As filed with the Securities and Exchange Commission on April 13, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

GSI TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

California (prior to reincorporation) Delaware (after reincorporation) (State or other jurisdiction of incorporation or organization)	**3674 (Primary Standard Industrial Classification Code number)**	**77-0398779 (I.R.S. Employer Identification No.)**

2360 Owen Street
Santa Clara, California 95054
(408) 980-8388
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

LEE-LEAN SHU
President and Chief Executive Officer
GSI TECHNOLOGY, INC.
2360 Owen Street
Santa Clara, California 95054
(408) 980-8388

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Please send copies of all communications to:

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. / /

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock ($0.001 par value)	$103,500,000.00	$13,113.45

(1) Estimated solely for the purposes of determining the registration fee pursuant to Rule 457(o) under the Securities Act.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated April 13, 2004

PROSPECTUS

Shares

[GSI LOGO]

Common Stock

This is GSI Technology, Inc.'s initial public offering of its common stock. We are offering shares and the selling stockholders are offering shares. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. We expect the public offering price to be between $ and $ per share.

Currently, no public market exists for the shares. After pricing of the offering, we expect the shares will be quoted on the Nasdaq National Market under the symbol "GSIT."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds before expenses, to GSI Technology, Inc.	$	$
Proceeds before expenses, to Selling Stockholders	$	$

The underwriters may also purchase up to an additional shares from us, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2004.

Merrill Lynch & Co.

Needham & Company, Inc.

Friedman Billings Ramsey

C.E. Unterberg, Towbin

The date of this prospectus is , 2004

[INSIDE FRONT COVER PAGE]

This page, which is colored blue, has the following heading in blue and white block text in the upper left corner of the page: "GSI TECHNOLOGY." The following sentence appears in white text immediately below the heading, in the upper left portion of the page: "GSI Technology is a leading-edge supplier of ultra fast, low power, full featured SRAM products focused on networking and telecommunications applications." In the upper left half portion of the page, in the background behind the heading and the sentence below the heading, are images of the number one and zeros in undulating lines. Appearing in the upper right portion of the page is the image of an antenna tower with microwave dishes of various sizes affixed to it. In the middle right portion of the page, immediately below the image of the antenna tower, is the image of wires connected to a server. In the lower right quarter of the page, immediately below the image of the red and green wires, is an image of a silicon wafer. In the lower right corner portion of the page, overlaid on the lower right portion of the image of the silicon wafer, is the image of four routers, stacked on top of each other. In the middle of the page, is the image of an integrated circuit with the words "GSI TECHNOLOGY" appearing on the chip. Also in the middle portion of the page and partially covered by the image of the integrated circuit, is the image of the bottom half of the integrated circuit. In the lower left corner portion of the page is the image of two servers, with one server approximately four-times the height of the other server. Also in the lower left corner portion of the page, and to the immediate right of the image of the larger server, is the image of a fiber optic cable. In the bottom middle portion of the page, to the immediate right of the fiber optic cable and to the immediate left of the silicon wafer, is the image of a telephone pole and a utility worker working at the top of the telephone pole.

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You should rely only on the information contained in this prospectus. We have not, and the selling stockholders and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or consistent information, you should not rely on it. We are not, and the selling stockholders and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information approving in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including our financial statements and the risks of investing in our common stock discussed under "Risk Factors" before making an investment decision. References to "we", "us" and "our" refer to GSI Technology, Inc.

GSI Technology, Inc.

We design, develop and market high performance SRAM, or static random access memory, integrated circuits, or ICs, for the networking and telecommunications markets. We are a leading provider of Fast SRAM products, which perform at higher speeds and provide greater density than commodity SRAM products used in other applications. Within the Fast SRAM market, we focus on higher speed devices, or what we refer to as Ultra-Fast SRAMs, which are Fast SRAM ICs that require less than 5 nanoseconds to retrieve data from memory. We provide a broad range of advanced, highly reliable Fast and Ultra-Fast SRAM solutions that target high performance equipment, such as routers, switches, wireless local area network infrastructure equipment, wireless basestations and network access equipment. We believe our advanced circuit design expertise provides original equipment manufacturers, or OEMs, with early access to next generation technologies, superior performance, advanced feature sets and high reliability, thereby enabling them to bring networking and telecommunications equipment to market quickly.

We work closely with leading networking and telecommunications OEMs to better anticipate their needs and gain insight into future technology requirements. Our products are used by leading OEMs in the networking and telecommunications markets, including Agilent Technologies, Alcatel, Cisco

Systems, Huawei Technologies, Lucent Technologies and QLogic. Due primarily to an increase in orders for our Fast and Ultra-Fast SRAM products, our net revenues increased from $16.2 million for the nine months ended December 31, 2002 to $23.7 million for the nine months ended December 31, 2003.

Growth in data, voice and video traffic has driven the need for greater networking bandwidth, resulting in the continued build-out of the networking and telecommunications infrastructure. This growth has led to the proliferation of a wide variety of networking equipment throughout the networking and telecommunications infrastructure. This equipment includes routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment. All of these products require Fast SRAM ICs, and OEMs are increasingly relying upon advanced SRAM technology to enable higher performance of their products.

As networking equipment must increasingly support advanced traffic content such as Voice over Internet Protocol, or VoIP, and video streaming, networking and telecommunications OEMs are driving demand for even higher performance Fast and Ultra-Fast SRAM ICs. Networking and telecommunications OEMs are also under increasing pressure to bring these higher performance products to market rapidly. As a result, networking and telecommunications OEMs have increasingly relied on SRAM providers that offer a broad range of advanced Fast and Ultra-Fast SRAM ICs and who are capable of rapidly developing and introducing ICs that incorporate advanced feature sets.

Through the use of advanced architectures and design methodologies, we believe we are a technology leader in the development of Fast and Ultra-Fast SRAM ICs. The majority of our solutions have access speeds of less than 5 nanoseconds. By providing faster ICs, we enable our customers to design and develop higher performance products that support increasingly complex traffic content.

We currently offer 30 basic product configurations, which are the basis for over 2,500 individual products. Our broad product offering enables us to leverage our research and development to design

and develop our product lines to meet the precise and changing requirements of networking and telecommunications OEMs.

Our products consume up to 50% less power than comparable products offered by our principal competitors. As a result, our products generate less heat, increasing the reliability of the networking equipment in which they are used. Furthermore, because of the low power requirements of our products, OEMs are able to add capabilities to their systems which otherwise might not have been possible due to overall system power constraints.

Our designs enable multiple product families to be manufactured from a single die. This flexibility allows us to minimize manufacturing time and respond quickly to shipment requirements that are characteristic of the networking and telecommunications markets. Our flexible product designs also allow OEMs to reduce their cost and time-to-market by evaluating and qualifying one product configuration, enabling them to more easily qualify related products within the same product family. Additionally, our single die solution allows us to reduce our costs through better inventory management, the purchase of fewer mask sets, streamlining internal product qualifications, and more efficient use of engineering resources.

Our products offer features that address a broad range of networking and telecommunications OEM system requirements. These proprietary features include a JTAG test port, which enables post assembly verification of the connection between our ICs and the system board, thereby allowing our customers to more rapidly develop, test and ship their products. Additionally, we offer our FLXDrive feature which allows the system designer to optimize signal performance for a given requirement. We provide OEMs the ability to use our ICs in various modes of operation using our flexible pin out structure, thus increasing product flexibility and availability. We also perform a full range of product reliability testing and comprehensively test all of our products at a wide range of extreme hot and cold temperatures, in addition to performing burn-in, to help assure high levels of quality and reliability.

We work with independent wafer foundries to manufacture our products in order to increase yields, lower manufacturing costs and enhance the quality of our products. This business model allows us to focus our resources on research and development, product design and marketing, while gaining access to advanced manufacturing process technologies without significant capital investments and the related fixed costs.

Our objective is to become the leading provider of Fast and Ultra-Fast SRAMs. Key elements of our strategy to achieve this objective include:

- continue to focus on the networking and telecommunications markets;
- collaborate with wafer foundries to leverage leading-edge process technologies;
- continue to invest in research and development to extend our technology leadership;
- focus on industry-leading OEMs; and
- leverage our core strengths to develop other product lines.

We were incorporated in California in 1995 and were reincorporated in Delaware in 2004. Our principal executive offices are located at 2360 Owen Street, Santa Clara, California, 95054 and our telephone number is (408) 980-8388.

The Offering

Common stock offered by:	
GSI Technology, Inc.	shares

Selling stockholders	shares
Total	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We estimate that our net proceeds from this offering, without exercise of the overallotment option, will be approximately $ million. We intend to use these net proceeds for general corporate purposes including working capital. See "Use of Proceeds."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares our common stock.
Proposed Nasdaq National Market symbol	GSIT

The number of shares of common stock to be outstanding after this offering is based on the pro forma number of shares outstanding as of March 31, 2004 and reflects the conversion of all shares of our outstanding convertible preferred stock into 15,120,168 shares of our common stock. This information excludes:

- 3,511,263 shares issuable upon the exercise of outstanding options issued under our stock option plans with a weighted average exercise price of $2.63 per share;
- 1,127,839 shares authorized for future issuance under our 2000 stock option plan;
- shares authorized for future issuance under our 2004 equity incentive plan; and
- shares authorized for future issuance under our 2004 employee stock purchase plan.

In addition, the underwriters have a 30-day option to purchase up to additional shares from us. Some of the disclosures in this prospectus would be different if the underwriters exercise their overallotment option. Unless we tell you otherwise, the information in this prospectus:

- reflects the conversion of all outstanding shares of preferred stock into 15,120,168 shares of common stock upon the completion of this offering;
- gives effect to our planned reincorporation in Delaware which will occur immediately prior to the completion of this offering; and
- assumes that the underwriters will not exercise their overallotment option.

SUMMARY FINANCIAL DATA

The following tables provide summary financial data and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing elsewhere in this prospectus.

	Year Ended March 31,					Nine Months Ended December 31,	
	1999	2000	2001	2002	2003	2002	2003
						(unaudited)	
	(in thousands, except per share data)						
Statement of Operations Data:							
Net revenues	$ 11,864	$ 41,820	$ 73,653	$ 24,826	$ 20,981	$ 16,186	$ 23,724
Cost of revenues	9,273	27,434	42,424	19,133	18,477	13,868	18,297
Gross profit	2,591	14,386	31,229	5,693	2,504	2,318	5,427
Operating expenses:							
Research and development	583	1,627	5,097	4,848	6,206	4,797	4,242
Selling, general and administrative	1,785	4,080	7,377	4,883	4,500	3,390	3,092
Total operating expenses	2,368	5,707	12,474	9,731	10,706	8,187	7,334
Income (loss) from operations	223	8,679	18,755	(4,038)	(8,202)	(5,869)	(1,907)
Interest and other income (expense), net	226	58	560	779	144	100	135
Income (loss) before income taxes	449	8,737	19,315	(3,259)	(8,058)	(5,769)	(1,772)
Provision for (benefit from) income taxes	—	3,287	7,987	(1,190)	(620)	(2,135)	—
Net income (loss)	$ 449	$ 5,450	$ 11,328	$ (2,069)	$ (7,438)	$ (3,634)	$ (1,772)
Net income (loss) per share:							

Basic	$ 0.19	$ 1.96	$ 2.73	$ (0.44)	$ (1.39)	$ (0.69)	$ (0.31)
Diluted	$ 0.02	$ 0.26	$ 0.53	$ (0.44)	$ (1.39)	$ (0.69)	$ (0.31)
Weighted average shares:							
Basic	2,329	2,784	4,157	4,713	5,334	5,278	5,654
Diluted	19,288	20,702	21,452	4,713	5,334	5,278	5,654

	December 31, 2003	
	Actual	Pro Forma As Adjusted
	(unaudited) (in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 5,209	$
Working capital	16,928	
Total assets	26,661	
Redeemable convertible preferred stock	9,007	
Total stockholders' equity	$ 10,385	$

The as adjusted information above reflects the sale of shares of common stock by us in this offering at an assumed public offering price of $ per share, after deducting the underwriting discount and estimated offering expenses, and giving effect to the conversion of all outstanding shares of our convertible preferred stock into 15,120,168 shares of our common stock and the application of the net proceeds of the offering.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and all of the other information contained in this prospectus before deciding whether to purchase our common stock. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occur, our business, financial condition and results of operations would suffer. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment in our common stock.

Risks Related to Our Business and Our Industry

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

We incurred net losses of $1.8 million, $7.4 million and $2.1 million for the nine months ended December 31, 2003 and for fiscal 2003 and 2002, respectively, and we may incur additional losses in the future. Our business does not have an established record of profitability and we may not be able to achieve or sustain profitability in the future. In addition, we expect our operating expenses to increase as we expand our business. If our revenues do not grow to offset these expected increased expenses, our business will suffer. Our ability to increase our revenues depends on a number of factors, including:

- the rate of growth of our target markets;
- the continued market acceptance of the products of our end-users, or networking and telecommunications OEMs which incorporate our products into their equipment;
- the competitive position of our products; and
- our ability to develop new products.

You should not consider recent quarterly revenue growth as an indication of our future performance. In fact, in future quarters we may not have any revenue growth, or our revenues could decline. Furthermore, if our operating expenses exceed our expectations, our financial performance will be adversely affected.

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

Our quarterly revenues, expenses and operating results have varied in the past and might vary significantly from quarter to quarter in the future. For example, in the last two fiscal years, we have recorded quarterly operating income of as much as $834,000 and quarterly operating losses of as much as $2.3 million. We therefore believe that quarter-to-quarter 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.

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.

Factors that might cause our operating results to fluctuate on a quarterly and annual basis include:

- the volume and timing of orders received from customers;
- the timing of releases of new products by us and our competitors;
- fluctuations in yields at the independent wafer foundries that manufacture our products;

- the long sales cycles for our Fast and Ultra-Fast SRAMs;
- the availability of SRAM products in the market;
- our ability to anticipate changing end-user product requirements for the networking and telecommunications markets;
- change in demand for our products;
- the continued development of our direct and indirect distribution channels;
- the availability of foundry, assembly or test capacity;
- changes in average selling prices of our products;
- changes in our product mix;
- cancellation of existing orders or the failure to secure new orders; and
- increased expenses associated with our product design and development.

We depend upon the sale of our Fast and Ultra-Fast SRAMs for all of our revenues, and a downturn in demand for our products could have a more disproportionate impact on our revenues than if we derived revenues from a more diversified product offering.

We derive all of our revenues from the sale of our Fast and Ultra-Fast SRAMs, and 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 enter into another 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.

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

Our products are incorporated into products used in the highly cyclical networking and telecommunications markets. In recent quarters, the networking and telecommunications markets have begun to emerge from an extended period of severe contraction. During this market contraction, our operating results sharply declined. Prior to this period of contraction, the networking and telecommunications markets experienced a period of rapid growth. During this period of growth, a number of new telecommunications and networking companies entered the market. These new companies raised significant amounts of capital, much of which they invested in new equipment, causing acceleration in demand for networking and telecommunications equipment, and hence, an increase in demand for our products. 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.

Downturns in the semiconductor industry may harm our business.

The semiconductor industry is highly cyclical. The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by production overcapacity, high inventory levels and

accelerated erosion of average selling prices. From time to time, the semiconductor industry also has experienced periods of increased demand and production capacity constraints.

Our operating results may suffer during the down portion of these cycles. For example, the SRAM industry experienced significant declines in the average selling prices of SRAM products during the recent downturn in the semiconductor industry. We expect similar declines to occur in the future. Downturns in the semiconductor industry could cause our stock price to be volatile, and a prolonged decline in the industry could harm our operating results.

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.

We expect that the average unit selling prices of our products will be subject to significant pricing pressures. A reduction in average selling prices of our products could result in reduced revenues and lower gross margins on our products. 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. 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 foundries and 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.

A small number of customers account for a significant percentage of our net revenues. If any of our major customers reduce the amount they purchase or stop purchasing our products, our operating results will suffer.

Historically, a small number of customers and end-users have accounted for a significant portion of our net revenues. A significant percentage of our sales are made to distributors and to contract manufacturers who incorporate our products into end products for systems manufacturers, including Cisco Systems. For the nine months ended December 31, 2003, SMART Modular Technologies, which operates consigned warehouses for Cisco Systems, accounted for 26.5% of our net revenues. During the same period, distributors Impact and Avnet Logistics accounted for 17.0% and 14.1%, respectively, of our net revenues. Cisco Systems, the largest end-user of our products, accounted for approximately one quarter to one third of our net revenues for the nine months ended December 31, 2003, fiscal 2003 and fiscal 2002. Cisco Systems purchases our products directly, through our distributors, through its contract manufacturers and through SMART Modular Technologies.

We anticipate that our operating results in any given period will continue to depend, to a significant extent, upon revenues from a small number of end-users, distributors and contract manufacturers. We expect to continue to depend significantly on orders from our key end-users, particularly Cisco Systems, and our future success is dependent to a large degree on the business success of these end-users over which we have no control. We do not have long-term contracts with Cisco Systems, or our other major end-users, distributors or contract manufacturers that obligate them to purchase our products. If we fail to continue to sell to our key end-users, distributors or contract manufacturers in sufficient quantities, the growth of our business could be harmed. If a key end-user, distributor or contract manufacturer were to delay orders or payment or terminate its relationship with us, our business would be harmed.

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 operating results will suffer.

A small number of customers generally account for a significant portion of our accounts receivable in any period, and if any of them fails to pay us, our operating results will suffer. For example, at March 31, 2003, Celestica, Avnet Logistics and Unique Technologies accounted for 17.0%, 15.4% and 10.4%, respectively, of our accounts receivable. If any of these customers do not pay us, our operating results will be harmed. Generally, we do not require collateral from our customers.

The market for Fast and Ultra-Fast SRAMs is highly competitive.

The market for Fast and Ultra-Fast SRAMs, which are used primarily in networking and telecommunications equipment, is characterized by price erosion, rapid technological change, cyclical market patterns and heightened foreign and domestic competition. Several of our competitors offer broader product lines and have greater financial, technical, marketing, distribution and other resources than we have. 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 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;
- access to advanced process technologies at competitive prices; and
- the supply and cost of wafers.

In addition, we are vulnerable to advances in technology used by competitors to offer products that feature higher performance, lower cost or lower power capabilities. There can be no assurance that we will be able to compete successfully in the future as to any of these factors. Our failure to compete successfully in these or other areas could harm our business.

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

We develop complex products. Despite testing by us and our end-users, 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 delay or loss of market acceptance of our products and harm our relationships with our end-users. Our end-users 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.

In addition, wafers and other components used in our products may contain defects that are not fully recoverable from our independent wafer foundries and other suppliers. For example, in the quarter ended March 31, 2003, we returned approximately $2.8 million of defective wafers to Taiwan Semiconductor

Manufacturing Company Limited, or TSMC, which required us to take a charge of approximately $700,000 to cost of revenues for manufacturing costs incurred in excess of the amount credited by TSMC.

We are dependent on the supply of wafers from independent foundries over which we have no control, and if we fail to obtain an adequate supply of wafers, our business will be harmed.

To produce our products, we require wafers that are manufactured by independent foundries over which we have no control. If we are unable to obtain an adequate supply of wafers from our current or any alternative sources in a timely manner, our operating results will be harmed. Our ability to increase IC shipments is dependent on our ability to increase production through the allocation of increased wafer fabrication capacity by our existing foundries. To date, our principal manufacturing relationship has been with TSMC from which we have obtained a substantial majority of our wafers. We also receive wafers from WaferTech LLC, located in Washington. WaferTech is a subsidiary of TSMC. Each of our wafer foundries also supplies wafers to other IC companies, including our competitors. We do not have supply agreements with these manufacturers, and instead obtain manufacturing services on a purchase-order basis. Our manufacturers have no obligation to supply products to us for any specific product, in any specific quantity, at any specific price or for any specific time period. If these suppliers experience manufacturing failures or yield shortfalls, are disrupted by natural disaster or political instability, choose to prioritize capacity for other uses or reduce or eliminate deliveries to us, we likely will not be able to enforce fulfillment of any delivery commitments. Our wafer foundries may be unable to supply us with sufficient quantities to meet all of our requirements. If this were to occur, we would have to allocate our products among our end-users which would constrain our growth and might cause some of them to seek alternative sources of supply. To increase our supply of wafers, we may seek to qualify additional manufacturing sources. The qualification process may take up to 12 months or longer and there is no assurance that we will be able to find and qualify another manufacturer. Moreover, it is uncertain whether additional manufacturing sources would agree to deliver an adequate supply of wafers to us.

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 our wafer foundries but instead obtain our wafers on a purchase order basis. In order to secure wafer supply from our current or future 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, 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.

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.

Demand for our products may decrease if our end-users and contract manufacturers experience difficulty manufacturing, marketing or selling their products.

Our products are used as components in our end-users' networking and telecommunications products. For example, Cisco Systems, our largest end-user, 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 end-users and their contract manufacturers to successfully introduce and market their products, including:

- capital spending by service providers and other enterprises who purchase our end-users' products;
- the competition our end-users face in the networking and telecommunications industries;
- the technical, manufacturing, sales and marketing and management capabilities of our end-users and contract manufacturers;
- the financial and other resources of end-users of our products and their contract manufacturers; and
- the inability of our end-users to sell their products if they infringe third party intellectual property rights.

If demand for the products offered by our end-users or their contract manufacturers decreases, they may reduce purchases of our products, which would harm our business.

