under, applicable Legal Requirements.

Section 11.09. Governing Law. This Agreement, the rights of the parties hereunder and all Actions arising in whole or in part under or in connection herewith, will be governed by and construed and enforced in accordance with the domestic substantive laws of the State of California, U.S.A., without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction.

Section 11.10. Jurisdiction; Venue; Service of Process.

(a) Jurisdiction. Subject to the provisions of Section 9.04(e), each of the parties to this Agreement, by its execution hereof, (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Northern District of California, or if such Action may not be brought in federal court, the state courts of the State of California located in the City of San Jose for the purpose of any Action among any of the parties relating to or arising

in whole or in part under or in connection with this Agreement, any Ancillary Agreement or the Contemplated Transactions, (ii) hereby waives to the extent not prohibited by applicable Legal Requirements, and agrees not to assert, by way of motion, as a defense or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that any such Action brought in one of the above-named courts should be dismissed on grounds of *forum non conveniens*, should be transferred or removed to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other Action in any other court other than one of the above-named courts or that this Agreement, any Ancillary Agreement or the subject matter hereof or thereof may not be enforced in or by such court and (iii) hereby agrees not to commence any such Action other than before one of the above-named courts. Notwithstanding the previous sentence a party may commence any Action in a court other than the above-named courts solely for the purpose of enforcing an order or judgment issued by one of the above-named courts.

(b) Venue. Each of the parties to this Agreement agrees that for any Action among any of the parties relating to or arising in whole or in part under or in connection with this Agreement, any Ancillary Agreement or the Contemplated Transactions, such party shall bring such Action only in the City of San Jose, California. Notwithstanding the previous sentence a party may commence any Action in a court other than the above-named courts solely for the purpose of enforcing an order or judgment issued by one of the above-named courts. Each party hereto further waives any claim and will not assert that venue should properly lie in any other location within the selected jurisdiction.

(c) Service of Process. Each of the parties to this Agreement hereby (i) consents to service of process in any Action among any of the parties hereto relating to or arising in whole or in part under or in connection with this Agreement, any Ancillary Agreement or the Contemplated Transactions in any manner permitted by California law, (ii) agrees that service of process made in accordance with clause (i) or made by registered or certified mail, return receipt requested, at its address specified pursuant to Section 11.01, will constitute good and valid service of process in any such Action and (iii) waives and agrees not to assert (by way of motion, as a defense, or otherwise) in any such Action any claim that service of process made in accordance with clause (i) or (ii) does not constitute good and valid service of process.

Section 11.11. Specific Performance. Each of the parties acknowledges and agrees that the other parties would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached or violated. Accordingly, each of the parties agrees that, without posting a bond or other undertaking, the other parties will be entitled to an injunction or injunctions to prevent breaches or violations of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any Action instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter in addition to any other remedy to which it may be entitled, at law or in equity. Each party further agrees that, in the event of any action for specific performance in respect of such breach or violation, it will not assert that the defense that a remedy at law would be adequate.

Section 11.12. Waiver of Jury Trial. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW THAT CANNOT BE WAIVED, THE PARTIES HEREBY WAIVE, AND COVENANT THAT THEY WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES IRREVOCABLY TO WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION WHATSOEVER BETWEEN OR AMONG THEM RELATING TO THIS AGREEMENT, ANY ANCILLARY AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS AND THAT SUCH ACTIONS WILL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

IN WITNESS WHEREOF, each of the undersigned has executed this Stock Purchase Agreement as of the date first above written.

PARENT: GSI TECHNOLOGY, INC.

By: /s/ Lee-Lean Shu
Name: Lee-Lean Shu
Title: Chief Executive Officer

BUYER: GSI TECHNOLOGY HOLDINGS, INC.

By: /s/ Lee-Lean Shu
Name: Lee-Lean Shu
Title: Chief Executive Officer

THE COMPANY: MIKAMONU GROUP LTD.

By: /s/ Dr. Avidan Akerib
Name: Dr. Avidan Akerib
Title: Founder and Chief Technology Officer

THE SHAREHOLDERS:

/s/ Dr. Avidan Akerib
Dr. Avidan Akerib

/s/ Ruth Orda
Ruth Orda

/s/ Itai Leshem
Itai Leshem, as trustee

THE SHAREHOLDERS' REPRESENTATIVE:

/s/ Ruth Orda
Ruth Orda

Exhibit 31.1

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

I, Lee-Lean Shu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GSI Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 8, 2016

/s/ LEE-LEAN SHU

Lee-Lean Shu

President, Chief Executive Officer and Chairman

Exhibit 31.2

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

I, Douglas M. Schirle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of GSI Technology, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 8, 2016

/s/ DOUGLAS M. SCHIRLE

Douglas M. Schirle
Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of GSI Technology, Inc. (the "Company") on Form 10-Q for the quarter ended Decmber 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 8, 2016

/s/ LEE-LEAN SHU
Lee-Lean Shu
President, Chief Executive Officer and Chairman

/s/ DOUGLAS M. SCHIRLE
Douglas M. Schirle
Chief Financial Officer

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