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 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 IC products other than Fast and Ultra-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 may experience difficulties in transitioning to smaller geometry process technologies and other more advanced manufacturing process technologies and that may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition 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. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs and increase performance, and we have designed products to be manufactured using 90 nanometer geometry process technologies. 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 our wafer foundries to transition successfully to smaller geometry process technologies and to more advanced manufacturing processes. We cannot assure you that our wafer foundries will be able to effectively manage the transition or that we will be able to maintain our relationships with our foundries. If we or our wafer foundries 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.

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

Our products are generally incorporated in our end-users' 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 end-user 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 end-user's products. There can be no assurance that we will continue to achieve design wins or that any design win will result in future revenues.

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 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, or to protect us from the claims of others. In addition, we do not have any patents or registered trademarks. Monitoring unauthorized use of our products 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. Litigation may be necessary in order to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. If competitors are able to use our technology, our ability to compete effectively could be harmed.

We could become subject to claims and litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant costs.

If we infringe the proprietary rights of others, we could be forced to either seek a license to those intellectual property rights or alter our products so that they no longer infringe upon other's proprietary rights. Any license could be very expensive to obtain or may not be available at all. In 2002, we settled patent litigation filed against us by one of our competitors, and obtained a license from that competitor in connection with the settlement. Similarly, changing our products or processes to avoid infringing the rights of others may be costly or impractical. Litigation resulting from claims that we are infringing others propriety rights 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. If any claims received in the future were to be upheld, the consequences to us would be severe and 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.

If we are forced to take any of the foregoing actions, our business could be severely harmed.

As our business grows, such growth may place a significant strain on our management and operations and, as a result, our business might not succeed.

Our ability to grow successfully requires an effective planning and management process. We plan to continue to expand our business and our growth could place a significant strain on our management systems, infrastructure and other resources. To manage our growth effectively, we must invest the necessary capital and continue to improve and expand our systems and infrastructure in a timely and efficient manner. Those resources might not be available when we need them, which would limit our growth. Our officers have limited experience in managing large or rapidly growing businesses. In addition, the majority of our management has no experience in managing a public company or communicating with securities analysts and public company investors. Our controls, systems and procedures might not be adequate to support a growing public company. If our management fails to respond effectively to changes in our business, our business might not succeed.

Our international business exposes us to additional risks.

Products provided to our international customers accounted for 52.5% of our net revenues for the nine months ended December 31, 2003 and 47.6% of our net revenues in fiscal 2003. Moreover, a substantial portion of our products is manufactured and tested in Taiwan. We intend to expand our international business in the future. Conducting business outside of the United States subjects us to additional risks and challenges, including:

- compliance with a wide variety of foreign laws and regulations;
- legal uncertainties regarding taxes, tariffs, quotas, export controls, export licenses and other trade barriers;
- political and economic instability in, or foreign conflicts that involve or affect, the countries of our customers;
- difficulties in collecting accounts receivable and longer accounts receivable payment cycles;

- difficulties in staffing and managing personnel, distributors and representatives;
- reduced 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 significant portion of 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 material transaction or translation gains or losses that could reduce our operating results. We do not currently engage in currency hedging activities.

Our third-party foundries and other subcontractors and many of our customers are located in the Pacific Rim, an area subject to significant earthquake risk and adverse consequences related to the outbreak of SARS and other epidemics.

All of the principal foundries that manufacture our products and all of the principal subcontractors 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 these foundries or subcontractors 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. While we have some foundry capacity in the United States, we may not be able to increase our foundry capacity in the United States, or obtain other alternate foundry capacity on favorable terms, if at all. The outbreak of SARS in the past curtailed travel to and from certain countries, primarily in the Asia-Pacific region, and limited travel within those countries. In addition, outbreaks of disease or other disasters could limit demand for our 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 risks were to occur, our business could be harmed and our stock price could decline.

Our success depends on our ability to develop and manage our indirect distribution channels.

Our success depends on our ability to develop and manage our indirect distribution channels. Our existing or future channel 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 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 and other key personnel, particularly our President and Chief Executive Officer and our Vice President of Engineering. Loss of the services of any of our executive officers or other key employees could significantly delay or prevent the achievement of our development and strategic objectives. Our management team must work together effectively in order to design our products, expand our business, increase our revenues and improve our operating results. We do not 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 end-users 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 additional dilution or the new equity securities may have rights, preferences or privileges senior to those of our common stock.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Being a public company will increase our administrative costs.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 that became law in July 2002, as well as new rules subsequently adopted by the Securities and Exchange Commission and the Nasdaq National Market, have required significant changes in the corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs, and to make some activities more difficult, time consuming and/or costly. For

example, as a result of becoming a public company, we have created several board committees and adopted additional internal controls and disclosure controls and procedures. We have also retained a transfer agent, a bank note company and a financial printer, adopted an insider trading policy and will have all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These new rules and regulations could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee, and qualified executive officers.

Risks Related to this Offering

There has been no prior market for our common stock and the price of our common stock may decline after this offering.

Before this offering, there has not been a public market for our common stock and the trading price of our common stock may decline below the initial public offering price. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that prevail in the trading market.

An active trading market may not develop and you may not be able to resell the shares you purchase at or above the initial public offering price, or at all. 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;
- 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;
- 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.

If securities analysts do not publish research or reports about our business, our stock price could decline.

The trading market for our common stock will rely in part on the research and reports that industry or financial analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

The price of our stock may be volatile, which could harm our business or stockholders and result in litigation.

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.

We have no specific plan for the use of the net proceeds, and our investment of the net proceeds may not yield a favorable return.

We plan to use most of the net proceeds from this offering for general corporate purposes, including working capital. We may use the net proceeds in ways with which our stockholders may not agree or that prove to be disadvantageous to our stockholders. We may not be able to invest the net proceeds of this offering in a manner that yields a favorable return.

After this offering we will continue to be controlled by our executive officers, directors and major stockholders, whose interests may conflict with yours.

Upon completion of this offering, our executive officers, directors and major stockholders will beneficially own approximately % of our outstanding common stock, based on shares outstanding as of March 31, 2004. As a result, these stockholders will be able to exercise control over all 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.

Upon completion of this offering, our Board of Directors will have 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:

- only one of the three classes of directors is elected each year;
- our stockholders have limited rights to remove directors without cause;
- our stockholders have no right to act by written consent;
- our stockholders have limited rights 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.

You will experience immediate and substantial dilution in the book value of your shares.

The price for each share in the initial public offering is substantially higher than the book value per share of our outstanding common stock immediately after the offering. Accordingly, if you purchase common stock in the offering, you will incur immediate and substantial dilution of approximately $ in the book value of our common stock assuming an initial price of $ per share for our common stock.

There are a large number of shares of our common stock that may be sold in the market following this offering, which may depress the market price of our common stock.

The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market after the completion of this offering, or the perception that those sales could occur. These sales or the possibility that they may occur also could make it more difficult for us to raise funds through future offerings of common stock. The number of shares of common stock available for sale in the public market is limited by restrictions under federal securities laws. In addition, we and the holders of over % of our common stock, including all of our executive officers and directors, have agreed not to sell shares of our common stock without the consent of the underwriters for 180 days after the day of this prospectus. Merrill Lynch & Co. may, however, in its sole discretion and without notice, release all or any portion of the shares from the restrictions in these lock-up agreements.

Shares of our common stock will become eligible for future sale in the public market as follows, assuming the conditions set forth above are met:

Number of Shares	Date Eligible
	immediately as of the date of this prospectus
	180 days after the date of this prospectus upon expiration of the lock-up agreements

We intend to register on a Form S-8 registration statements under the Securities Act of 1933 a total of approximately shares of common stock reserved for issuance under our stock option and employee stock purchase plans. As of March 31, 2004, there were outstanding options to purchase 3,511,263 shares of common stock, of which options to purchase 1,946,717 shares were vested and exercisable.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about us, including among other things:

- general economic and business conditions, both nationally and internationally;
- our expectations and estimates concerning future financial performance, financing plans and the impact of competition;
- anticipated trends in our business;
- existing and future regulations affecting our business; and
- other risk factors set forth under Risk Factors in this prospectus.

In addition, in this prospectus, the words believe, may, will, estimate, continue, anticipate, intend, expect, could, plan and similar expressions, as they relate to us, our business or our management, are intended to identify forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus may

not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

USE OF PROCEEDS

At an assumed public offering price of $ per share, we will receive $ million from our sale of shares of common stock in this offering, after deducting estimated offering expenses of approximately $ million and the underwriting discount. At an assumed public offering price of $ per share, the selling stockholders will receive $ million from their sale of shares of our common stock in this offering, after deducting the underwriting discount. We will not receive any portion of the net proceeds received by the selling stockholders from the sale of their shares. If the underwriters exercise their overallotment option in full, we will receive an additional $ million in net proceeds at a public offering price of $ per share.

We intend to use the net proceeds of this offering for working capital and other general corporate purposes, including capital expenditures and research and development.

Although we may use a portion of the net proceeds to acquire businesses, products or technologies that are complementary to our current or future business and product lines, we have never made an acquisition and currently have no specific acquisitions planned. Our management will have significant flexibility in applying the net proceeds of this offering. Pending such uses, we will invest the net proceeds of this offering in investment grade, interest-bearing securities.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain future earnings to finance the growth and development of our business, and we do not anticipate declaring paying any cash dividends in the foreseeable future. Our line of credit with Chiao Tung Bank prohibits us from paying cash dividends without consent of the bank.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2003:

- on an actual basis;
- on a pro forma basis, giving effect to the conversion of all outstanding shares of our redeemable convertible preferred stock into 15,120,168 shares of common stock; and
- on a pro forma basis as adjusted to reflect the sale of shares of common stock by us in this offering, at an assumed initial public offering price of $ per share and after deducting the underwriting discount and estimated offering expenses payable by us and the application of the net proceeds of this offering as described under "Use of Proceeds."

This capitalization table should be read together with "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	As of December 31, 2003		
	Actual	Pro Forma	Pro Forma As Adjusted
	(unaudited) (in thousands, except share data)		
Cash and cash equivalents	$ 5,209	$ 5,209	$
Redeemable convertible preferred stock, no par value; 20,000,000 shares authorized, 15,120,168 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma or pro forma as adjusted	9,007	—	—
Stockholders' equity:			
Preferred stock, $0.001 par value; no shares authorized, issued or outstanding, actual; 5,000,000 shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted	—	—	—
Common stock, $0.001 par value; 30,000,000 shares authorized, 5,722,925 shares issued and outstanding, actual; 150,000,000 shares authorized, pro forma and pro forma as adjusted; 20,843,093 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	6	21	
Additional paid-in capital	6,033	15,025	
Deferred stock-based compensation	(273)	(273)	(273)
Retained earnings	4,619	4,619	4,619
Total stockholders' equity	10,385	19,392	

Total capitalization	$ 19,392	$ 19,392	$

The information above excludes:

- 3,815,788 shares issuable upon exercise of options outstanding as of December 31, 2003 under our 1997 and 2000 stock option plans, with a weighted average exercise price of $2.39 per share;
- 1,169,939 shares authorized for future issuance under our 2000 stock option plan;
- shares authorized for future issuance under our 2004 equity incentive plan; and
- shares authorized for future issuance under our 2004 employee stock purchase plan.

DILUTION

Purchasers of our common stock in this offering will experience immediate and substantial dilution in the pro forma net tangible book value of their common stock. The pro forma net tangible book value of our common stock as of December 31, 2003 was $ million, or $ per share. Pro forma net tangible book value per share represents the amount of our total assets, excluding net intangible assets, less our total liabilities, divided by the total number of shares of common stock outstanding, after giving effect to the conversion of all outstanding shares of convertible preferred stock into an aggregate of 15,120,168 shares of common stock. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by investors in this offering and the pro forma net tangible book value per share of our common stock immediately after the offering. After giving effect to our sale of shares of common stock in this offering, at an assumed initial public offering price of $ per share, and after deducting the underwriting discount and estimated offering expenses payable by us, the pro forma net tangible book value of our common stock would have been $ million, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price		$
Pro forma net tangible book value as of December 31, 2003	$	
Increase per share attributable to new investors		
Pro forma as adjusted net tangible book value after the offering		
Dilution to new public investors		$

The following table summarizes, on a pro forma as adjusted basis, as of December 31, 2003:

- the number of shares of common stock purchased from us;
- the total consideration paid to us;
- the average price per share paid by existing stockholders; and
- the price per share paid by new investors in this offering at an assumed public offering price of $, before deducting the underwriting discount and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders	21,189,718	%	$ 9,422,675	%	$ 0.44
New investors					
Total		100.0%	$	100.0%	

If the underwriters' overallotment option is exercised in full, the number of shares held by new investors will increase to , or % of the total shares of common stock outstanding after this offering.

The information in the above table excludes 1,985,727 shares issuable upon exercise of options outstanding at December 31, 2003 under our 1997 stock option plan, with a weighted average exercise price of $1.20 per share, 1,830,061 shares issuable upon exercise of options outstanding at December 31, 2003 under our 2000 stock option plan, with a weighted average exercise price of $3.69 per share. To the extent these options are exercised or shares are issued under these plans, there will be further dilution to the new investors.

SELECTED FINANCIAL DATA

You should read the following selected financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. The statement of operations data set forth below for the fiscal years ended March 31, 2001, 2002 and 2003 and the balance sheet data as of March 31, 2002 and 2003 are derived from, and are qualified by reference to, our audited financial statements included elsewhere in this prospectus. The statement of operations data set forth below for the fiscal years ended March 31, 1999 and 2000 and the balance sheet data as of March 31, 1999, 2000 and 2001 are derived from audited financial statements not included in this prospectus. The statement of operations data set forth below for the nine month periods ended December 31, 2002 and 2003 and the balance sheet data as of December 2003 are derived from, and are qualified by reference to, our unaudited financial statements included elsewhere in this prospectus. The unaudited financial statements include all normal recurring adjustments that we consider necessary for a fair presentation of our financial position and results of operations. The results of operations for the nine months ended December 31, 2003 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2004, or any other future period.

	Year Ended March 31,					Nine Months Ended December 31,	
	1999	2000	2001	2002	2003	2002	2003
	(in thousands, except per share data)						
Statement of Operations Data:							
Net revenues	$ 11,864	$ 41,820	$ 73,653	$ 24,826	$ 20,981	$ 16,186	$ 23,724
Cost of revenues	9,273	27,434	42,424	19,133	18,477	13,868	18,297
Gross profit	2,591	14,386	31,229	5,693	2,504	2,318	5,427
Operating expenses:							
Research and development	583	1,627	5,097	4,848	6,206	4,797	4,242
Selling, general and administrative	1,785	4,080	7,377	4,883	4,500	3,390	3,092
Total operating expenses	2,368	5,707	12,474	9,731	10,706	8,187	7,334
Income (loss) from operations	223	8,679	18,755	(4,038)	(8,202)	(5,869)	(1,907)
Interest and other income (expense), net	226	58	560	779	144	100	135
Income (loss) before income taxes	449	8,737	19,315	(3,259)	(8,058)	(5,769)	(1,772)
Provision for (benefit from) income taxes	—	3,287	7,987	(1,190)	(620)	(2,135)	—
Net income (loss)	$ 449	$ 5,450	$ 11,328	$ (2,069)	$ (7,438)	$ (3,634)	$ (1,772)
Net income (loss) per share:							
Basic	$ 0.19	$ 1.96	$ 2.73	$ (0.44)	$ (1.39)	$ (0.69)	$ (0.31)
Diluted	$ 0.02	$ 0.26	$ 0.53	$ (0.44)	$ (1.39)	$ (0.69)	$ (0.31)
Weighted average shares:							
Basic	2,329	2,784	4,157	4,713	5,334	5,278	5,654
Diluted	19,288	20,702	21,452	4,713	5,334	5,278	5,654

	March 31,					December 31,
	1999	2000	2001	2002	2003	2003
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 497	$ 2,445	$ 9,478	$ 9,334	$ 6,150	$ 5,209
Working capital	7,450	13,341	25,066	24,896	17,694	16,928
Total assets	11,876	23,432	49,915	32,504	23,803	26,661
Redeemable convertible preferred stock	870	8,551	9,007	9,007	9,007	9,007
Total stockholders' equity	$ 7,048	$ 5,866	$ 18,663	$ 18,033	$ 11,696	$ 10,385

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ substantially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. The following discussion should be read together with our financial statements and the related notes included elsewhere in this prospectus.

Overview

We are a fabless semiconductor company that designs, develops and markets Fast and Ultra-Fast SRAM ICs for the networking and telecommunications markets. We were founded in March 1995 to develop SRAMs targeted primarily at the personal computer, or PC, market. We shipped our first products in commercial volumes in fiscal 1998. During that year, we changed our focus from marketing commodity SRAMs in the highly competitive PC market and concentrated our efforts on the development of advanced Fast and Ultra-Fast SRAMs for the networking and telecommunications markets. Subsequent to fiscal 1998, product sales in these markets represented approximately 80% to 90% of our net revenues. 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 ICs are used. Beginning in fiscal 2001, the networking and telecommunications markets experienced an extended period of severe contraction. During this market contraction, our operating results sharply declined. In recent quarters, demand for networking and telecommunications equipment has accelerated and as a result, our operating results have improved.

Revenues. Our revenues are derived from sales of our Fast and Ultra-Fast SRAM products. 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. 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 by our independent wafer foundries and our ability to increase the number of integrated circuit die produced from each wafer through die size reductions and yield enhancement activities.

We sell our products through our direct sales force, international and domestic sales representatives and distributors. Revenues from product sales are generally recognized upon shipment, net of sales returns and allowances. Sales to distributors that have product return or price protection rights are recorded as deferred revenues for financial reporting purposes and recognized as revenues when the products are sold by the distributors to the end-user.

Historically, a small number of customers have accounted for a substantial portion of our net revenues, and we expect that significant customer concentration will continue for the foreseeable future. Many of our end-users use contract manufacturers to manufacture their equipment. Accordingly, a significant percentage of our net revenues are derived from sales to these contract manufacturers and to consigned warehouses who purchase products from us for use by contract manufacturers. In addition, a significant portion of our sales are made to foreign and domestic distributors who resell our products to end-users, as well as their contract manufacturers. Direct sales to contract manufacturers accounted for 38.5% of our net revenues during the nine months ended December 31, 2003, and 39.3% and 31.7% of our net revenues for fiscal 2003 and 2002, respectively. Sales to foreign and domestic distributors accounted for 46.6% of our net revenues during the nine

months ended December 31, 2003, and 40.0% and 40.1% of our net revenues for fiscal 2003 and 2002, respectively. For the periods indicated below, the following customers accounted for 10% or more of our net revenues:

	Year Ended March 31,		
	2001	2002	2003
Contract Manufacturers:			
Celestica	—	—	21.5%
Flextronics	16.8%	18.6%	—
Solectron	10.4	—	10.2
Distributors:			
Avnet Logistics	—	12.2	—
Impact	—	—	13.4

Cisco Systems, the largest end-user of our products, accounted for approximately one quarter to one third of our net revenues for the nine months ended December 31, 2003, fiscal 2003 and fiscal 2002. Cisco Systems purchases our products directly, through our distributors and through Cisco's contract manufacturers and consigned warehouses.

A significant portion of our net revenues are derived from sales to customers located outside the United States. The percentage of our net revenues by country are set forth in the following table:

	Year Ended March 31,		
	2001	2002	2003
United States	59.1%	64.4%	52.4%
China	5.8	8.5	32.6
Rest of the world	35.1	27.1	15.0
Total	100.0%	100.0%	100.0%

We expect that as more of our OEM end-users move their operations overseas, particularly to China and elsewhere in the Pacific Rim, our net revenues derived from sales to customers located outside the United States will increase.

Cost of Revenues. Our cost of revenues consists primarily of wafer fabrication costs, wafer sort, assembly, test and burn-in expenses and the cost of materials and overhead from operations. Substantially all of our manufacturing operations are outsourced. Accordingly, most of our cost of revenues consists of payments to independent wafer foundries and contract assembly and test houses. Because we do not have long-term, fixed-price supply contracts, our wafer and other outsourced manufacturing costs are subject to the cyclical fluctuations in demand for semiconductors. As a result of the recent acceleration in demand for networking and telecommunications equipment, and the related increase in demand for many of our lower density products, we expect that our wafer fabrication costs may increase in future quarters. Cost of revenues also includes expenses related to product engineering, supply chain management, quality assurance, final product testing and documentation control activities conducted at our headquarters in Santa Clara, California and our branch operations in Taiwan.

A significant percentage of our Fast and Ultra-Fast SRAMs are manufactured by independent wafer foundries and subcontractors located in Taiwan. In the past we were subject to anti-dumping proceedings in which a competitor alleged that our Taiwan-manufactured products were being sold in

the United States at less than their fair value. In April 1998, the United States Department of Commerce, or DOC, issued an anti-dumping order and imposed a duty of 12.1% of the value of our Taiwan-manufactured products imported for sale in the United States, retroactive to October 1997. The duty was subsequently increased to 51.3% on products imported for sale between October 1998 and March 1999. We continued to accrue duties at the rate of 51.3% on Taiwan-manufactured products imported for sale subsequent to March 1999. These duties were recorded as a cost of revenues as products subject to the duties were sold. In August 2000, the Court of International Trade issued a ruling that our Taiwan-manufactured products do not materially injure, or threaten to injure, the U.S. industry. In January 2002, the DOC revoked its anti-dumping order, retroactive to October 1997 and the United States Customs Service, or USCS, was ordered to refund, with interest, all duties deposited under the 1998 anti-dumping order. We had paid an aggregate of $3.9 million through the date of the refund order, of which $2.2 million had been charged to cost of revenues during the period from the 1998 anti-dumping order dated through March 31, 2001. The balance of the payments of $1.8 million were reclassified to a receivable from USCS on the date of the refund order. We received $3.5 million of refunds during the year ended March 31, 2002, of which $2.2 million was credited to cost of revenues, $396,000 was credited to interest income and $985,000 was credited to the receivable from USCS. We received $876,000 of refunds during fiscal 2003, of which $792,000 was credited to the receivable and $84,000 was credited to interest income.

Gross Profit. Our gross profit margins vary among our products and are generally higher on our higher density products and, within a particular density, higher 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, declines 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. Our average selling prices, particularly with respect to our lower density products for which demand in recent quarters has increased, may hold steady or rise in future quarters, which would improve our gross margins.

Research and Development. Research and development expenses consist primarily of salaries and related expenses for design engineers and other technical personnel, the cost of developing prototypes and fees paid to consultants. We charge all research and development expenses to operations as incurred. 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. Selling, general and administrative expenses consist primarily of commissions paid to independent sales representatives, salaries 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 future periods as we continue to grow and expand our sales force. We also expect that, in support of our continued growth and our operations as a public company, general and administrative expenses will continue to increase for the foreseeable future.

Stock-Based Compensation. In connection with the grant of stock options to employees between January 1997 and June 2000, we recorded deferred stock-based compensation of $416,000 in fiscal 1998, $646,000 in fiscal 1999, $3.9 million in fiscal 2000 and $678,000 in fiscal 2001, representing the difference between the deemed value of our common stock for accounting purposes and the option exercise price of these options at the date of grant. Deferred stock-based compensation is presented as a reduction of stockholder's equity, with straight-line amortization recorded over the vesting period that is typically four years. Amortization of deferred stock-based compensation is recorded as a charge

against cost of revenues or operating expenses depending upon the classification of the employee receiving the underlying options. We amortized deferred stock-based compensation of $1.4 million in fiscal 2001, $1.4 million in fiscal 2002, $995,000 in fiscal 2003 and $448,000 for the nine months ended December 31, 2003. The amount of the compensation expense to be recorded in future periods could decrease if options for which accrued but unvested compensation has been recorded are forfeited.

Results of Operations

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

	Year Ended March 31,			Nine Months Ended December 31,	
	2001	2002	2003	2002	2003
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	57.6	77.1	88.1	85.7	77.1
Gross profit	42.4	22.9	11.9	14.3	22.9

Operating expenses:					
Research and development	6.9	19.5	29.6	29.7	17.9
Selling, general and administrative	10.0	19.7	21.4	20.9	13.0
Total operating expenses	16.9	39.2	51.0	50.6	30.9
Income (loss) from operations	25.5	(16.3)	(39.1)	(36.3)	(8.0)
Interest and other income (expense), net	0.7	3.2	0.7	0.6	0.6
Income (loss) before income taxes	26.2	(13.1)	(38.4)	(35.7)	(7.4)
Provision for (benefit from) income taxes	10.8	(4.8)	(2.9)	(13.0)	—
Net income (loss)	15.4	(8.3)	(35.5)	(22.7)	(7.4)

Nine Months Ended December 31, 2002 and December 31, 2003

Net Revenues. Net revenues increased by 46.6% from $16.2 million for the nine months ended December 31, 2002 to $23.7 million for the nine months ended December 31, 2003. This increase was primarily due to a 38.3% increase in unit sales as a result of increased demand from our networking and telecommunications end-users.

Gross Profit. Gross profit increased by 134.8% from $2.3 million for the nine months ended December 31, 2002 to $5.4 million for the nine months ended December 31, 2003. Gross margin increased from 14.3% of net revenues for the nine months ended December 31, 2002 to 22.9% for the nine months ended December 31, 2003. This increase in gross margin was primarily related to a shift in product mix, with a greater proportion of revenues being generated by our higher margin, higher density products. Various cost reduction measures also contributed to the improvement in gross margin. These measures included the negotiation of price reductions for wafers purchased from our foundries, TSMC and WaferTech, and for assembly and test services provided by our contractors as well as enhancements to our internal test programs that resulted in more efficient test operations. Additionally, gross margin improved because our fixed manufacturing costs were spread over an increased number of units shipped.

Research and Development Expenses. Research and development expenses decreased by 12.5% from $4.8 million for the nine months ended December 31, 2002 to $4.2 million for the nine months ended December 31, 2003. This decrease was primarily due to a $406,000 reduction in legal expenses as the result of the settlement of patent litigation, a $360,000 reduction in prototype mask expenses and a $109,000 decrease in stock compensation expense. These reductions were partially offset by an increase in the number of our research and development personnel and increased expenditures for materials purchased for development projects currently in process.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by 8.8% from $3.4 million for the nine months ended December 31, 2002 to $3.1 million for the nine months ended December 31, 2003. This decrease was primarily related to reductions in payroll related expenses, stock compensation expenses and travel expenditures. The decrease was partially offset by an increase in commissions paid to manufacturers' representatives. Although total commissions increased due to the increase in net revenues, average commission rates decreased by approximately 30%.

Interest and Other Income (Expense), Net. Interest and other income increased from $100,000 for the nine months ended December 31, 2002 to $135,000 for the nine months ended December 31, 2003. Interest earned on invested cash balances decreased from $113,000 to $48,000 due to a decrease in average cash balances and lower interest rates. This decrease in interest income was offset by an increase of $99,000 in foreign exchange gains related to our Taiwan branch operations.

Provision for (Benefit from) Income Taxes. The $2.1 million benefit from income taxes for the nine months ended December 31, 2002 reflected a tax rate of 37.0% on our pre-tax losses. There was no provision for income taxes for the nine months ended December 31, 2003 as a result of our year-to-date pre-tax loss and the full valuation allowance recorded in fiscal 2003 related to our deferred tax assets.

Fiscal Years Ended March 31, 2001, 2002 and 2003

Net Revenues. Net revenues decreased by 66.3% from $73.7 million in fiscal 2001 to $24.8 million in fiscal 2002, and by 15.3% from $24.8 million in fiscal 2002 to $21.0 million in fiscal 2003. These decreases primarily were the result of the downturn in the networking and telecommunications markets and the semiconductor industry generally. Unit shipments dropped 70.1% from fiscal 2001 to fiscal 2002, and did not change significantly from fiscal 2002 to fiscal 2003. Average selling prices dropped significantly in each fiscal year.

Gross Profit. Gross profit decreased by 81.7% from $31.2 million in fiscal 2001 to $5.7 million in fiscal 2002, and by 56.1% from $5.7 million in fiscal 2002 to $2.5 million in fiscal 2003. Gross margin decreased from 42.4% of net revenues in fiscal 2001, to 22.9% in fiscal 2002 and to 11.9% in fiscal 2003. Gross margins decreased in each fiscal year principally as a result of the significant decrease in average selling prices due to the downturn in the networking and telecommunications markets, the resulting excess supply of ICs in these markets, and our inability to reduce product costs as rapidly as average selling prices decreased. In addition, in fiscal 2003, we returned approximately $2.1 million of wafers to TSMC as a result of quality issues which resulted in a charge of approximately $700,000 to cost of revenues for manufacturing costs incurred in excess of the amount credited by TSMC. In fiscal 2002, we charged $3.9 million,

or 15.7% of net revenues, to cost of revenues primarily because the cost of a portion of our inventory exceeded the anticipated selling price of the related products. We received $3.5 million of refunds for previously paid anti-dumping duties during fiscal 2002 of which $2.2 million was credited to cost of revenues.

Research and Development Expenses. Research and development expenses decreased by 5.9% from $5.1 million in fiscal 2001 to $4.8 million in fiscal 2002, and increased by 29.2% from $4.8 million

in fiscal 2002 to $6.2 million in fiscal 2003. The decrease from fiscal 2001 to fiscal 2002 was primarily related to a $481,000 reduction in prototyping expenses and mask charges, offset in part by a $200,000 increase in depreciation expense. The increase from fiscal 2002 to fiscal 2003 was primarily related a $450,000 increase in prototyping expenses and mask charges, a $343,000 increase in patent related legal expenses, a $271,000 increase in payroll related expenses, and a $143,000 increase in depreciation expense. Depreciation expense increased in each fiscal year primarily as a result of increased investment in research and development equipment to support our continued focus on new product development.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by 33.8% from $7.4 million in fiscal 2001 to $4.9 million in fiscal 2002, and by 7.8% from $4.9 million in fiscal 2002 to $4.5 million in fiscal 2003. The decreases from fiscal 2001 to fiscal 2003 were primarily due to decreases in commissions paid to manufacturers' representatives as a result of decreased net revenues. In addition, $646,000 in expenses in fiscal 2001 related to our proposed public offering that year which was not completed due to adverse market conditions.

Interest and Other Income (Expense), Net. Interest and other income (expense), net increased from $560,000 in fiscal 2001 to $779,000 in fiscal 2002, and decreased to $144,000 in fiscal 2003. The fluctuations resulted from changes in the average cash balances, annual fees related to our line of credit and fluctuating foreign exchange rates that impacted our operations in Taiwan. Additionally, we recorded $396,000 of interest income in fiscal 2002 related to refunds of previously paid anti-dumping duties. Interest income related to refunds of previously paid anti-dumping duties was $84,000 in fiscal 2003.

Provision for (Benefit from) Income Taxes. The provision for income taxes in fiscal 2001 was $8.0 million, based on an annual effective tax rate of 41.4%. The benefits from income taxes in fiscal 2002 and 2003 were $1.2 million and $620,000, respectively. During fiscal 2003, we created a full valuation allowance for deferred tax assets based on our assessment of the uncertainty of the realizability of deferred tax assets due to our recent history of operating losses and our inability to conclude that it is more probable than not that sufficient taxable income would be generated in future periods to realize the deferred tax assets. The annual effective tax rate differed from the statutory rate primarily due to state income taxes, valuation allowance and deferred compensation charges offset by research and development tax credits.

Quarterly Results of Operations

The following tables present unaudited quarterly statement of operations data for the seven quarters ended December 31, 2003, and the data expressed as a percentage of net revenues. This information reflects all normal non-recurring adjustments that we consider necessary for a fair presentation of such information in accordance with generally accepted accounting principles. The results for any quarter are not necessarily indicative of results that may be expected for any future period.

	Quarter Ended						
	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
	(in thousands)						
Statements of Operations Data:							
Net revenues	$ 5,280	$ 5,959	$ 4,947	$ 4,795	$ 5,054	$ 8,209	$ 10,461
Cost of revenues	4,510	4,908	4,450	4,609	4,297	6,640	7,360
Gross profit	770	1,051	497	186	757	1,569	3,101
Operating expenses:							
Research and development	1,520	2,011	1,266	1,409	1,408	1,651	1,183
Selling, general and administrative	1,220	1,086	1,084	1,110	992	1,016	1,084
Total operating expenses	2,740	3,097	2,350	2,519	2,400	2,667	2,267
Income (loss) from operations	(1,970)	(2,046)	(1,853)	(2,333)	(1,643)	(1,098)	834
Interest and other income (expense), net	63	(13)	50	44	93	36	6
Income (loss) before income taxes	(1,907)	(2,059)	(1,803)	(2,289)	(1,550)	(1,062)	840
Provision for (benefit from) income taxes	(706)	(762)	(667)	1,515	—	—	—
Net income (loss)	$ (1,201)	$ (1,297)	$ (1,136)	$ (3,804)	$ (1,550)	$ (1,062)	$ 840

	Quarter Ended

	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
As a Percentage of Net Revenues:							
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	85.4	82.4	90.0	96.1	85.0	80.9	70.4
Gross profit	14.6	17.6	10.0	3.9	15.0	19.1	29.6
Operating expenses:							
Research and development	28.8	33.7	25.6	29.4	27.9	20.1	11.3
Selling, general and administrative	23.1	18.2	21.9	23.2	19.6	12.4	10.4
Total operating expense	51.9	51.9	47.5	52.6	47.5	32.5	21.7
Income (loss) from operations	(37.3)	(34.3)	(37.5)	(48.7)	(32.5)	(13.4)	7.9
Interest and other income (expense), net	1.2	(0.3)	1.0	0.9	1.8	0.5	0.1
Income (loss) before income taxes	(36.1)	(34.6)	(36.5)	(47.8)	(30.7)	(12.9)	8.0
Provision for (benefit from) income taxes	(13.4)	(12.8)	(13.5)	31.5	—	—	—
Net income (loss)	(22.7)	(21.8)	(23.0)	(79.3)	(30.7)	(12.9)	8.0

Net Revenues. Net revenues were essentially flat for the five quarters ended June 30, 2003, and then grew to $8.2 million and $10.5 million in the quarters ended September 30, 2003 and December 31, 2003 primarily due to increases in unit sales as a result of increased demand from our

networking and telecommunications end-users, that were partially offset by declines in average selling prices.

We may experience a delay in generating or recognizing 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 customer agreements typically provide that the customer may delay scheduled delivery dates and cancel orders within specified time frames without significant penalty.

Gross Profit. Gross profit margins fluctuated over the seven quarter period ended December 31, 2003. During the five quarters ended June 30, 2003, gross margins varied from 17.6% to 10.0%, with the exception of the quarter ended March 31, 2003 when the gross margin was 3.9%. During that quarter, we returned approximately $2.1 million of wafers to TSMC as a result of quality issues which resulted in a charge of approximately $700,000 to cost of revenues for manufacturing costs incurred in excess of the amount credited by TSMC. Additionally, we received a refund from TSMC in the December 2002 quarter in the amount of $286,000 for mask sets previously purchased.

Research and Development. Research and development expenses fluctuated from a low of $1.2 million in the quarter ended December 31, 2003 to a high of $2.0 million in the quarter ended September 30, 2002. In the quarter ended September 30, 2002, research and development expenses included mask costs totaling $651,000 related to our 0.13 micron geometry process technology with TSMC. In the quarter ended September 30, 2003, research and development expenses included mask costs totaling $386,000 for our OC-3 telecommunications IC under development by our design team in Norcross, Georgia. We typically charge mask costs to cost of revenues over a 12-month amortization period. However, in the case where we purchase a mask set that we later conclude will not result in a production worthy product and significant future revenue, we charge those mask costs to research and development expenses.

Selling, General and Administrative. Selling, general and administrative expenses varied from a low of $1.0 million in the quarter ended June 30, 2003 to a high of $1.2 million in the quarter ended June 30, 2002. Expenses vary on a quarterly basis as a result of the timing of expenditures for advertising and travel related expenses, in addition to employee turnover and commission payments to manufacturers' representatives that vary with changes in our net revenues.

Most of our expenses, such as employee compensation and lease payments for facilities, are relatively fixed in the near term. In addition, our expense levels are based in part on our expectations regarding future revenues. As a result, any shortfall in revenues relative to our expectations could cause significant changes in our operating results from quarter to quarter. Our quarterly and annual operating results have fluctuated in the past and are likely to fluctuate significantly in the future due to a variety of factors, including:

- the volume and timing of orders received from customers;
- the timing of releases of new products by us and our competitors;
- fluctuations in yields at the independent wafer foundries that manufacture our products;
- the long sales cycles for our Fast and Ultra-Fast SRAMs;
- availability of SRAM products in the market;

- our ability to anticipate changing end-user product requirements for the networking and telecommunications markets;
- change in demand for our products;
- the continued development of our direct and indirect distribution channels;
- availability in foundry, assembly or test capacity;
- changes in average selling prices of our products;
- changes in our product mix, which could reduce our gross margins;
- cancellation of existing orders or the failure to secure new orders; and
- increased expenses associated with our new product design and development.

The occurrence of one or more of these factors might cause our operating results to vary widely. As such, we believe that period-to-period comparisons of our revenues and operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Liquidity and Capital Resources

Since our inception, we have used proceeds from the private sale of equity securities, bank borrowings and cash generated by operating activities to support our operations, acquire capital equipment and finance accounts receivable and inventory growth. We have raised a total of $9.4 million from the private sale of equity securities.

As of December 31, 2003, our principal sources of liquidity were $5.2 million in cash and cash equivalents, and our $4.0 million line of credit with Chiao Tung Bank. Borrowing under our credit line is limited to $1.0 million plus 70.0% of eligible United States accounts receivable balances and 35.0% of finished goods inventory with a sublimit of $500,000 for inventory. Borrowings under the line of credit are collateralized by accounts receivable, inventory and a $1.0 million time certificate of deposit. Borrowings under the line of credit bear interest at the bank's prime rate for the first $1.0 million and at the bank's prime rate plus 1.0% for amounts exceeding $1.0 million. The bank's prime rate was 4.0% as of December 31, 2003. The terms of the line of credit include various covenants that require us to maintain a working capital ratio, a minimum tangible net worth and a debt to net worth ratio. The line of credit expires in May 2004. We are currently negotiating to extend the line of credit through May 2005.

Net cash flow from operating activities was a source of $8.8 million in fiscal 2001 and $189,000 in fiscal 2002 and a use of $1.3 million in fiscal 2003. During the nine months ended December 31, 2003, operating activities resulted in a use of $729,000. The principal use of cash in fiscal 2001 was $16.1 million for the build-up of inventory for backlog or orders received prior to the downturn in the networking and telecommunications markets offset by $10.7 million from an increased accounts payable balance resulting from inventory purchases. Principal uses of cash in fiscal 2002 were accounts payable of $11.6 million, accrued expenses and other liabilities of $2.9 million and deferred revenue of $2.3 million. Accounts payable in fiscal 2002 decreased compared to fiscal 2001 as we paid for inventory, primarily wafers from TSMC and WaferTech, acquired at the end of fiscal 2001. Accrued expenses and other liabilities decreased from fiscal 2001 to fiscal 2002 as a result of payments for income tax liabilities and manufacturers' representatives commissions outstanding at year end. Deferred revenue decreased as our distributors reduced inventory levels due to reduced sales levels caused by the downturn in the networking and telecommunications markets. Fiscal 2002 cash uses were offset primarily by $6.2 million of decreased accounts receivable, $6.9 million of decreased inventory and $3.9 million of increased inventory reserves. Each of these sources of cash was a result of the decrease in net revenue levels for fiscal 2002. The primary use of cash in fiscal 2003 was our net loss of

$7.4 million. This use of cash was primarily offset by sources of cash of $5.2 million from inventory as we continued to fulfill orders from inventory on hand and $2.5 million from deferred income taxes. Primary uses of cash in the nine months ending December 31, 2003, were our net loss of $1.8 million, increases in inventory of $3.5 million as we purchased wafers to meet the increasing demand for our products, and $3.1 million from an increase in accounts receivable resulting from the increased net revenues in the quarter ended December 31, 2003. These uses were primarily offset by increases in accounts payable of $1.9 million resulting from the increased inventory level, and an increase of $1.8 million for accrued expenses and other liabilities and a decrease of $2.2 million in prepaid expenses and other current assets caused by our receipt of a refund for income taxes previously paid.

Net cash used in investing activities was $2.3 million in fiscal 2001, $388,000 in fiscal 2002, $2.0 million in fiscal 2003 and $225,000 in the nine months ended December 31, 2003. Net cash used in investing activities consisted primarily of purchases of test equipment.

Net cash provided by financing activities was $480,000 in fiscal 2001, $55,000 in fiscal 2002, $76,000 in fiscal 2003 and $13,000 in the nine months ended December 31, 2003. Net cash provided by financing activities consisted of the net proceeds from the sale of common stock and convertible preferred stock.

We had no material commitments for capital expenditures at December 31, 2003, but we expect such expenditures to total approximately $2.0 million in fiscal 2005. These expenditures will primarily be for test equipment. We also have total minimum lease obligations of approximately $758,000 from January 1, 2004 through June 30, 2005, under non-cancelable operating leases.

We believe that our existing balances of cash and cash equivalents, our available credit facilities and cash flow expected to be generated from our future operations will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months, although we could be required, or could elect, to seek additional funding prior to that time. Our future capital requirements will depend on many factors, including the rate of revenue growth that we experience, the extent to which we utilize subcontractors, the levels of inventory and accounts receivable that we maintain, the timing and extent of spending to support our product development efforts and the expansion of our sales and marketing efforts. Additional capital may also be required for the consummation of

any acquisition of businesses, products or technologies that we may undertake. We cannot assure you that additional equity or debt financing, if required, will be available on terms that are acceptable or at all.

Off-Balance Sheet Arrangements

The following table describes our commitments to settle contractual obligations in cash as of March 31, 2003.

	Payments due by period				
Contractual Obligations	**Up to 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Operating leases	$ 460,000	$ 522,000	—	—	$ 982,000

In addition, we had inventory purchase commitments of approximately $15.2 million as of December 31, 2003. Our current lease for our Santa Clara facilities expires in 2005 and we anticipate further lease obligations under a new or extended lease for this facility.

Critical Accounting Policies and Estimates

The preparation of our financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires us to make judgments and estimates that affect the amounts that we report in our financial statements and accompanying notes.

We believe that we consistently apply these judgments and estimates and the financial statements and accompanying notes fairly represent all periods presented. However, any errors in these judgments and estimates may have a material impact on our balance sheet and statement of operations. Critical accounting estimates, as defined by the Securities and Exchange Commission, are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult and subjective judgments and estimates of matters that are inherently uncertain. Our critical accounting estimates include those regarding revenue recognition, the valuation of inventories and taxes.

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. Under these criteria, revenue from the sale of our products is recognized upon shipment according to our shipping terms, net of accruals for estimated sales returns and allowances based on historical experience. Sales to distributors are made under agreements allowing for returns or credits under certain circumstances. We defer recognition of revenue on sales to distributors until products are resold by the distributor to the end-user.

Our accurate revenue reporting is dependent on receiving pertinent and accurate data from our distributors in a timely fashion. Distributors provide us monthly data regarding the product, price, quantity, and end customer for their shipments as well as the quantities of our products they have in stock at month end. In determining the appropriate amount of revenue to recognize, we use this data in reconciling differences between their reported inventories and activities. If distributors incorrectly report their inventories or activities, it could lead to inaccurate reporting of our revenues and income.

Valuation of Inventories. Inventories are stated at the lower of cost or market, cost being determined on a weighted average basis. Our inventory reserves are established when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. We establish reserves for excess inventory generally based on inventory levels in excess of 12 months of demand, in our judgment, for each specific product. Inventory consists of finished goods, work in progress and goods at distributors. Historically, it has been difficult to forecast customer demand especially at the part-number level. Many of the orders we receive from our customers and distributors request delivery of product on relatively short notice and with lead times less than our manufacturing cycle time. In order to provide competitive delivery times to our customers, we build and stock a certain amount of inventory in anticipation of customer demand that may not materialize. Moreover, as is common in the semiconductor industry, we may allow customers to cancel orders with minimal advance notice. Thus, even product built to satisfy specific customer orders may not ultimately be required to fulfill customer demand. Nevertheless, at any point in time, some portion of our inventory is subject to the risk of being materially in excess of our projected demand. In fiscal 2002, as a result of a large decline in average selling price, we determined that a significant portion of our inventory was valued in excess of the price at which we could sell the product and recorded an inventory provision of $3.9 million. While we endeavor to accurately predict demand and stock commensurate inventory levels, we may record unanticipated material inventory write-downs in the future.

Taxes. We make certain estimates and judgments in the calculation of tax liabilities and the determination of deferred tax assets, which arise from temporary differences between tax and financial statement recognition methods. We record a valuation allowance to reduce our deferred tax assets to the amount that management estimates is more likely than not to be realized. If in the future we determine that we are not likely to realize all or part of our net deferred tax assets, an adjustment to deferred tax assets would be charged to earnings in the period such determination is made.

In addition, the calculation of tax liabilities involves inherent uncertainty in the application of complex tax laws. We record tax reserves for additional taxes that we estimate we may be required to

pay as a result of future potential examinations by federal and state taxing authorities. If the payment ultimately proves to be unnecessary, the reversal of these tax reserves would result in tax benefits being recognized in the period we determine such reserves are no longer necessary. If an ultimate tax assessment exceeds our estimate of tax liabilities, an additional charge to expense will result.

Quantitative and Qualitative Disclosure Regarding Market Risk

Foreign Currency Exchange Risk. Our revenues and our 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 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 unrestricted cash and cash equivalents totaling $5.2 million at December 31, 2003 and $6.1 million at March 31, 2003. These amounts were invested primarily in money market funds and high quality, investment grade, variable rate municipal bonds. The unrestricted 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. Declines in interest rates, however, will reduce future investment income.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We believe that the adoption of this standard will not have a material impact on our financial statements.

In November 2002, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 45, or FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN 45 are effective for annual financial statements ending after December 15, 2002. Significant guarantees that we have entered into are disclosed in "Note 6—Commitments and Contingencies" to our financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure," or SFAS 148. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ended after December 15, 2002. We have adopted the disclosure requirements of SFAS 148 as of March 31, 2003.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," or FIN 46, was issued in January 2003. FIN 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the financial statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. We have not invested in any variable interest entities prior to or after January 31, 2003 and as such, no impact to our financial statements is expected.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," or SFAS 150. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and further requires that an issuer classify as a liability (or an asset in some circumstances) financial instruments that fall within its scope because that financial instrument embodies an obligation of the issuer. Many such instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. For mandatorily redeemable financial instruments of a nonpublic entity, this statement is effective for existing or new contracts for fiscal periods beginning after December 15, 2003. SFAS 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance of the date of this statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We have not completed the process of evaluating the impact on our financial statements that will result from adopting this standard.

BUSINESS

Overview

We design, develop and market high performance SRAM, or static random access memory, integrated circuits, or ICs, for the networking and telecommunications markets. We are a leading provider of Fast SRAM products, which perform at higher speeds and provide greater density than commodity SRAM products used in other applications. Within the Fast SRAM market, we focus on higher speed devices, which we refer to as Ultra-Fast SRAMs. We provide a broad range of advanced, highly reliable Fast and Ultra-Fast SRAM solutions that target high performance equipment, such as routers, switches, wireless local area network infrastructure equipment, wireless basestations and network access equipment. We believe our advanced circuit design expertise provides original equipment manufacturers, or OEMs, with early access to next generation technologies, superior performance, advanced feature sets and high reliability, thereby enabling them to bring networking and telecommunications equipment to market quickly.

We work closely with leading networking and telecommunications OEMs to better anticipate their needs and gain insight into future technology requirements. Our products are used by leading OEMs in the networking and telecommunications markets, including Agilent Technologies, Alcatel, Cisco Systems, Huawei Technologies, Lucent Technologies and QLogic. We utilize a fabless business model which allows us to focus our resources on research and development, product design and marketing, while gaining access to advanced process technologies without significant capital investments and the related fixed costs.

Industry Background

SRAM Market Overview

Virtually all electronic systems, from advanced networking equipment such as sophisticated routers and switches to consumer electronic products such as digital cameras and personal digital assistants, or PDAs, incorporate SRAMs. An SRAM is a memory IC that is used to temporarily store data not currently being processed, and provides much faster memory access time than other types of memory. For example, SRAM ICs are typically up to five times faster than DRAM, or dynamic random access memory, ICs. According to Gartner Dataquest, the SRAM market was forecasted to be $3.1 billion in 2003 and is projected to be $4.4 billion in 2007, representing a compound annual growth rate of 9.1%.

There are a broad variety of SRAM ICs, characterized by a number of attributes, such as speed, memory capacity or density, and power consumption. A significant portion of the SRAM IC market consists of SRAMs with minimal speed requirements and a limited number of standard SRAM configurations. These commodity SRAMs are incorporated in devices such as cell phones, PDAs and MP3 players. For these markets, SRAM providers have focused primarily on reducing costs and gaining economies of scale by high-volume manufacturing, rather than on providing a significant degree of differentiation through advanced speed, density or power consumption characteristics.

Trend Towards Fast and Ultra-Fast SRAM Solutions

Growth in data, voice and video traffic has driven the need for greater networking bandwidth, resulting in the continued build-out of the networking and telecommunications infrastructure. According to International Data Corporation, total worldwide Internet traffic is expected to grow from 405 petabits per day in 2003 to 5,174 petabits per day in 2007. This growth has led to the proliferation of a wide variety of equipment throughout the networking and telecommunications infrastructure. This equipment includes routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment. All of these products require Fast and Ultra-Fast SRAM

ICs, and OEMs are increasingly relying upon advanced SRAM technology to enable higher performance of their products. For example, in a typical router or switch, multiple high-speed SRAM ICs are required to temporarily store, or buffer, data traffic and to provide rapid lookup of information in data tables. Fast SRAM ICs are SRAM ICs that require less than 20 nanoseconds to retrieve data from memory. According to Gartner Dataquest, the Fast SRAM market is expected to grow at a 16.8% compound annual growth rate from 2003 to 2007, increasing from 43.8% of the overall SRAM market to 58.3% during that same period.

As networking equipment must increasingly support advanced traffic content such as Voice over Internet Protocol, or VoIP, and video streaming, networking and telecommunications OEMs are driving demand for even higher performance SRAM ICs, known as Ultra-Fast SRAMs. We define Ultra-Fast SRAMs as those Fast SRAM ICs that require less than 5 nanoseconds to retrieve data from memory. There are relatively few providers of Ultra-Fast SRAM ICs due to the high performance requirements of these ICs.

Networking and telecommunications OEMs are also under increasing pressure to bring higher performance products to market rapidly to support more advanced traffic content. In response to these pressures, OEMs have increasingly relied on IC providers that are capable of rapidly developing and introducing advanced Fast and Ultra-Fast SRAM ICs. We believe that OEMs also prefer to work with suppliers that offer a broad range of Fast and Ultra-Fast SRAM ICs that incorporate advanced feature sets that can be used to provide solutions across their product suite.

The GSI Solution

We are a leading provider of Fast SRAM solutions, focusing on Ultra-Fast SRAMs, targeting the networking and telecommunications markets. We provide a broad range of high performance, highly reliable solutions that are used in a variety of networking equipment, including routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment. Key elements of our solution are:

Innovative Design Architecture and Technology Leadership

High Speed Solutions. Through the use of advanced architectures and design methodologies, we have developed Fast and Ultra-Fast SRAM ICs. The majority of these solutions have access speeds of less than 5 nanoseconds. By providing faster ICs, we enable our customers to design and develop higher performance products that support increasingly complex traffic content.

Low Power Consumption. Our products consume up to 50% less power than comparable products offered by our principal competitors. As a result, our products generate less heat, increasing the reliability of the networking equipment in which they are used. Furthermore, because of the low power requirements of our products, OEMs are able to add capabilities to their systems which otherwise might not have been possible due to overall system power constraints.

Single Die Solution. Our designs enable multiple product families to be manufactured from a single die. This flexibility allows us to minimize manufacturing time and respond quickly to the shipment requirements that are characteristic of the networking and telecommunications markets. Our flexible product designs also allow OEMs to reduce their cost and time-to-market by evaluating and qualifying one product configuration, enabling them to more easily qualify related products within the same product family. Additionally, our single die solution allows us to reduce our costs through better inventory management, the purchase of fewer mask sets, streamlining internal product qualifications and more efficient use of engineering resources.

Product Innovation. We believe we have established a position as a technology leader in the design and development of Fast and Ultra-Fast SRAM ICs. For example, we were the first supplier to

introduce 72 bit wide SRAMs as single monolithic ICs. In addition, we were first to market with our SigmaRAM ICs which are characterized by very fast access times, low power and high density and whose architecture has become an industry standard among networking and telecommunications OEMs. Additionally, we believe both our Fast and Ultra-Fast SRAM solutions consistently provide the highest speed available for a given density.

Process Technology Leadership. We work with leading independent wafer foundries to manufacture our products in order to increase yields, lower manufacturing costs and improve the quality of our products. Many of our products are implemented using 0.15 micron geometry process technology from TSMC. Our most advanced Ultra-Fast SRAM ICs are designed using 0.13 micron geometry process technology, and we are currently developing 72 megabit synchronous ICs using 90 nanometer geometry process technology, which will allow us to further increase IC performance, lower power consumption and reduce costs.

Comprehensive Fast and Ultra-Fast SRAM Solutions

Broad Product Offering. We currently offer 30 basic product configurations, which are the basis for over 2,500 individual products. Our product line includes a wide range of high performance, low power Fast and Ultra-Fast SRAMs designed specifically for the networking and telecommunications markets such as high-speed synchronous SRAM (BurstRAM and NBT SRAM) ICs, high-speed asynchronous SRAM ICs, and SigmaRAM / SigmaQuad devices. Our broad product offering enables us to leverage our research and development to design and develop our product lines to meet the precise and changing requirements of our customers.

Advanced Feature Sets. Our products offer features that address a broad range of our networking and telecommunications OEMs' system requirements. These proprietary features include a JTAG test port, named for the IEEE Joint Test Action Group, which enables post assembly verification of the connection between our ICs and the system board, thereby allowing our customers to more rapidly develop, test and ship their products. Additionally, we offer our FLXDrive feature which allows system designers to optimize signal performance for a given requirement. We provide OEMs the ability to use our ICs in various modes of operation in one IC using our flexible pin out structure, thus increasing product flexibility and availability. Overall, we believe our advanced feature sets enable our end-users to achieve faster time-to-market and reduce their costs and inventory requirements.

Industrial Temperature. The ability to operate at industrial temperatures, while less important for commodity SRAMs, is critical for Fast and Ultra-Fast SRAMs used in broad variety of networking and telecommunications applications under varying operating conditions. All of our products are designed to meet industrial temperature specifications, enabling them to operate at temperatures ranging from -40°C to +85°C.

Customer Responsiveness

Customer Driven Solutions. We work closely with leading networking and telecommunications OEMs to better anticipate their requirements and rapidly develop and implement solutions that allow them to meet their product performance objectives. For example, our JTAG test port, which is now an option on all of our recently introduced synchronous SRAM products, was initially developed at the request of one of our major end-users. In addition, in response to feedback from a number of our end-users, we developed a new SRAM architecture, SigmaRAM, to address their speed, power and cost requirements.

Accelerate End-Users' Time-to-Market. Our design expertise and flexibility, reusable intellectual property and flexible manufacturing capabilities enable networking and telecommunication OEMs to create differentiated products quickly and reduce their product design cycles and development costs.

For example, anticipating the needs of our end-users, we were first to market a 72 bit wide SRAM which we believe enabled our OEM customers to accelerate their introduction of next generation products.

Quality and Reliability. Networking and telecommunications equipment typically have long product lives. Generally, the cost to replace this equipment due to product failure is prohibitively expensive. Thus, high quality and reliability of Fast and Ultra-Fast SRAM ICs incorporated in our end-users' products is critical. We comprehensively test all of our products at a wide range of extreme hot and cold temperatures, in addition to performing burn-in, to help assure high levels of quality and reliability.

The GSI Strategy

Our objective is to become the leading provider of Fast and Ultra-Fast SRAMs. Our strategy includes the following key elements:

Continue to Focus on the Networking and Telecommunications Markets. We intend to continue to focus on designing and developing high performance Fast and Ultra-Fast SRAM ICs targeted at the networking and telecommunications markets. Increasing network complexity due to more advanced traffic content continues to drive OEMs' demand for high performance Fast and Ultra-Fast SRAM ICs. We believe our advanced circuit design expertise provides networking and telecommunications OEMs with early access to next generation technologies, superior performance, advanced feature sets and high reliability, thereby enabling them to design and develop higher performance products that support increasingly complex traffic content and bring networking and telecommunications equipment to market quickly.

Collaborate with Wafer Foundries to Leverage Leading-Edge Process Technologies. We believe that advanced complementary metal oxide semiconductor, or CMOS, technologies, the most commonly used process technologies for manufacturing semiconductor devices, are important to future advances in Fast and Ultra-Fast SRAM ICs. Our most advanced Ultra-Fast SRAM ICs are designed using 90 nanometer geometry process technologies and 300 millimeter wafers to deliver higher performance and lower costs for our end-users. We intend to continue to collaborate closely with wafer foundries to leverage leading-edge process technologies which we believe will provide us with cost and other competitive advantages.

Continue to Invest in Research and Development to Extend Our Technology Leadership. We believe we have established a position as a technology leader in the design and development of Fast and Ultra-Fast SRAM ICs. For example, we designed and were the first to provide SigmaRAM, which at the time of introduction provided the highest data rate available for the networking and telecommunications markets. Additionally, we believe our Fast and Ultra-Fast SRAM solutions consistently provide the highest speed for a given density. The increasing bandwidth requirements of networking and telecommunications equipment require Fast and Ultra-Fast SRAM ICs with increased speed, lower power consumption and increased functionality. We intend to maintain and advance our technology leadership through continual enhancement of our existing Fast and Ultra-Fast SRAM products and introduction of new products.

Focus on Industry-Leading OEMs. Many of the end-users of our products are industry-leading networking and telecommunications OEMs. We are focused on developing close relationships with industry leaders to facilitate rapid adoption of our products and to maintain our position as a leading provider of high performance Fast and Ultra-Fast SRAMs. We work with our end-users at the pre-design and design stage to identify and respond to their requests for current and future generations of products. We plan to enhance our relationships with leading OEMs and identify opportunities to develop similar relationships with additional networking and telecommunications OEMs.

Leverage Our Core Strengths to Develop Other Product Lines. We intend to leverage our advanced design capabilities and innovative design architecture in Fast and Ultra-Fast SRAMs to develop new product lines in the networking and telecommunications markets. For example, we are developing a channelized OC-3 processor that incorporates 16 megabits of SRAM. OC-3 is the industry standard for optical transmission at rates of 155 megabits per second, and is typically used at the access switching point of the network. When completed, we believe this will be the first low-power, single IC solution capable of simultaneously processing multiple types of traffic with OC-3 bandwidth.

Products

We design, develop and market a broad range of high performance SRAMs for the networking and telecommunications markets. We specialize in Fast and Ultra-Fast SRAMs with high density and low power consumption. We currently offer 30 basic product configurations, which are the basis for over 2,500 individual products. Our products are used in networking and telecommunications equipment, including routers, switches, wireless local area network infrastructure equipment, wireless base stations and network access equipment.

Synchronous SRAM Products

Synchronous SRAMs are controlled by timing signals, referred to as clocks, which enable them to transfer data at speeds that are generally faster than asynchronous SRAMs. Our synchronous SRAMs feature clock access speeds as fast as 2 nanoseconds, and cycle at operating frequencies of 333 megahertz, or MHz. We currently offer BurstRAM and no-bus turnaround, or NBT, varieties of synchronous SRAMs. BurstRAMs are used in applications where large amounts of data are read or written in single sessions, or bursts, while NBT SRAMs facilitate alternate read and write traffic without delay cycles. The burst protocol is programmable in linear or interleaved addressing modes which makes the faster burst SRAMs suitable for cache memory applications, while the NBT protocol is critical for processing high speed data streams.

Most of our synchronous SRAM products are offered in both pipeline and flow through modes. Flow through SRAMs allow the shortest read latency, which is the delay from the beginning of a read command until valid data out is delivered. Pipelined SRAMs break the access into discrete clock-controlled steps, allowing new access commands to be accepted while an access is already in progress. Therefore, while flow through SRAMs offer lower latency, pipelined SRAMs offer greater data bandwidth.

Burst and NBT SRAMs. Our BurstRAM and NBT SRAM products incorporate a number of features that reduce our end-users' cost of ownership and increase their design flexibility. These proprietary features include a JTAG test port, named for the IEEE Joint Test Action Group, which enables post assembly verification of the connection between our ICs and the system board, thereby allowing our customers to more rapidly develop, test and ship their products. Additionally, we offer our FLXDrive™ feature which allows system designers to optimize signal performance for a given requirement.

We currently offer burst and NBT SRAMs with storage densities of up to 72 megabits with a cycle rate of up to 333 MHz and clock access times as fast as 2 nanoseconds that operate at 3.3, 2.5 or 1.8 volts.

SigmaRAM Products. We offer a family of synchronous SRAM products based on our SigmaRAM architecture which are designed for use on large format printed circuit boards common in many networking and telecommunication equipment. These ICs utilize a unique architecture that provides the capability to incorporate the full range of popular SRAM functionality, including burst, NBT, and double data rate in common input/output, or I/O format. Our SigmaRAM products are characterized by very fast access time, high cycle rates, low power and high density. To meet the

demands of high performance equipment, the IC must execute fast, random, multiple reads and change from reads to writes in one clock cycle.

We currently offer SigmaRAM products with a variety of storage densities from 18 to 36 megabits and speeds of up to 333 MHz and clock access times as fast as 2 nanoseconds that operate at 1.8 volts.

SigmaQuad Products. We have introduced a new family of synchronous SRAMs, the SigmaQuad family, which is currently in the product sampling stage. This family features separate I/O which enables reads and writes in the same clock cycles, resulting in significantly higher output. We expect to begin shipment of our SigmaQuad products in fiscal 2005.

Asynchronous SRAM Products

Unlike synchronous SRAMs, asynchronous SRAMs employ a clock-free control interface. They are widely used in support of high-end DSPs, or digital signal processors. We believe we have one of the broadest portfolios of 3.3 volt, high speed asynchronous SRAMs. These products are designed to meet the

stringent power and performance requirements of networking and telecommunications applications, such as VoIP, cellular base stations, DSL line cards and modems.

We currently offer asynchronous SRAM products with a variety of storage densities between 256 kilobits and 8 megabits and access times ranging from 7 to 12 nanoseconds. All of our asynchronous SRAMs operate at 3.3 volts.

Customers

Our sales and marketing strategy is to achieve design wins with end-users of our products, who are leading networking and telecommunications companies that incorporate our Fast and Ultra-Fast SRAM ICs into their networking equipment. The following is a representative list of our end-users who have directly or indirectly purchased more than $350,000 of our products since April 1, 2003:

Agilent Technologies
Alcatel
Avaya
Cisco Systems
DLink Systems
Huawei Technologies
Lucent Technologies
Marconi
Nortel Networks
QLogic
Terayon Communications Systems
ZTE Corporation

Many of our end-users use contract manufacturers to manufacture their equipment. Accordingly, a significant percentage of our net revenues are derived from direct sales to contract manufacturers and to consigned warehouses who purchase products from us for use by contract manufacturers. In addition, we use foreign and domestic distributors to sell our products to networking and telecommunications end-users, as well as their contract manufacturers.

Direct sales to contract manufacturers accounted for 38.5% of our net revenues during the nine months ended December 31, 2003, and 39.3% and 31.7% of our net revenues for fiscal 2003 and 2002, respectively. Sales to foreign and domestic distributors accounted for 46.6% of our net revenues during the nine months ended December 31, 2003, and 40.0% and 40.1% of our net revenues for fiscal 2003 and 2002, respectively.

For the periods indicated below, the following customers accounted for 10% or more of our net revenues:

	Year Ended March 31,		
	2001	2002	2003
Contract Manufacturers:			
Celestica	—	—	21.5%
Flextronics	16.8%	18.6%	—
Solectron	10.4	—	10.2
Distributors:			
Avnet Logistics	—	12.2	—
Impact	—	—	13.4

Cisco Systems, the largest end-user of our products, accounted for approximately one quarter to one third of our net revenues for the nine months ended December 31, 2003, fiscal 2003, fiscal 2002, and fiscal 2001. Cisco purchases our products directly, through our distributors and through its contract manufacturer and consigned warehouses.

Sales, Marketing and Technical Support

We sell our products primarily through our worldwide network of independent sales representatives and distributors. As of April 1, 2004, we employed 16 sales and marketing personnel, and used over 200 independent sales representatives. We intend to expand our direct sales and technical support organization as well as our independent sales representatives and distributor channels to better serve our end-users. We currently have regional sales offices located in Canada, China, Italy and the United States. We believe this international coverage allows us to better serve our distributors and end-users by providing them with coordinated support. We believe that our customers' purchasing decisions are based primarily on time-to-market, product features, product reliability, performance, manufacturing flexibility, service and cost. Many of our end-users have had long-term relationships with us based on our success in meeting these criteria.

Our sales are generally made pursuant to purchase orders received between one and six months prior to the scheduled delivery date. We typically provide a warranty of up to 36 months on our products. Liability for a stated warranty period is usually limited to replacement of defective products.

Our marketing efforts are focused on increasing brand name awareness and providing solutions that address our customers' needs. Key components of our marketing efforts include maintaining an active role in industry standards committees, such as the JEDEC Solid State Technology Association (formerly the Joint Electron Device Engineering Council), or JEDEC, which is responsible for establishing detailed specifications which can be utilized in future system designs. We believe that our participation in and sponsorship of numerous proposals within these committees such as NBT, JTAG and SigmaRAM, have increased our profile among leading manufacturers in the networking and telecommunications segment of the SRAM market. Our marketing group also provides technical, strategic and tactical sales support to our direct sales personnel, sales representatives and distributors. This support includes in-depth product presentations, datasheets, application notes, software models, sales tools, pricing, marketing communications, marketing research, trademark administration and other support functions.

We emphasize customer service and technical support in an effort to provide our end-users with the knowledge and resources necessary to successfully use our products in their designs. Our customer service uses a technical team of applications engineers, technical marketing personnel and,

when required, product design engineers. We provide customer support throughout the qualification and sales process and continue providing follow-up service after the sale of our products and on an ongoing basis. In addition, we provide our end-users with comprehensive data sheets, application notes and reference designs.

Our sales are made primarily pursuant to standard purchase orders. Because industry practice allows customers to reschedule or cancel orders on relatively short notice, these orders are not firm and hence we believe that backlog is not a good indicator of our future sales.

Manufacturing

We outsource our wafer fabrication to independent foundries, and we outsource our assembly and most of our testing to subcontractors, which enables us to focus on our design strengths, minimize fixed costs and capital expenditures and gain access to advanced manufacturing technologies. Our engineers work closely with our foundries and subcontractors to increase yields, lower manufacturing costs, and help assure the quality of our products.

Currently, all of our wafers are manufactured by TSMC and WaferTech. WaferTech is a subsidiary of TSMC. These foundries also fabricate products for other companies. We purchase products from our foundries under individually negotiated purchase orders. We do not currently have a long-term supply contract with TSMC or WaferTech, and therefore neither TSMC or WaferTech is obligated to manufacture products for us for any specified period, in any specified quantity or at any specified price, except as may be provided in a particular purchase order. Our future success depends in part on our ability to secure sufficient capacity at our independent foundries to supply us with the wafers we require.

Most of our products are implemented using 0.15 micron and 0.25 micron geometry process technologies from TSMC that were refined and enhanced with our assistance to provide the stability and performance needed to allow us to offer all of our products in both commercial and industrial temperature versions. We have also worked with TSMC to migrate several of our high volume products to a 0.13 micron geometry process technology which has allowed us to further increase device performance, lower power consumption and to reduce costs. We currently have four separate product families on this process. In addition, we are currently developing the 72 megabit synchronous BurstRAM and NBT SRAM products using 90 nanometer geometry process technology.

We intend to regularly introduce new products, with high performance advanced features of increasing complexity. These product solutions will require us to achieve volume production in a rapid timeframe. We believe that by using the advanced technologies offered by our fabrication partners and their expertise in high volume manufacturing, we can rapidly achieve volume production. However, lead times for materials and components we order vary significantly and depend on such factors as the specific supplier, contract terms and demand for a component at a given time.

All of our manufactured wafers are tested for electrical compliance and most are packaged at Advanced Semiconductor Engineering, or ASE, which is located in Taiwan. Our test procedures require that all of our products are subjected to accelerated burn-in and extensive functional electrical testing, most of which occur at ASE Test and Advantech Semiconductor Inc. Additionally, we perform testing for most of our low volume products in-house.

Research and Development

The design process for our products is complex. As a result, we have made substantial investments in computer-aided design and engineering resources to manage our design process. Investments in research and development were $6.2 million in fiscal 2003, $4.8 million in fiscal 2002, and $5.1 million in fiscal 2001. Our research and development staff includes engineering professionals

with extensive experience in the areas of SRAM IC design and systems level networking and telecommunications equipment design.

We are also leveraging our advanced design capabilities to expand into other networking and telecommunications products, including a channelized OC-3 processor that incorporates 16 megabits of SRAM. When completed, we believe this will be the first low-power, single IC device solution capable of simultaneously processing multiple types of traffic with OC-3 bandwidth. We have established a design center in Norcross, Georgia, to focus on the development of these products.

Competition

Our existing competitors include many large domestic and international companies, some of which have substantially greater resources, broader product lines and longer standing relationships with end-users than we do. Unlike us, some of our principal competitors maintain their own semiconductor foundries and may, therefore, benefit from capacity, cost and technical advantages. Our principal competitors are Cypress Semiconductor, Integrated Device Technology, Integrated Silicon Solution, Samsung Electronics and Sony.

We believe that our ability to compete successfully in the rapidly evolving networking and telecommunications markets depends on a number of factors, including:

- quality, price, performance and features of our products;
- the timing and success of new product introductions by us, our customers and our competitors; and

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

We believe we compete favorably with our competitors based on these factors. However, we may not be able to compete successfully in the future with respect to any of these factors. Our failure to compete successfully in these or other areas could harm our business.

The networking and telecommunications segment of the SRAM market is competitive and is characterized by technological change, declining average selling prices and product obsolescence. We expect competition to increase in the future from existing competitors and from other companies that may enter our existing or future markets with solutions that may be less costly or provide higher performance or more desirable features than our products. This increased competition may result in price reductions, reduced profit margins and loss of market share.

Intellectual Property

Our ability to compete successfully depends, in part, upon our ability to protect our proprietary technology and information. We have three patent applications pending in the United States and we rely on a combination of copyrights, trademarks and trade secret laws to protect some of our intellectual property. We have no assurances that any patents will issue on any of our pending applications, or that if such patents do issue, that they will be valuable to our business. We believe that factors such as the technological and creative skills of our personnel and the success of our ongoing product development efforts are more important in maintaining our competitive position. We generally enter into confidentiality or license agreements with our employees, distributors, customers and potential customers and limit access to our proprietary information. Our intellectual property rights, if challenged, may not be upheld as valid, may not be adequate to prevent misappropriation of our technology or may not prevent the development of competitive products. Additionally, we may not be able to obtain patents or other intellectual property protection in the future. Furthermore, the laws of certain foreign countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or intellectual property rights to the

same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products more likely in these countries.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights, which have resulted in significant and often protracted and expensive litigation. We or our foundries from time to time are notified of claims that we may be infringing patents or other intellectual property rights owned by third parties. We have been subject to intellectual property claims in the past and we may be subject to additional claims and litigation in the future. Litigation by or against us relating to allegations of patent infringement or other intellectual property matters could result in significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation results in a determination favorable to us. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology, discontinue the use of certain processes or obtain licenses to the infringing technology. Licenses may not be offered or the terms of any offered licenses may not be acceptable to us. If we fail to obtain a license from a third party for technology used by us, we could incur substantial liabilities and be required to suspend the manufacture of products or the use by our foundries of certain processes.

Employees

As of April 1, 2004, we had 98 full-time employees. We believe that our future success will depend in large part on our ability to attract and retain highly-skilled, engineering, managerial, sales and marketing personnel. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage. We believe that our employee relations are good.

Facilities

Our executive offices, our principal administration, marketing and sales operations and a portion of our research and development operations are located in approximately 14,100 square feet of leased space in Santa Clara, California under a lease expiring in June 2005. We believe that our Santa Clara facility is adequate for our needs for the foreseeable future. In addition, we lease approximately 5,000 square feet in Taiwan to support our manufacturing activities. This lease expires in September 2004 and we intend to lease a larger facility in Taiwan prior to such expiration. We also lease space in Georgia, North Carolina and Texas. The aggregate annual gross rent for our facilities was approximately $567,000 in fiscal 2003.

MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information concerning our executive officers and directors as of March 31, 2004:

Name	Age	Title
Lee-Lean Shu	49	President, Chief Executive Officer and Chairman
David Chapman	48	Vice President, Marketing
Didier Lasserre	39	Vice President, Sales
Leon Lee	50	Vice President, Telecommunication Division
Douglas Schirle	49	Chief Financial Officer
Bor-Tay Wu	51	Vice President, Taiwan Operations
Ping Wu	47	Vice President, U.S. Operations

Robert Yau	50	Vice President, Engineering, Secretary and Director
Hsiang-Wen Chen(1)(2)	56	Director
Ruey L. Lu(1)(3)	48	Director
Jing Rong Tang(1)(2)(3)	49	Director

(1) Member of the audit committee.

(2) Member of the nominating and corporate governance committee.

(3) Member of the compensation committee.

Lee-Lean Shu co-founded our company in March 1995 and has served as our President and Chief Executive Officer and as a member of our Board of Directors since inception. In October 2000, Mr. Shu became Chairman of our Board. From January 1995 to March 1995, Mr. Shu was Director, SRAM Design at Sony Microelectronics Corporation, a semiconductor company and a subsidiary of Sony Corporation, and from July 1990 to January 1995, he was a design manager at Sony Microelectronics Corporation.

David Chapman has served as our Vice President, Marketing since July 2002. From November 1998 to June 2002, Mr. Chapman served as our Director of Strategic Marketing and Applications Engineering. From February 1988 to October 1998, Mr. Chapman served in various product planning and applications engineering management capacities in the Memory Operation division and later the Fast SRAM division of Motorola Semiconductor Product Sector, Motorola, Inc., an electronics manufacturer. Mr. Chapman has been a member of JEDEC since 1985, and served as Chairman of its SRAM committee in 1999.

Didier Lasserre has served as our Vice President, Sales since July 2002. From November 1997 to July 2002, Mr. Lasserre served as our Director of Sales for the Western United States and Europe. From July 1996 to October 1997, Mr. Lasserre was an account manager at Solectron Corporation, a provider of electronics manufacturing services. From June 1988 to July 1996, Mr. Lasserre was a field sales engineer at Cypress Semiconductor, a semiconductor company.

Leon Lee has served as our Vice President, Telecommunications Division since December 1999. From July 1996 to November 1999, Mr. Lee was Director of ATM equipment design at Lucent Technologies, a telecommunications equipment company. From May 1988 to June 1996, Mr. Lee was manager of cable phone headend design and system integration at Nortel Networks, a telecommunications equipment manufacturer.

Douglas Schirle has served as our Chief Financial Officer since August 2000. From June 1999 to August 2000, Mr. Schirle served as our Corporate Controller. From March 1997 to June 1999, Mr. Schirle was the Corporate Controller at Pericom Semiconductor Corporation, a provider of digital

and mixed signal integrated circuits. From November 1996 to February 1997, Mr. Schirle was Vice President, Finance for Paradigm Technology, a manufacturer of SRAMs, and from December 1993 to October 1996, he was the Controller for Paradigm Technology. Mr. Schirle was formerly a certified public accountant.

Bor-Tay Wu has served as our Vice President, Operations since January 1997. From January 1995 to December 1996, Mr. Wu was a design manager at Atalent, an IC design company in Taiwan.

Ping Wu has served as our Vice President, U.S. Operations since February 2004. From July 1999 to January 2004, Mr. Wu served as our Director of Operations. From July 1997 to June 1999, Mr. Wu served as Vice President of Operations at Scan Vision, a semiconductor manufacturer.

Robert Yau co-founded our company in March 1995 and has served as our Vice President, Engineering and as a member of our Board of Directors since inception. From December 1993 to February 1995, Mr. Yau was design manager for specialty memory devices at Sony Microelectronics Corporation. From 1990 to 1993, Mr. Yau was design manager at MOSEL/VITELIC, a semiconductor company.

Hsiang-Wen Chen, Ph.D. has served as a member of our Board of Directors since January 1997. Dr. Chen has served as the Managing Director of Monet Capital, LLC, a venture capital firm, since January 2000. From January 1997 to October 1999, Dr. Chen served as our Vice President, Technology. From January 1987 to December 1996, Dr. Chen was the Director of Technology at Paradigm Technology. Dr. Chen also serves on the board of directors of several private companies.

Ruey L. Lu has served as a member of our Board of Directors since October 2000. Mr. Lu is the President of EMPIA Technology, a semiconductor solutions company, which he founded in June 2002. From March 1993 to December 2001, Mr. Lu served as President of ARK Logic, a storage device and software applications company which he founded in March 1993. From October 1989 to February 1993, Mr. Lu served as Director of Engineering in the Imaging Product Division of Western Digital, an information storage company.

Jing Rong Tang has served as a member of our Board of Directors since May 1995. Since 1994, Mr. Tang has served as the Chief Executive Officer of HolyStone Enterprises Co., Ltd., a distributor of electronic components.

There are no family relationships among any of our directors, officers or key employees.

Board of Directors

Upon completion of this offering, our Board of Directors will be divided into three classes, as follows:

- Class I consists of Jing Rong Tang and Ruey L. Lu, whose terms will expire at our annual meeting of stockholders to be held in 2005;
- Class II consists of Robert Yau and Hsiang-Wen Chen, whose terms will expire at our annual meeting of stockholders to be held in 2006; and
- Class III consists of Lee-Lean Shu, whose terms will expire at our annual meeting of stockholders to be held in 2007.

Upon expiration of the term of a class of directors, directors for that class will be elected for three-year terms at the annual meeting of stockholders in the year in which such term expires. Each director's term is subject to the election and qualification of his successor, or his earlier death, resignation or removal. The authorized number of directors may be changed by resolution of our Board of Directors or a majority vote of the stockholders. Any increase or decrease in the number of

directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. Because no more than one-third of our Board may be elected at each annual meeting, this classification of our Board of Directors may have the effect of delaying or preventing changes in control or management.

Upon completion of the offering, a majority of the members of our Board of Directors will be independent as defined under the rules of the Nasdaq Stock Market.

Committees of the Board of Directors

Our Board of Directors has established three standing committees: an audit committee, a compensation committee, and a nominating and corporate governance committee. Upon completion of the offering, each member of each of the foregoing committees will be independent as defined under the rules of the Nasdaq Stock Market.

Audit Committee. The audit committee oversees, reviews and evaluates our financial statements, accounting and financial reporting processes, internal control functions and the audits of our financial statements. The audit committee is responsible for the appointment, compensation, retention and oversight of our independent auditors. The members of our audit committee are Hsiang-Wen Chen, Jing Rong Tang and Ruey L. Lu. Upon completion of this offering each member of our audit committee will satisfy the independence requirements of Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended.

Compensation Committee. The compensation committee reviews and makes recommendations to our Board of Directors concerning the compensation and benefits of our executive officers and directors, administers our stock option and employee benefits plans, and reviews general policy relating to compensation and benefits. The members of our compensation committee are Jing Rong Tang and Ruey L. Lu.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee identifies prospective board candidates, recommends nominees for election to our Board of Directors, develops and recommends board member selection criteria, considers committee member qualification, recommends corporate governance principles to the Board of Directors, and provides oversight in the evaluation of the Board of Directors and each committee. The members of our nominating and corporate governance committee are Hsiang-Wen Chen and Jing Rong Tang.

Director Compensation

Our directors do not currently receive cash compensation for their services as directors or members of committees of the Board of Directors. We plan to adopt a policy for the payment of cash compensation to our non-employee directors, to become effective upon the completion of this offering. In addition, upon completion of this offering, our non-employee directors will be granted an initial option for shares of our common stock on the day of his or her initial election or appointment to our Board of Directors, which option will become exercisable in three equal annual installments beginning on the first anniversary of the date of grant. On the day of each annual meeting of stockholders, each nonemployee director who remains in office immediately following the meeting will be granted an option to purchase shares of common stock, which will become fully vested and exercisable on the day immediately preceeding the date of the following annual meeting of stockholders, subject to the nonemployee director's continuous service on our Board of Directors. For additional information regarding director compensation, see "2004 Equity Incentive Plan—Automatic Grant of Nonemployee Director Stock Options."

Compensation Committee Interlocks and Insider Participation

Our Board of Directors established the compensation committee in April 2004. Prior to establishing the compensation committee, our Board of Directors as a whole performed the functions delegated to the compensation committee. No member of our compensation committee and none of our executive officers has a relationship that would constitute an interlocking relationship with the executive officers and directors of another entity.

Executive Compensation

The following table provides the total compensation paid to our chief executive officer and our next four most highly-compensated executive officers for the fiscal year ended March 31, 2004. These executives are referred to as our named executive officers elsewhere in this prospectus.

Summary Compensation Table

	Annual Compensation		Long Term Compensation Awards
Name and Principal Position	**Salary**	**Other Annual Compensation**	**Securities Underlying Options (#)**

Lee-Lean Shu President and Chief Executive Officer	$ 189,492	—	123,750
David Chapman Vice President, Marketing	145,113	—	61,875
Didier Lasserre Vice President, Sales	177,851	$ 5,400(1)	61,875
Douglas Schirle Chief Financial Officer	139,517	—	41,250
Robert Yau Vice President, Engineering	151,594	—	61,876

(1) Mr. Lasserre received a car allowance of $5,400.

Stock Options

The following table sets forth information regarding grants of stock options to each of the named executive officers during fiscal 2004. All of these options were granted under our 2000 stock option plan. The percentage of total options set forth below is based on an aggregate of 1,035,643 options granted to all employees during the fiscal year. All options were granted at the fair market value of our common stock, as determined by the Board of Directors on the date of grant. Hypothetical, potential realizable values are net of exercise price, but before taxes associated with exercise. Amounts represent hypothetical gains that could be achieved for the options if exercised at the end of the option term. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with rules of the SEC and do not represent our estimate or projection of the future common stock price.

Option Grants in Fiscal 2004

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name and Principal Position	**Number of Securities Underlying Options Granted (#)**	**% of Total Options Granted to Employees in Fiscal Year 2004**	**Exercise Price Per Share**	**Expiration Date**	**5%**	**10%**
Lee-Lean Shu[1] President and Chief Executive Officer	123,750	12.0%	$ 2.10	7/15/13	$ 163,433	$ 414,173
David Chapman[2] Vice President, Marketing	41,250 20,625	4.0 2.0	2.10 3.50	7/15/13 12/15/13	54,478 45,399	138,058 115,048
Didier Lasserre[3] Vice President, Sales	41,250 20,625	4.0 2.0	2.10 3.50	7/15/13 12/15/13	54,478 45,399	138,058 115,048
Douglas Schirle[4] Chief Financial Officer	41,250	4.0	2.10	7/15/13	54,478	138,058
Robert Yau[5] Vice President, Engineering	61,876	6.0	2.10	7/15/13	81,718	207,090

(1) 61,875 shares vest on January 13, 2006, and 61,875 shares vest on January 13, 2007.

(2) 20,625 shares vest on November 9, 2005, and 20,625 shares vest on November 9, 2006. The 20,625 shares vest on November 9, 2007.

(3) 20,625 shares vest on November 3, 2005, and 20,625 shares vest on November 3, 2006. The 20,625 shares vest on November 3, 2007.

(4) 20,625 shares vest on June 3, 2006, and 20,625 shares vest on June 3, 2007.

(5) 30,938 shares vest on January 13, 2006, and 30,938 shares vest on January 13, 2007.

Aggregate Option Exercises in Fiscal 2004 and Option Values at March 31, 2004

The following table sets forth the number of shares of common stock acquired and the value realized upon exercise of stock options during fiscal 2004 and the number of shares of common stock subject to exercisable and unexercisable options held as of March 31, 2004 by each of the named executive officers.

Option Values at March 31, 2004

Name and Principal Position	Number of Shares Acquired on Exercise(#)	Value Realized(1)($)	Number of Securities Underlying Unexercised Options at 3/31/04		Value of Unexercised In-the-Money Options at 3/31/04	
			Exercisable(#)	Unexercisable(#)	Exercisable($)	Unexercisable($)
Lee-Lean Shu Chief Executive Officer and President	123,750		123,750	185,625		
David Chapman Vice President, Marketing	—	—	137,813	94,688		
Didier Lasserre Vice President, Sales	20,625		17,813	94,688		
Douglas Schirle Chief Financial Officer	—	—	97,500	90,000		
Robert Yau Vice President, Engineering	82,500		61,876	92,814		

(1) The value of unexercised options set forth above is calculated based on the deemed fair value of the underlying securities on March 31, 2004, minus the exercise price. The value realized upon exercise is based on the deemed fair value of the underlying securities on the date of exercise, minus the per share exercise price, multiplied by the number of shares acquired upon exercise.

Stock Plans

1997 Stock Plan

In January 1997, our Board of Directors adopted and our stockholders approved the 1997 Stock Plan, or the 1997 Plan. A total of 8,450,000 shares of common stock were reserved for issuance under this plan. As of March 31, 2004, there were outstanding under the 1997 Plan options to purchase 1,639,102 shares of common stock, at a weighted average exercise price of $1.42 per share. The 1997 Plan was terminated by the Board in October 2000.

Under the 1997 Plan, our employees and consultants, and those of any parent or subsidiary of ours, were eligible to receive nonstatutory stock options and stock purchase rights. Employees were also eligible to receive "incentive stock options," within the meaning of Section 422 of the Internal Revenue Code. This plan is administered by our Board of Directors. Subject to the provisions of the 1997 Plan, the Board determined in its discretion the persons to whom and the times at which options and stock purchase rights were granted, the sizes of such awards, and all of their terms and conditions. All option and restricted stock awards are evidenced by a written agreement between us and the optionee. The Board may amend or reprice any option. The Board has the authority to construe and interpret the terms of the 1997 Plan and awards granted under it.

The exercise price of nonstatutory stock options granted under the 1997 Plan must be at least 85% of the fair market value of a share of our common stock on the date of grant. The exercise price of incentive stock options cannot be less than 100% of the fair market value of a share of our common stock on the date of grant. In the case of any options granted to a person who owns stock possessing more than 10% of the total combined voting power of all classes of our stock or of any parent or subsidiary corporation, the exercise price cannot be less than 110% of such fair market value. The term of an option cannot exceed 10 years, or 5 years for incentive stock options granted to 10% stockholders. An option generally remains exercisable for the period stated in the applicable option agreement (not be less than 30 days) following the optionee's termination of service, except that if service terminates as a result of the optionee's death or disability, the option will remain exercisable for 12 months, but in any event not beyond the expiration of its term. Shares subject to options granted under the 1997 Plan generally vest, conditioned upon the participant's continued service, over a period of four years, although the Board may specify a different period for a particular grant.

Stock purchase rights generally are granted subject to a repurchase option in favor of us that lapses in accordance with a vesting schedule, which vesting is not less than 20% per year over five years. A stock purchase agreement will contain the particular terms of the award, which terms shall be determined by the Board.

In the event of a merger, the acquiring or successor corporation may assume or substitute substantially equivalent options and stock purchase rights for the outstanding options or rights granted under the 1997 Plan. If the acquiring or successor corporation elects not to assume or substitute for outstanding options and stock purchase rights granted under the 1997 Plan, shares subject to the options and rights will terminate.

2000 Stock Option Plan

In October 2000, our Board of Directors adopted and our stockholders subsequently approved the 2000 Stock Option Plan, or the 2000 Plan. A total of 3,000,000 shares of common stock have been reserved for issuance under this plan. As of March 31, 2004, there were outstanding under the 2000 Plan options to purchase 1,872,161 shares of common stock, at a weighted average exercise price of $3.69 per share. As of March 31, 2004, a total of 1,127,839 shares of common stock remained available for future option grants under the 2000 Plan. The 2000 Plan will terminate and no further shares will be issued thereunder upon stockholder approval of the 2004 Equity Incentive Plan described below.

Under the 2000 Plan, our employees, directors and consultants, and those of any parent or subsidiary of ours, are eligible to receive nonstatutory stock options. Employees are also eligible to receive "incentive stock options," within the meaning of Section 422 of the Internal Revenue Code. This plan is administered by our Board of Directors. Subject to the provisions of the 2000 Plan, the Board determines in its discretion the persons to whom and the times at which options are granted, the types and sizes of such options, and all of their terms and conditions. All options are evidenced by a written agreement between us and the optionee. The Board may amend, modify, cancel, extend or renew any option, grant a new option in substitution for any option, waive any restrictions or

conditions applicable to any option, and accelerate, continue, extend or defer the vesting of any option. The Board has the authority to construe and interpret the terms of the 2000 Plan and options granted under it.

The exercise price of nonstatutory stock options granted under the 2000 Plan must be at least 85% of the fair market value of a share of our common stock on the date of grant. The exercise price of incentive stock options cannot be less than 100% of the fair market value of a share of our common stock on the date of grant. In the case of any options granted to a person who owns stock possessing more than 10% of the total combined voting power of all classes of our stock or of any parent or subsidiary corporation, the exercise price cannot be less than 110% of such fair market value. The term of an option cannot exceed 10 years, or 5 years for incentive stock options granted to 10 percent

stockholders. Unless a longer period is provided by the Board, an option generally remains exercisable for three months following the optionee's termination of service, except that if service terminates as a result of the optionee's death or disability, the option generally remains exercisable for 12 months, but in any event not beyond the expiration of its term. Shares subject to options granted under the 2000 Plan generally vest, conditioned upon the participant's continued service, over a period of four years, with 25 percent vesting per year.

In the event of a change in control, the acquiring or successor corporation may assume or substitute substantially equivalent options for the outstanding options granted under the 2000 Plan. If the acquiring or successor corporation elects not to assume or substitute for outstanding options granted under the 2000 Plan, shares subject to the options will accelerate and become vested and exercisable and vested ten days prior to the date of the change in control in such amounts as determined by the Board and set forth in the participant's stock option agreement. On completion of a change in control all outstanding options will terminate to the extent not exercised or assumed by the acquiring or successor corporation.

2004 Equity Incentive Plan

Our 2004 Equity Incentive Plan, or the Equity Plan, was approved by our Board of Directors in April 2004 and will be effective upon its approval by our stockholders, currently anticipated in 2004.

Purpose. The Equity Plan is intended to make available incentives that will assist us to attract, retain and motivate employees whose contributions are essential to our success. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares and performance units.

Shares Subject to Equity Plan. A total of shares of our common stock are initially authorized and reserved for issuance under the Equity Plan. This reserve will automatically increase on April 1, 2006 and each subsequent anniversary through 2014, by an amount equal to the lesser of (a) five percent (5%) of the number of shares of stock issued and outstanding on the immediately preceding March 31, or (b) . The Board of Directors may elect to reduce, but not increase without also obtaining stockholder approval, the number of additional shares authorized in any year. Appropriate adjustments will be made in the number of authorized shares and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the Equity Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of stock appreciation rights or options exercised by tender of previously owned shares will be deducted from the shares available under the Equity Plan.

Administration. The administrator of our Equity Plan will generally be the compensation committee of our Board of Directors, although the Board may delegate to one or more of our officers authority, subject to limitations specified by the plan and the Board, to grant stock options to service providers who are neither officers nor directors of us. Subject to the provisions of the plan, the administrator determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of such awards, and all of their terms and conditions. All awards will be evidenced by a written agreement between us and the participant. The administrator may amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award. The administrator has the authority to construe and interpret the terms of the Equity Plan and awards granted under it.

Eligibility. Awards may be granted under the Equity Plan to our employees, including officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. While we grant incentive stock options only to employees, we may grant nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares and performance units to any eligible participant.

Stock Options. The administrator may grant nonstatutory stock options, "incentive stock options," within the meaning of Section 422 of the Internal Revenue Code, or any combination of these. The exercise price of each option may not be less than the fair market value of a share of our common stock on the date of grant. Any incentive stock option granted to a person who owns stock possessing more than 10% of the total combined voting power of all classes of our stock or of any parent or subsidiary corporation must have an exercise price equal to at least 110% of the fair market value of a share of our common stock on the date of grant and a term not exceeding five years. The term of all other options may not exceed 10 years. Options vest and become exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the administrator. Unless a longer period is provided by the administrator, an option generally will remain exercisable for three months following the participant's termination of service, except that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for twelve months, but in any event not beyond the expiration of its term.

Automatic Grant of Nonemployee Director Stock Options. Members of the Board of Directors who are not employees (a "Nonemployee Director") at the time of grant are eligible to participate in the nonemployee director stock option component of the Equity Plan. Upon first being elected or appointed as an Nonemployee Director, an individual will be granted an initial option for ("Initial Option") shares of our common stock on the day of his or her initial election or appointment. On the day of each annual meeting of stockholders, each Nonemployee Director who remains in office immediately following the meeting will be granted an annual option for ("Annual Option") shares of common stock; provided, however, that an Nonemployee Director granted an Initial Option on, or within a period of six months prior to, the date of an Annual Meeting shall not be granted an Annual Option.

Each option granted under the automatic grant program will be evidenced by a written agreement specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the provisions of the Equity Plan. The per-share exercise price under each option will be equal to the fair market value of a share of our common stock on the date of grant. Generally, the fair market value of the common stock is the closing price per share on the date of grant as reported on the Nasdaq National Market.

Initial Options will become exercisable in three equal annual installments beginning on the first anniversary of the date of grant, and Annual Options will become fully vested and exercisable on the day immediately preceding the date of the Annual Meeting next following the date of grant of the option, subject in each case to the Nonemployee Director's continuous service on our Board of Directors. Unless earlier terminated under the terms of the Equity Plan or the option agreement, each option will remain exercisable for 10 years after grant. An option generally will remain exercisable for six months following the Nonemployee Director's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for 12 months, but in any event the option must be exercised no later than its expiration date. All other terms and conditions of Nonemployee Director options are substantially equivalent to those described above for options generally.

Stock Appreciation Rights. A stock appreciation right gives a participant the right to receive the appreciation in the fair market value of our common stock between the date of grant of the award and the date of its exercise. We may pay the appreciation either in cash or in shares of our common

stock. We may make this payment in a lump sum, or we may defer payment in accordance with the terms of the participant's award agreement. The administrator may grant stock appreciation rights under the Equity Plan in tandem with a related stock option or as a freestanding award. A tandem stock appreciation right is exercisable only at the time and to the same extent that the related option is exercisable, and its exercise causes the related option to be canceled. Freestanding stock appreciation rights vest and become exercisable at the times and on the terms established by the administrator. The maximum term of any stock appreciation right granted under the Equity Plan is ten years.

Restricted Stock Awards. The administrator may grant restricted stock awards under the Equity Plan either in the form of a restricted stock purchase right, giving a participant an immediate right to purchase our common stock, or in the form of a restricted stock bonus, for which the participant furnishes consideration in the form of services to us. The administrator determines the purchase price payable under restricted stock purchase awards, which may be less than the then current fair market value of our common stock. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as the administrator specifies, and the shares acquired may not be transferred by the participant until vested. Unless otherwise determined by the administrator, a participant will forfeit any unvested shares upon voluntary or involuntary termination of service with us for any reason, including death or disability. Participants holding restricted stock will have the right to vote the shares and to receive any dividends paid, except that dividends or other distributions paid in shares will be subject to the same restrictions as the original award.

Restricted Stock Units. Restricted stock units granted under the Equity Plan represent a right to receive shares of our common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to us. The administrator may grant restricted stock unit awards subject to the attainment of performance goals similar to those described below in connection with performance shares and performance units, or may make the awards subject to vesting conditions similar to those applicable to restricted stock awards. The Equity Plan also authorizes the administrator to establish a deferred compensation award program under which selected participants may elect to receive fully vested stock units in lieu of compensation otherwise payable in cash or in lieu of cash or shares of stock otherwise issuable upon the exercise of stock options, stock appreciation rights, performance shares or performance units. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to receive dividend equivalents, which are rights to receive additional restricted stock units for a number of shares whose value is equal to any cash dividends we pay.

Performance Shares and Performance Units. The administrator may grant performance shares and performance units under the Equity Plan, which are awards that will result in a payment to a participant only if specified performance goals are achieved during a specified performance period. Performance share awards are denominated in shares of our common stock, while performance unit awards are denominated in dollars. In granting a performance share or unit award, the administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the Equity Plan, such as revenue, gross margin, net income, cash flow, return on capital or market share. To the extent earned, performance share and unit awards may be settled in cash, shares of our common stock, including restricted stock, or any combination of these

Payments may be made in a lump sum or on a deferred basis. If payments are to be made on a deferred basis, the administrator may provide for the payment of dividend equivalents or interest during the deferral period. Unless otherwise determined by the administrator, if a participant's service terminates due to death or disability prior to completion of the applicable performance period, the

final award value is determined at the end of the period on the basis of the performance goals attained during the entire period, but payment is prorated for the portion of the period during which the participant remained in service. Except as otherwise provided by the Equity Plan, if a participant's service terminates for any other reason, the participant's performance shares or units are forfeited.

Change in Control. In the event of a change in control, the acquiring or successor entity may assume all stock options and stock appreciation rights outstanding under the Equity Plan or substitute substantially equivalent options and stock appreciation rights. If the outstanding stock options and stock appreciation rights are not assumed by the acquiring or successor entity, all unexercised portions of such outstanding awards will terminate. The administrator may provide for the acceleration of vesting of any and all outstanding options and stock appreciation rights upon such terms and to such extent as it determines, except that the vesting of all non-employee director options will automatically accelerate in full ten days prior to the change in control. Alternatively, the administrator may provide for the cancellation of outstanding stock options or stock appreciation rights in exchange for a payment in cash, stock or other property having a value equal to the difference between the exercise price of the award and the consideration payable in the change in control transaction with respect to the number of vested shares subject to the award. The administrator may accelerate the vesting and settlement of any award upon a change in control.

Amendment and Termination. The Equity Plan will continue in effect until the tenth anniversary of its approval by the stockholders, unless earlier terminated by the administrator. The administrator may amend, suspend or terminate the Equity Plan at any time, provided that without stockholder approval, the plan cannot be amended to increase the number of shares authorized, change the class of persons eligible to receive incentive stock options or effect any other change that would require stockholder approval under any applicable law or listing rule. Amendment, suspension or termination of the Equity Plan may not adversely affect any outstanding award without the consent of the participant, unless such amendment, suspension or termination is necessary to comply with applicable law

2004 Employee Stock Purchase Plan

Our 2004 Employee Stock Purchase Plan, or the Purchase Plan, was adopted by our Board of Directors in April 2004. Subject to its approval by our stockholders, currently anticipated in 2004, the Purchase Plan will become effective upon the completion of this offering.

Purpose. The purpose of the Purchase Plan is to advance our interests and the interests of our stockholders by providing an incentive to attract, retain and reward eligible employees. It is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

Shares Subject to Purchase Plan. A total of shares of our common stock are initially authorized and reserved for sale under the Purchase Plan. In addition, the Purchase Plan provides for an automatic annual increase in the number of shares available for issuance under the plan on April 1 of each year beginning in 2006 and continuing through 2014 equal to the smallest of (1) one percent of our then outstanding shares of common stock on the immediately preceding March 1, (2) shares or (3) a number of shares as our Board may determine. Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are canceled will again become available for issuance under the Purchase Plan.

Administration. Our Board of Directors or a committee of the Board will serve as administrator of the Purchase Plan. The administrator has the authority to construe and interpret the

terms of the Purchase Plan and the purchase rights granted under it, to determine eligibility to participate, and to establish policies and procedures for administration of the plan.

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

Offering Periods. The Purchase Plan is implemented through a series of sequential offering periods, generally six months in duration beginning on the first trading day on or after May 1 and November 1 of each year, except that the first offering period will commence on the effective date of the Purchase Plan and will end on April 30, 2005. The administrator is authorized to establish additional or alternative sequential or overlapping offering periods and offering periods having a different duration or different starting or ending dates, provided that no offering period may have a duration exceeding 27 months.

Participation. Eligible employees who enroll in the Purchase Plan may elect to have up to 15% of their eligible compensation withheld and accumulated for the purchase of shares at the end of each offering period in which they participate. However, all eligible employees will be automatically enrolled in the Purchase Plan's initial offering period and may only purchase shares by delivering an exercise notice and payment of the applicable purchase price prior to the initial purchase date, provided that participants may elect to begin payroll deductions under the Purchase Plan after the effective date of a Form S-8 registration statement registering the shares reserved for issuance under the Purchase Plan. Participants may voluntarily withdraw from the Purchase

Plan at any time during an offering period and receive a refund, without interest, of all amount withheld from compensation not previously applied to purchase shares. Participation ends automatically upon termination of employment.

Purchase of Shares. Amounts accumulated for each participant are used to purchase shares of our common stock at the end of each offering period at a price generally equal to 85% of the lower of the fair market value of our common stock at the beginning of an offering period or at the end of the offering period. Prior to commencement of an offering period, the administrator is authorized to reduce, but not increase, this purchase price discount for that offering period, or, under circumstances described in the Purchase Plan, during that offering period. The maximum number of shares a participant may purchase in any six-month offering period is the lesser of [ ] shares or a number of shares determined by dividing $12,500 by the fair market value of a share of our common stock at the beginning of the offering period. Prior to the beginning of any offering period, the administrator may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the administrator will make a pro rata allocation of the available shares. Any amounts withheld from participants' compensation in excess of the amounts used to purchase shares will be refunded, without interest.

Change in Control. In the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under the Purchase Plan. If the acquiring or successor

corporation does not assume such rights and obligations, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control.

Amendment and Termination. The Purchase Plan will continue in effect until terminated by the administrator. The administrator may amend, suspend or terminate the Purchase Plan at any time, provided that unless stockholder approval is obtained within 12 months of such amendment, the plan cannot be amended

to increase the number of shares authorized or change the definition of the corporations that may be designated by the administrator for participation in the plan. Amendment, suspension or termination of the Purchase Plan may not adversely affect any purchase rights previously granted without the consent of the participant, unless such amendment, suspension or termination is necessary to qualify the plan under Section 423 of the Internal Revenue Code or to comply with applicable law, or is effected after a determination by the administrator that continuation of the plan or an offering period would result in unfavorable accounting consequences to us as a result of a change, after the plan's effective date, in the generally accepted accounting principles applicable to the Purchase Plan.

Simplified Employee Pension Plan

We have adopted a Simplified Employee Pension Plan which is intended to satisfy the requirements under Section 408 of the Internal Revenue Code of 1986, as amended. Under the terms of this plan, we may, but are not required, to make discretionary contributions to each participant's individual retirement account. Contributions to the plan are generally deductible by us when made, and are not taxable to participants until distributed. Pursuant to the plan, participants may direct the trustees to invest their individual retirement accounts.

Indemnification of Directors and Executive Officers and Limitation of Liability

As permitted by the Delaware General Corporation Law, upon our reincorporation in Delaware, we will adopt a provision in our certificate of incorporation which provides that our directors shall not be personally liable for monetary damages to us or our stockholders for a breach of fiduciary duty as a director, except liability for:

- a breach of the director's duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- an act related to an unlawful stock repurchase or redemptions or payments of dividends; or
- transactions from which the director derived an improper personal benefit.

These limitations of liability do not apply to liabilities arising under the federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission. Our certificate of incorporation will also authorize us to indemnify our officers, directors and other agents to the fullest extent permitted under Delaware law.

As permitted by the Delaware General Corporation Law, our bylaws will provide that:

- we are required to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions where indemnification is not permitted by applicable law;
- we are required to advance expenses, as incurred, to our directors and officers in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and
- the rights provided in the bylaws are not exclusive.

If Delaware law is amended to authorize corporate action further eliminating or limiting the personal liability of a director, then the liability of our directors will be eliminated or limited to the fullest extent permitted by Delaware law, as so amended. Our amended and restated certificate of incorporation will not eliminate a director's duty of care and, in appropriate circumstances, equitable remedies such as injunctive or other forms of non-monetary relief remain available under Delaware law. Our amended and restated certificate of incorporation will not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

We intend to enter into separate indemnification agreements with each of our directors and officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements may require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements also may require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance if available on reasonable terms. We believe that these agreements and these provisions in our bylaws and certificate of incorporation are necessary to attract and retain qualified persons as officers and directors. We also intend to maintain directors' and officers' liability insurance.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification by us is sought. In addition, we are not aware of any threatened litigation or proceeding which may result in a claim for indemnification.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Distribution Agreement with HolyStone Enterprises Co., Ltd.

Jing Rong Tang, one of our directors, is the chief executive officer of HolyStone Enterprises Co., Ltd., which is a holder of more than 5% of our stock. In July 1997, we entered into a distribution agreement with HolyStone. The agreement is renewable without notice and either party may terminate the agreement upon 30 days written notice. Under the terms of the agreement, HolyStone serves as an independent contractor and has a non-exclusive right to distribute our

products in Taiwan. Under the terms of the agreement, HolyStone is obligated to pay us for our products 30 days after the date of invoice from us. The agreement provides that HolyStone may not distribute products that are competitive with our products, and we have the right to determine which products are competitive. We maintain the right to sell our products in Taiwan and are not obligated to accept HolyStone's orders. HolyStone has the right to use our trademarks and tradenames in connection with sales and advertising of our products.

Our sales to HolyStone were valued at approximately $678,000 in the nine months ended December 31, 2003, $324,000 in fiscal 2003, $270,000 in fiscal 2002 and $2.3 million in fiscal 2001.

Other Transactions

For information regarding the grant of stock options to directors and executive officers, please see "Management—Director Compensation" and "Management—Executive Compensation."

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information known to us regarding the beneficial ownership of our common stock as of March 31, 2004, and as adjusted to reflect the sale of the common stock offered hereby, by:

- each stockholder who is known by us to beneficially own more than 5% of our common stock;
- each of our named executive officers;
- each of our directors;
- all of our executive officers and directors as a group; and
- each of the selling stockholders.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, or SEC. Unless otherwise indicated in the footnotes to the table and subject to the applicable community property laws, based on information provided by the person named in the table, these persons have sole voting and investment power with respect to all shares of the common stock shown as beneficially owned by them. The number of shares of common stock used to calculate the percentage ownership of each listed person includes the shares of common stock underlying options held by such person that are exercisable within 60 days following March 31, 2004. The percentage of beneficial ownership is based, before the offering, on 21,189,718 shares of common stock outstanding, as of March 31, 2004, assuming the automatic conversion of all of our outstanding preferred stock, which will occur upon the completion of this offering. The percentage ownership after the offering is based on shares of our common stock outstanding after the offering, assuming no exercise of the underwriters' overallotment option.

The address for those individuals and entities not otherwise indicated is 2360 Owen Street, Santa Clara, California 95054.

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After the Offering	
Beneficial Owner	Number	Percent	Shares Being Offered	Number	Percent
Principal and Selling Stockholders:					
Ching-Ho Cheng	2,042,106	9.6%			
Ameroc. Corporation[1]	1,785,000	8.4			
HolyStone Enterprises Co. Ltd.[1][2]	1,400,000	6.6			
Hsin-Yi Yang	1,045,000	4.9			
Koowin Co., Ltd.[1]	775,000	3.7			
WestTech Electronics[1]	595,000	2.8			
Monet Capital Fund[3]	563,334	2.7			
Directors and Named Executive Officers:					
Jing Rong Tang[4]	2,410,000	11.3	—		
Lee-Lean Shu[5]	1,986,082	9.3	—		
Hsiang-Wen Chen[6]	1,681,042	7.9	—		
Robert Yau[7]	1,207,709	5.7	—		
Didier Lasserre[8]	203,438	*	—		

David Chapman[9]	137,813	*	—		
Douglas Schirle[10]	122,500	*	—		
Ruey L. Lu	—	—	—		
All executive officers and directors as a group (8 persons)	7,748,584	35.7	—		

* Less than 1.0%

(1) The mailing address for this entity is 1FL, NO 62, Sec 2, Huang Shan Road., Taipei, Taiwan R.O.C.

(2) Jing Rong Tang, one of our directors, is Chief Executive Officer of HolyStone Enterprises Co., Ltd. Mr. Tang disclaims beneficial ownership of the shares held by HolyStone Enterprises Co, Ltd. except to his pecuniary interest therein.

(3) Includes 200,000 shares held by Monet Capital Fund S, LP, and 363,334 shares held by Monet Capital Fund 1, LP. Hsiang-Wen Chen, one of our directors, is Managing Director of Monet Capital, LLC. Dr. Chen disclaims beneficial ownership of the shares held by these funds except to the extent of his pecuniary interest in these funds. The address of Monet Capital Fund is 1762 Technology Dr., Suite 128, San Jose, CA 95110.

(4) Includes 1,400,000 shares held by HolyStone Enterprises Co., Ltd., of which Jing Rong Tang is Chief Executive Officer. Mr. Tang disclaims beneficial ownership of the shares held by HolyStone Enterprises Co., Ltd. except to his pecuniary interest therein.

(5) Includes 123,750 shares issuable upon exercise of options that are exercisable within 60 days following March 31, 2004. Includes 13,600 shares held by Mr. Shu's children. Also includes 102,800 shares held by Mr. Shu's spouse, and 63,515 on exercise of options held by his spouse that are exercisable within 60 days of March 31, 2004.

(6) Includes 200,000 shares held by Monet Capital Fund S, LP, 363,334 shares held by Monet Capital Fund 1, LP, and 363,333 shares held by TEFA Capital, Inc. Dr. Chen is managing director of Monet Capital, LLC and has an equity interest in TEFA Capital, Inc. Dr. Chen disclaims beneficial ownership of the shares held by these funds except to the extent of his pecuniary interest in these funds.

(7) Includes 61,876 shares issuable upon exercise of options that are exercisable within 60 days following March 31, 2004.

(8) Includes 17,813 shares issuable upon exercise of options that are exercisable within 60 days following March 31, 2004.

(9) Includes 137,813 shares issuable upon exercise of options that are exercisable within 60 days following March 31, 2004.

(10) Includes 97,500 shares issuable upon exercise of options that are exercisable within 60 days following March 31, 2004.

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, our authorized capital stock will consist of 150,000,000 shares of common stock, $.001 par value per share, and 5,000,000 shares of preferred stock, $.001 par value per share.

The following is a summary of the material terms of our common stock and preferred stock. Please see our certificate of incorporation, filed as an exhibit to the registration statement of which this prospectus is a part, for more detailed information.

Common Stock

As of March 31, 2004, there were 21,189,718 shares of our common stock outstanding held of record by approximately 129 stockholders, assuming the conversion of our outstanding redeemable convertible preferred stock into common stock. The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Upon the completion of this offering, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Subject to preferences applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably any dividends declared by the Board. In the event of a liquidation, dissolution or winding up of the company, holders of common stock are entitled to share ratably in the assets remaining after payment of liabilities and the liquidation preferences of any outstanding preferred stock. Holders of our common stock have no preemptive, conversion or redemption rights. Each outstanding share of common stock is, and all shares of common stock to be outstanding upon the completion of this offering will be, fully paid and non-assessable.

Preferred Stock

Immediately prior to the completion of this offering, all outstanding shares of our outstanding redeemable preferred stock will be converted into an aggregate of 15,120,168 shares of common stock provided that the aggregate offering price of the shares offered in this offering equals or exceeds $10,000,000 and the price per share in this offering equals or exceeds $8.00 per share before deduction of the underwriters' discounts and commissions. Following the completion of the offering, 5,000,000 shares of undesignated preferred stock will be authorized for issuance. Our Board of Directors has the authority, without further action by its stockholders, to issue preferred stock in one or more series. In addition, the Board may fix the rights, preferences and privileges of any preferred stock it determines to issue. Any or all of these rights may be superior to the rights of the common stock. Preferred stock could thus be issued quickly with terms calculated to delay or prevent a change in control of our company or to make removal of management more difficult. Additionally, the issuance of preferred stock may decrease the market price of our common stock. At present, we have no plans to issue any shares of preferred stock.

Registration Rights

None of our stockholders has any registration rights.

Antitakeover Provisions

Delaware Law

We will be subject to Section 203 of the Delaware General Corporation Law regulating corporate takeovers, which prohibits a Delaware corporation from engaging in any business combination with an "interested stockholder," unless:

- prior to the date of the transaction, the Board of Directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the Board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least $66^2/_3\%$ of the outstanding voting stock which is not owned by the interested stockholder.

Except as otherwise specified in Section 203, an "interested stockholder" is defined to include:

- any person that is the owner of 15% or more of the outstanding voting securities of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the date of determination and
- the affiliates and associates of any such person.

Certificate of Incorporation and Bylaws

Following the completion of this offering, our certificate of incorporation and bylaws will provide that:

- no action can be taken by stockholders except at an annual or special meeting of the stockholders called in accordance with our bylaws, and stockholders may not act by written consent;
- the approval of holders of two-thirds of the shares entitled to vote at an election of directors will be required to adopt, amend or repeal our bylaws or amend or repeal the provisions of our certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action;
- our Board of Directors will be expressly authorized to make, alter or repeal our bylaws;
- stockholders may not call special meetings of the stockholders or fill vacancies on the Board of Directors;
- our Board of Directors will be divided into three classes of service with staggered three-year terms. This means that only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms;

- our Board of Directors will be authorized to issue preferred stock without stockholder approval;
- directors may only be removed for cause by the holders of two-thirds of the shares entitled to vote at an election of directors; and
- we will indemnify officers and directors against losses that may incur investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

These provisions may make it more difficult for stockholders to take specific corporate actions and could have the effect of delaying or preventing a change in control of our company.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is EquiServe, LP.

Nasdaq National Market Listing

We have applied to have our common stock approved for listing on the Nasdaq National Market under the trading symbol "GSIT."

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has not been a public market for our common stock. Future sales of substantial amounts of our common stock in the public market, or the possibility of these sales, could adversely affect the trading price of our common stock.

Upon completion of this offering, we will have outstanding shares of common stock, assuming no exercise of the underwriters' overallotment option and no exercise of outstanding options to purchase common stock after March 31, 2004. Of these shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as defined in Rule 144 under the Securities Act, which would be subject to the limitations and restrictions described below.

The remaining shares of common stock outstanding upon completion of this offering will be "restricted securities" as defined in Rule 144. These securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below. Sales of these restricted securities in the public market, or the availability of these shares for sale, could adversely affect the trading price of our common stock.

Holders of approximately of these restricted securities, including all of our officers and directors and the entities affiliated with them, have entered into lock-up agreements providing that, subject to limited exceptions, they will not sell, directly or indirectly, any common stock without the prior consent of Merrill Lynch & Co. for a period of 180 days from the date of this prospectus.

The number of restricted securities that will be available for sale in the public market, subject in some cases to the volume limitations and other restrictions of Rule 144, will be as follows:

- approximately shares will be eligible for immediate sale as of the date of this prospectus; and
- approximately additional shares will be eligible for sale beginning 180 days after the date of this prospectus upon expiration of the lock-up agreements described above.

Shares issued upon exercise of options granted by us prior to the date of this prospectus will be available for sale in the public market under Rule 701 of the Securities Act. Rule 701 permits resales of these shares in reliance upon Rule 144 but without compliance with various restrictions, including the holding period requirement, imposed under Rule 144. In general, under Rule 144, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period a number of shares not to exceed the greater of (1) one percent of the then outstanding shares of common stock or (2) the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a Form 144 with respect to the sale. Sales under Rule 144 are also subject to manner of sale and notice requirements, as well as to the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been an affiliate at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

As of March 31, 2004, options to purchase an aggregate of 3,511,263 shares of common stock were outstanding under our stock option plans. We intend to file registration statements on Form S-8 under the Securities Act approximately 90 days after the date of this prospectus to register an aggregate of shares of common stock issued or reserved for issuance under its stock option plans and employee stock purchase plan. Shares of common stock issued under the foregoing plans, after the filing of related registration statements, will be freely tradable in the public market, subject in the case of the holders to the Rule 144 limitations applicable to our affiliates, lock-up agreements with the underwriters and vesting restrictions imposed by us.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Needham & Company, Inc., Friedman, Billings, Ramsey & Co., Inc. and C.E. Unterberg, Towbin LLC are acting as representatives of the underwriters named below. Subject to the terms and conditions set forth in a purchase agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us and the selling stockholders, the number of shares listed opposite its name below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Needham & Company, Inc.	
Friedman, Billings, Ramsey & Co., Inc.	
C.E. Unterberg, Towbin LLC	
Total	

Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's

certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that they propose initially to offer the shares to the public at the initial public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to GSI Technology, Inc.	$	$	$
Proceeds, before expenses, to Selling Stockholders	$	$	$

The total expenses of the offering, not including the underwriting discount, are estimated at $ million and are payable by us.

Overallotment Option

We have granted an option to the underwriters to purchase up to additional shares at the public offering price, less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

We and the selling stockholders, our executive officers and directors and substantially all of our other existing security holders have agreed not to sell or transfer any common stock or securities convertible into, exchangeable for exercisable for, or repayable with common stock, for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other persons have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- otherwise dispose of or transfer any common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of common stock or other securities, in cash or otherwise.

Quotation on the Nasdaq National Market

We have applied to list our common stock for quotation on the Nasdaq National Market under the symbol "GSIT."

Before this offering, there has been no public market for our common stock. The public offering price will be determined through negotiations among us, the selling stockholders and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our past and present operations, and the prospects for, and timing of, our future revenues;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and

- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price. The underwriters do not expect to sell more than five percent of the shares being offered in this offering to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, Securities and Exchange Commission rules may limit the underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

The underwriters may purchase and sell our common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the issuer in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common shares made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the representatives make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Offer, Sale and Distribution of Shares

Merrill Lynch will be facilitating Internet distribution for this offering to certain of its Internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the Internet Web site maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch Web site is not part of this prospectus.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Gray Cary Ware & Freidenrich LLP, Palo Alto, California. Certain legal matters relating to the offering will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

EXPERTS

The financial statements as of March 31, 2003 and 2002 and for each of the three years in the period ended March 31, 2003 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND ADDITIONAL INFORMATION ABOUT GSI TECHNOLOGY

We have filed with the SEC a registration statement on Form S-1, including the exhibits and schedules thereto, under the Securities Act with respect to the shares to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information about us and the shares to be sold in this offering, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to, are not necessarily complete, and in each instance please refer to the copy of the contract, agreement or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by this reference.

You may read and copy all or any portion of the registration statement or any reports, statements or other information we file with the SEC at the SEC's Public Reference Room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings, including the registration statement will also be available to you on the SEC's Web site. The address of this site is *http://www.sec.gov*.

GSI TECHNOLOGY, INC.
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Report of Independent Auditors

To the Board of Directors and Stockholders
of GSI Technology, Inc. (formerly Giga Semiconductor, Inc.)

The reincorporation in Delaware described in Note 13 to the financial statements has not been consummated at April 12, 2004. When the reincorporation in Delaware has been consummated, we will be in a position to furnish the following report:

> "In our opinion, the accompanying balance sheet and the related statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of GSI Technology, Inc. (formerly Giga Semiconductor, Inc.) at March 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.
>
> San Jose, California
> May 23, 2003, except as to Note 13, which is as of , 2004"

/s/ PricewaterhouseCoopers LLP

San Jose, California
April 12, 2004

GSI TECHNOLOGY, INC.

BALANCE SHEETS

(In thousands, except share amounts)

	March 31,	
	2002	2003
ASSETS		
Cash and cash equivalents	$ 9,334	$ 6,150
Restricted cash	1,143	1,143
Accounts receivable, net	2,388	2,541
Inventories	12,765	7,581
Prepaid expenses and other current assets	2,240	3,379
Deferred tax assets	2,490	—
Total current assets	30,360	20,794

Property and equipment, net	2,067	2,939
Other assets	77	70
Total assets	$ 32,504	$ 23,803
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,608	$ 957
Accrued expenses and other liabilities	1,073	700
Deferred revenue	1,783	1,443
Total current liabilities	5,464	3,100
Commitments and contingencies (Note 6)		
Redeemable convertible preferred stock		
Authorized: 20,000,000 shares		
Issued and outstanding: 15,120,168 shares		
Liquidation preference: $9,007	9,007	9,007
Stockholders' equity:		
Preferred stock: $0.001 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: none	—	—
Common Stock: $0.001 par value		
Authorized: 30,000,000 shares		
Issued and outstanding: 4,995,875 and 5,630,125 shares	5	6
Additional paid-in capital	5,845	5,830
Deferred stock-based compensation	(1,646)	(531)
Retained earnings	13,829	6,391
Total stockholders' equity	18,033	11,696
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 32,504	$ 23,803

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

GSI TECHNOLOGY, INC.

STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended March 31,		
	2001	**2002**	**2003**
Net revenues	$ 73,653	$ 24,826	$ 20,981
Cost of revenues	42,424	19,133	18,477
Gross profit	31,229	5,693	2,504
Operating expenses:			
Research and development	5,097	4,848	6,206
Selling, general and administrative	7,377	4,883	4,500
Total operating expenses	12,474	9,731	10,706
Income (loss) from operations	18,755	(4,038)	(8,202)
Interest income, net	596	685	139
Other income (expense), net	(36)	94	5
Income (loss) before income taxes	19,315	(3,259)	(8,058)
Provision for (benefit from) income taxes	7,987	(1,190)	(620)
Net income (loss)	$ 11,328	$ (2,069)	$ (7,438)
Basic net income (loss) per share	$ 2.73	$ (0.44)	$ (1.39)

Diluted net income (loss) per share	$ 0.53	$ (0.44)	$ (1.39)
Weighted-average number of shares used in basic net income (loss) per share calculation	4,157	4,713	5,334
Weighted-average number of shares used in diluted net income (loss) per share calculation	21,452	4,713	5,334
Pro forma basic and diluted net loss per share			$ (0.36)
Weighted-average number of shares used in pro forma basic and diluted net loss per share calculation			20,454

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

GSI TECHNOLOGY, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Deferred Stock-Based Compensation	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, March 31, 2000	4,072,125	$ 4	$ 5,095	$ (3,803)	$ 4,570	$ 5,866
Issuance of Common Stock upon exercise of stock options	631,950	1	43	—	—	44
Deferred stock-based compensation	—	—	678	(678)	—	—
Amortization of deferred stock-based compensation	—	—	—	1,445	—	1,445
Common Stock repurchased	(120,000)	—	(20)	—	—	(20)
Net income and comprehensive income	—	—	—	—	11,328	11,328
Balance, March 31, 2001	4,584,075	5	5,796	(3,036)	15,898	18,663
Issuance of Common Stock upon exercise of stock options	411,800	—	55	—	—	55
Deferred stock-based compensation	—	—	(6)	6	—	—
Amortization of deferred stock-based compensation	—	—	—	1,384	—	1,384
Net loss and comprehensive loss	—	—	—	—	(2,069)	(2,069)
Balance, March 31, 2002	4,995,875	5	5,845	(1,646)	13,829	18,033
Issuance of Common Stock upon exercise of stock options	626,250	1	75	—	—	76
Issuance of Common Stock to consultant for services	8,000	—	30	—	—	30
Deferred stock-based compensation	—	—	(120)	120	—	—
Amortization of deferred stock-based compensation	—	—	—	995	—	995
Net loss and comprehensive loss	—	—	—	—	(7,438)	(7,438)
Balance, March 31, 2003	5,630,125	$ 6	$ 5,830	$ (531)	$ 6,391	$ 11,696

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

GSI TECHNOLOGY, INC.

STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended March 31,

	2001	2002	2003
Cash flows from operating activities:			
Net income (loss)	$ 11,328	$ (2,069)	$ (7,438)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Provision for doubtful accounts and returns	48	114	(241)
Provision for excess and obsolete inventories	434	3,895	—
Depreciation and amortization	569	835	1,080
Amortization of deferred stock-based compensation	1,445	1,384	995
Compensation expense for common stock issued to consultant for services	—	—	30
Deferred income taxes	(904)	(440)	2,490
Changes in assets and liabilities:			
Accounts receivable	224	6,166	88
Inventory	(16,074)	6,923	5,184
Prepaid expenses and other assets	(1,476)	162	(1,132)
Accounts payable	10,707	(11,648)	(1,651)
Accrued expenses and other liabilities	221	(2,850)	(373)
Deferred revenue	2,302	(2,283)	(340)
Net cash (used in) provided by operating activities	8,824	189	(1,308)
Cash flows from investing activities:			
Decrease (increase) in restricted cash	(153)	10	—
Purchases of property and equipment	(2,118)	(398)	(1,952)
Net cash used in investing activities	(2,271)	(388)	(1,952)
Cash flows from financing activities:			
Proceeds from issuance of Common Stock	44	55	76
Proceeds from issuance of Redeemable Convertible Preferred Stock	456	—	—
Common Stock repurchased	(20)	—	—
Net cash provided by financing activities	480	55	76
Net increase (decrease) in cash and cash equivalents	7,033	(144)	(3,184)
Cash and cash equivalents at beginning of the year	2,445	9,478	9,334
Cash and cash equivalents at end of the year	$ 9,478	$ 9,334	$ 6,150
Supplemental cash flow information:			
Cash paid for income taxes	$ 8,985	$ 1,719	$ 67
Cash paid for interest	$ 17	$ 20	$ 8

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

GSI TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

GSI Technology, Inc., formerly Giga Semiconductor, Inc., (the "Company") was incorporated in California in March 1995. The Company designs, develops and markets high performance SRAM, or static random access memory, integrated circuits for the networking and telecommunications infrastructure markets. Within the SRAM market, the Company focuses on higher speed integrated circuits that require less than 5 nanoseconds to retrieve data from memory. The Company provides a broad range of SRAM solutions that target high performance equipment, such as routers, switches, wireless local area network infrastructure equipment, wireless base stations and networking access equipment.

The level of operations of the Company is dependent on the supply of wafers it is able to procure from foundries. The testing, assembly and packaging activity is carried out by subcontractors primarily based in Taiwan.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

Risk and uncertainties

The Company buys all of its wafers, an integral component of its products, from outside suppliers and is dependent on third party subcontractors to assemble and test products. During the years ended March 31, 2001, 2002 and 2003, all of the Company's wafers were supplied by two foundries. If these suppliers fail to satisfy the Company's requirements on a timely basis at competitive prices the Company could suffer manufacturing delays, a possible loss of revenues, or higher cost of revenues any of which could severely adversely affect operating results.

A majority of the Company's revenues come from sales to customers in the networking and telecommunication industries. A decline in demand in these industries could have a material adverse affect on the Company's operating results and financial condition.

Because much of the manufacturing and testing of the Company's products is conducted in Taiwan, its business performance may be affected by changes in Taiwan's political, social and economic environment. For example, any political instability resulting from the relationship among the United States, Taiwan and the People's Republic of China could damage the Company's business. Moreover, the role of the Taiwanese government in the Taiwanese economy is significant. Taiwanese policies toward economic liberalization, and laws and policies affecting technology companies, foreign investment, currency exchange rates, taxes and other matters could change, resulting in greater restrictions on the Company's and its suppliers' ability to do business and operate facilities in Taiwan. If any of these risks were to occur, the Company's business could be harmed.

The Company's corporate headquarters are located in California near major earthquake faults. In addition, some of the Company's suppliers are located near fault lines. In the event of a major earthquake or other natural disaster near the Company's headquarters or its suppliers the Company's business could be harmed.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. Under these criteria, revenue from the sale of products is recognized upon shipment according to the Company's shipping terms, net of accruals for estimated sales returns and allowances based on historical experience. Sales to distributors are made under agreements allowing for returns or credits under certain circumstances. The Company defers recognition of revenue on sales to distributors until products are resold by the distributor.

Cash and cash equivalents

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

Restricted cash

At March 31, 2002 and 2003, restricted cash consists of certificates of deposit totaling $1,000,000 held with a financial institution as collateral for the Company's line of credit, and $143,000 held with a Taiwan financial institution as security for any possible default of payment by the Company to its major supplier of wafers.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company places its cash primarily in checking, certificate of deposit, and money market accounts with reputable financial institutions. The Company's accounts receivable are derived primarily from revenue earned from customers located in the U.S. and Asia. The Company performs ongoing credit evaluation of its customer's financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for doubtful accounts receivable based upon the expected collectibility of accounts receivable. The Company's write offs of accounts receivable were $21,000, $31,000, and $149,000 for the years ended March 31, 2001, 2002 and 2003, respectively.

In fiscal 2001, 2002 and 2003, sales to the Company's top 10 customers accounted for approximately 80%, 74% and 81% of net revenues, respectively. At March 31, 2001, two customers accounted for 10% and 31% of the total accounts receivable, and for the year then ended, two customers accounted for 13% and 25% of net revenues. At March 31, 2002, three customers accounted for 20%, 14% and 11% of accounts receivable, and for the year then ended, two customers accounted for 19% and 12% of net revenues. At March 31, 2003, three customers accounted for 17%, 15%, and 10% of accounts receivable, and for the year then ended, four customers accounted for 21%, 13%, 10%, and 10% of net revenues.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted average basis. Inventory reserves are established when conditions indicate that the selling price could be less than cost due to physical deterioration, obsolescence, changes in price levels, or other causes. Reserves are established for excess inventory generally based on inventory levels in excess of 12 months of demand, as judged by management, for each specific product.

Property and equipment, net

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

Software	3 years
Hardware and equipment	5 years
Furniture and fixtures	7 years

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

Long-lived assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the assets is less than the net book value of the asset. The amount of the impairment loss, if any, will generally be measured as the difference between net book value of the assets and their estimated fair values. There have been no recoverability issues for the years ended March 31, 2001, 2002 and 2003.

Income taxes

The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Advertising expense

Advertising costs are charged to expense in the period incurred. Advertising expense was $18,000, $79,000 and $70,000 for the years ended March 31, 2001, 2002 and 2003, respectively.

Accounting for stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company's shares and the exercise price of the option.

Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for the awards under a method prescribed by SFAS 123 and amended by SFAS 148, the Company's net income would have been decreased, or its net loss increased, to the pro forma amounts indicated below (in thousands, except per share amounts):

		Year Ended March 31,		
		2001	2002	2003
Net income (loss), as reported		$ 11,328	$ (2,069)	$ (7,438)
Add:	Stock-based employee compensation expense included in reported net loss, net of related tax effects	1,445	1,384	995
Deduct:	Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,931)	(2,381)	(2,113)
Pro forma net income (loss)		$ 10,842	$ (3,066)	$ (8,556)
Basic net income (loss) per share, as reported		$ 2.73	$ (0.44)	$ (1.39)
Diluted net income (loss) per share, as reported		$ 0.53	$ (0.44)	$ (1.39)
Pro forma basic net income (loss) per share		$ 2.61	$ (0.65)	$ (1.60)

Pro forma diluted net income (loss) per share	$ 0.51	$ (0.65)	$ (1.60)

For the purposes of the pro forma disclosures, the Company calculated the fair value of each option grant using the Black-Scholes option pricing model and the following weighted average assumptions:

	Year Ended March 31,		
	2001	2002	2003
Risk-free interest rate	6.16%	4.56%	3.82%
Expected life	5.13 years	5.02 years	4.45 years
Volatility	75%	80%	85%
Dividend yield	0%	0%	0%

The weighted average fair value of options granted during the year ended March 31, 2001, 2002 and 2003 was $2.96, $3.63 and $2.70, respectively.

Net income (loss) per share

Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted income per share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, redeemable convertible preferred stock and unvested shares subject to repurchase.

The following table sets forth the computation of basic and diluted net income (loss) attributable to common stockholders per share (in thousands, except per share amounts).

	Year Ended March 31,		
	2001	2002	2003
Numerator:			
Net income (loss)	$ 11,328	$ (2,069)	$ (7,438)
Denominator:			
Weighted-average common shares outstanding	4,609	4,953	5,454
Less: Unvested common shares subject to repurchase	(452)	(240)	(120)
Total shares, basic	4,157	4,713	5,334
Effect of dilutive securities:			
Add: Redeemable convertible preferred stock, using if-converted method	15,089	—	—
Stock options, using treasury stock method	1,754	—	—
Unvested shares subject to repurchase	452	—	—
Total shares, diluted	21,452	4,713	5,334
Basic net income (loss) per share	$ 2.73	$ (0.44)	$ (1.39)
Diluted net income (loss) per share	$ 0.53	$ (0.44)	$ (1.39)

For the years ended March 31, 2002 and 2003, common stock equivalents of approximately 17.3 million and 16.7 million shares, respectively, related to outstanding redeemable convertible preferred stock, stock options and unvested shares subject to repurchase, were excluded from the computation of diluted loss per share as a result of their antidilutive effect. While these common stock equivalents are currently antidilutive, they could be dilutive in the future. No shares were antidilutive for the year ended March 31, 2001.

Pro forma net (loss) per share

Upon the closing of the planned initial public offering, each of the outstanding shares of redeemable convertible preferred stock will convert into shares of common stock. The weighted average number of shares used in the pro forma basic and diluted net loss per share calculation for the year ended March 31,

2003 was computed as 5,454,000 weighted average common shares outstanding less 120,000 unvested common shares subject to repurchase plus 15,120,000 shares of common stock equivalents from conversion of the preferred stock.

Comprehensive income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income is defined to include all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the years ended March 31, 2001, 2002 and 2003, there were no components of other comprehensive income.

Recent accounting pronouncements

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes that the adoption of this standard will not have a material impact on its financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN 45 are effective for annual financial statements ending after December 15, 2002. Significant guarantees that the Company has entered into are disclosed in Note 6 Commitments and Contingencies.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure" ("SFAS 148"). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ended after December 15, 2002. The Company has adopted the disclosure requirements of SFAS 148 as of March 31, 2003.

Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), was issued in January 2003. FIN 46 requires that if an entity is the primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity should be included in the financial statements of the entity. The provisions of FIN 46 are effective immediately for all arrangements entered into after January 31, 2003. The Company has not invested in any variable interest entities prior to or after January 31, 2003 and as such, there is no impact to the financial statements expected.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." The Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and further requires that an issuer classify as a liability (or an asset in some circumstances)

financial instruments that fall within its scope because that financial instrument embodies an obligation of the issuer. Many such instruments were previously classified as equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. For mandatorily redeemable financial instruments of a nonpublic entity, this Statement is effective for existing or new contracts for fiscal periods beginning after December 15, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance of the date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company has not completed the process of evaluating the impact on its financial statements that will result from adopting this standard.

NOTE 2—BALANCE SHEET DETAIL (In thousands)

	March 31,	
	2002	2003
Accounts receivable, net:		
Accounts receivable	$ 3,065	$ 2,977
Less: Allowance for doubtful accounts	(240)	(209)
Reserve for sales returns and other allowances	(437)	(227)
	$ 2,388	$ 2,541
Inventories:		
Finished goods	$ 895	$ 803
Work-in-progress	10,808	5,901
Inventory at distributors	1,062	877

	$ 12,765	$ 7,581
Prepaid expenses and other current assets:		
Income tax receivable	$ 52	$ 2,189
Prepaid tooling and masks	901	456
Prepaid anti-dumping duty	792	—
Receivable from subcontractor	—	394
Other prepaid expenses	495	340
	$ 2,240	$ 3,379

Property and equipment, net:		
Computer and other equipment	$ 2,342	$ 4,257
Software	1,171	1,194
Furniture and fixtures	334	336
Leasehold improvements	153	157
	4,000	5,944
Less: Accumulated depreciation and amortization	(1,933)	(3,005)
	$ 2,067	$ 2,939

	March 31,	
	2002	2003
Accrued expenses and other liabilities:		
Accrued compensation	$ 173	$ 136
Accrued professional fees	232	201
Accrued commissions	248	163
Accrued royalties	200	27
Other accrued expenses	220	173
	$ 1,073	$ 700

NOTE 3—RELATED PARTY TRANSACTIONS

Together, HolyStone Enterprises Co. Ltd., its subsidiaries, and its Chief Executive Officer, who is also a director of the Company, hold approximately 37% of the outstanding shares of Series A Redeemable Convertible Preferred Stock, 38% of the outstanding shares of Series B Redeemable Convertible Preferred Stock and 18% of the outstanding shares of Series D Redeemable Convertible Preferred Stock as of March 31, 2002 and 2003. The Company has made sales of $2,322,000, $273,000 and $324,000 to HolyStone Enterprises Co. Ltd. during the years ended March 31, 2001, 2002 and 2003, respectively.

The Company has a receivable balance of $95,000 and $83,000 from HolyStone Enterprises Co. Ltd. at March 31, 2002 and 2003, respectively.

One of the Company's former directors is also a director of Chantek Electronic Co. Ltd. During the year ended March 31, 2001, the Company acquired services in the amount of $150,000 from Chantek Electronic Co. Ltd. During the years ended March 31, 2002 and 2003, the Company did not acquire any services from Chantek Electronic Co. Ltd.

NOTE 4—INCOME TAXES

The income tax expense (benefit) consists of the following (in thousands):

	Year Ended March 31,		
	2001	2002	2003
Current:			
U.S. federal	$ 7,698	$ (690)	$ (2,740)
State	1,193	(60)	(370)

	8,891	(750)	(3,110)
Deferred:			
U.S. federal	(872)	(169)	2,062
State	(32)	(271)	428
	(904)	(440)	2,490
	$ 7,987	$ (1,190)	$ (620)

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

	Year Ended March 31,		
	2001	2002	2003
U.S. Federal taxes at statutory rate	$ 6,760	$ (1,108)	$ (2,740)
State taxes, net of federal benefit	724	(121)	(307)
Stock-based compensation	559	471	338
Tax credits	(138)	(472)	(78)
Valuation allowance	—	—	2,480
Other	82	40	(313)
	$ 7,987	$ (1,190)	$ (620)

Deferred tax assets and liabilities consist of the following (in thousands):

	March 31,	
	2002	2003
Deferred tax assets:		
Deferred revenue	$ 271	$ 216
Tax credits	472	805
Net operating losses	—	164
Other reserves and accruals	1,879	1,717
	2,622	2,902
Deferred tax liabilities:		
Property and equipment	(132)	(422)
Net deferred tax assets	2,490	2,480
Valuation allowance	—	(2,480)
	$ 2,490	$ —

The Company's federal and state research tax credit carryforwards for income tax purposes are approximately $253,000 and $451,000, respectively, as of March 31, 2003. As of March 31, 2003, if not utilized, the federal tax credit carryforwards will begin to expire in 2023. The Company also has approximately $101,000 in Manufacturer's Investment Credit carryforwards as of March 31, 2003. State credits carryforward indefinitely.

The internal revenue code limits the use of net operating loss and tax credit carryforwards in certain situations where changes occur in the stock ownership of a Company. In the event the Company has had a change in ownership, utilization of the carryforwards could be restricted.

Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of losses, the fact that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology and the lack of carryback capacity to realize deferred tax assets. Based on the currently available evidence, management is unable to assert that it is more likely than not that the Company will generate sufficient taxable income to realize the Company's deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets based on actual and forecasted operating results.

NOTE 5—BORROWINGS

At March 31, 2003, the Company had a line of credit with Chiao Tung Bank, which expired on May 9, 2003. The line of credit has subsequently been renewed until May 9, 2004. The line of credit provides for borrowings of up to $4,000,000 which are collateralized by a certificate of deposit of $1,000,000, certain accounts receivable balances and finished goods inventory. Borrowing is limited to $1,000,000 plus 70% of eligible United States accounts receivable

balances and 35% of finished goods inventory with a sublimit of $500,000 for inventory. The terms of the line of credit include various covenants, the more restrictive of which requires the Company to maintain a working capital ratio of not less than 1.5 to 1, a tangible net worth, including redeemable convertible preferred stock, of not less than $15,000,000 and a debt to net worth ratio of less than 2 to 1.

The first $1,000,000 of borrowings bear interest at the bank's reference rate (4.25% at March 31, 2003). Borrowings in excess of $1.0 million bear interest at the bank's reference rate plus 1.00%. No amounts were outstanding under the line of credit at March 31, 2002 or 2003.

NOTE 6—COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates through June 2005. Rent expense for the years ended March 31, 2001, 2002 and 2003 was $429,000, $537,000 and $567,000, respectively. The terms of the facility lease provide for rental payments on a graduated scale. The Company recognizes rent expense on a straight-line basis over the lease period, and has accrued for rent expense incurred but not paid.

Future minimum lease payments under noncancelable operating leases are as follows (in thousands):

Year Ending March 31,	Operating Leases
2004	$ 460
2005	422
2006	100
	$ 982

Royalty obligation

The company has license agreements to pay royalties on sale of products using the licensed technology through fiscal year 2007. Royalty expense for the years ended March 31, 2001, 2002 and 2003 was nil, $200,000 and $114,000, respectively.

Indemnification obligations

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

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

Product warranties

The Company estimates its warranty costs based on historical warranty claim experience and applies this estimate to the revenue stream for products under warranty. These costs are included in cost of revenues when incurred and were not significant for the years ended March 31, 2001, 2002 and 2003.

NOTE 7—REDEEMABLE CONVERTIBLE PREFERRED STOCK

Redeemable convertible preferred stock at March 31, 2002 and 2003 consisted of the following (in thousands, except share data):

	Shares Designated, Issued and Outstanding	Liquidation Amount
Series A	4,350,000	$ 870
Series B	7,260,000	2,722
Series C	253,500	254
Series D	3,136,668	4,705
Series E	120,000	456
	15,120,168	$ 9,007

Exchange of Common Stock for Redeemable Convertible Preferred Stock

In February 2000, based upon stockholders' approval, the Company exchanged 10,650,168 shares of Common Stock for 7,260,000 shares of Series B Preferred Stock, 253,500 shares of Series C Preferred Stock and 3,136,668 shares of Series D Preferred Stock.

The holders of Redeemable Convertible Preferred Stock have various rights and preferences as follows:

Voting

The holders of any series of Redeemable Convertible Preferred Stock will have the same voting rights as a holder of the Common Stock.

In every vote for the election of directors, each holder of shares of Redeemable Convertible Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Redeemable Convertible Preferred Stock could be converted pursuant to conversion at the record date for the determination of the stockholders entitled to vote in the election or, if no such record date is established, the date such vote is taken or any written consent of stockholders is solicited.

Dividends

Holders of Series A, B, C, D and E Redeemable Convertible Preferred Stock are entitled to receive noncumulative dividends at the per annum rate of $0.02, $0.0375, $0.10, $0.15 and $0.38 per share, respectively, when and if declared by the Board of Directors. No dividends on Redeemable Convertible Preferred Stock or Common Stock have been declared by the Board of Directors from inception through March 31, 2003.

Liquidation

In the event of a liquidation, dissolution or winding up of the Company, including a merger or consolidation in which its stockholders do not retain a majority of the voting power in the surviving corporation, or a sale of substantially all assets, the funds and assets of the Company shall be legally distributed to the Redeemable Convertible Preferred Stockholders of Series A, B, C, D and E in an

amount per share equal to the original price of such series which is $0.20, $0.375, $1.00, $1.50 and $3.80, respectively, plus all declared but unpaid dividends of such share of such series of Redeemable Convertible Preferred Stock. Then, prior and in preference to any further distribution to the Redeemable Convertible Preferred Stockholders, each Common Stockholder shall be entitled to receive a maximum of $0.02 per share for each share of Common Stock then held. In addition to the above, holders of Series A, B, C, D and E Redeemable Convertible Preferred Stock shall receive any available funds and assets remaining after payment, or distribution or setting aside, to the holders of Redeemable Convertible Preferred Stock and Common Stock of their full preferential amounts. Such remaining available funds and assets shall be distributed among the holders of the Common Stock and the Redeemable Convertible Preferred Stock in proportion to the shares of Common Stock held by them and the shares of Common Stock which they then have the right to acquire upon conversion of shares of Redeemable Convertible Preferred Stock then held by them.

Should the Company's legally available assets be insufficient to satisfy the liquidation preferences, the funds will be distributed among the then outstanding holders of Series A, B, C, D and E Redeemable Convertible Preferred Stock, on a equal priority and *pari passu* basis according to their liquidation preferences.

Conversion

Each Share of Series A, B, C, D and E Redeemable Convertible Preferred Stock shall be convertible, at the option of the holder, according to a conversion ratio of 1 to 1, subject to adjustment for dilution, into the Company's Common Stock. Each share of Series A, B, C, D and E Redeemable Convertible Preferred Stock automatically converts into fully paid nonassessable shares of Common Stock into which such shares are convertible at the then effective conversion ratio upon the closing of a firm commitment underwritten public offering pursuant to an effective registration statement filed under the Securities Act of 1933 covering the offer and sale of common stock for the account of the Company, other than a registration relating solely to a transaction under Rule 145 under the Act or to an employee benefit plan of the Company, in which the aggregate public offering price (before deduction of underwriters discounts and commission) equals or exceeds $10,000,000 and the public offering price per share of which equals or exceeds $8.00 per share before deduction of underwriters' discounts and commissions.

NOTE 8—COMMON STOCK

The Company's Articles of Incorporation, as amended, authorize the Company to issue 30,000,000 shares of $0.001 par value Common Stock. A portion of the shares that have been sold are subject to a right of repurchase by the Company subject to vesting. At March 31, 2003, there were 120,000 shares subject to repurchase. The Company's repurchase right will lapse with respect to these shares on December 1, 2003, provided in each case that the purchaser's continuous status as an employee is not terminated prior to the date of any such release.

NOTE 9—STOCK OPTION PLAN

In 1997, the Company adopted the 1997 Stock Plan (the "Plan"). The Plan provides for the granting of stock options and stock purchase rights to employees and consultants of the Company. Options granted under the Plan may be either incentive stock options or nonstatutory stock options. Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company

employees and consultants. The Company has reserved 8,450,000 shares of Common Stock for issuance under the Plan.

In February 2001, the Company adopted the 2000 stock option plan (the "2000 plan"). The plan provides for the granting of stock options and stock purchase rights to employees, consultants and directors of the Company. (Options granted under the plan may be either incentive stock options or nonstatutory stock options.) Incentive stock options ("ISO") may be granted only to Company employees (including officers and directors who are also employees). Nonqualified stock options ("NSO") may be granted to Company employees and consultants. The Company has reserved 3,000,000 shares of Common Stock for issuance under the 2000 plan.

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

Options under both Plans may be granted for periods of up to ten years, however in the case of ISOs granted to an optionee who, at the time the option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company, the term of the option shall be 5 years from the date of grant. The exercise price of an ISO and NSO shall not be less than 100% and 85% of the estimated fair value of the shares as determined by the Board of Directors on the date of grant, respectively, however the exercise price of an ISO and NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair value of the shares on the date of grant, respectively. To date, the initial options granted to each person generally vest 25% on the first anniversary and subsequent anniversaries of the date of grant. After the initial grant of options to each individual, additional options are granted on a regular basis that vest one year after the last grant to that individual vest.

Stock purchase rights under the Plan may be granted to employees and consultants and gives the grantee the right to purchase common stock at a certain price within a limited period of time. On

exercise of a stock purchase right, the Company receives a right to repurchase the Common Stock at the original purchase price which expires over a vesting period of usually four years.

	Shares Available for Grant	Number of Options Outstanding	Exercise Price	Weighted Average Exercise Price
Balance at March 31, 2000	3,170,348	3,507,527	$ 0.04-2.00	$ 0.42
Options reserved	3,000,000	—	—	—
Granted	(934,800)	934,800	2.00-5.40	3.45
Exercised	—	(631,950)	0.04-0.15	0.07
Repurchase of restricted stock	120,000	—	0.15	0.15
Cancelled	(2,575,048)	(173,250)	0.15-3.80	1.05
Balance at March 31, 2001	2,780,500	3,637,127	0.04-0.15	1.23
Granted	(562,993)	562,993	5.40	5.40
Exercised	—	(411,800)	0.04-2.00	0.13
Cancelled	200	(207,950)	0.15-5.40	3.00
Balance at March 31, 2002	2,217,707	3,580,370	0.04-5.40	1.91
Granted	(142,600)	142,600	4.00-5.40	4.08
Exercised	—	(626,250)	0.04-2.00	0.12
Cancelled	33,375	(106,375)	0.15-5.40	2.83
Balance at March 31, 2003	2,108,482	2,990,345	$ 0.04-5.40	$ 2.36

The options outstanding and by exercise price at March 31, 2003 are as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number Vested and Exercisable	Weighted Average Exercise Price
$0.04	39,000	$ 0.04	4.49	39,000	$ 0.04
$0.15	1,084,725	$ 0.15	5.21	914,275	$ 0.15
$2.00	846,202	$ 2.00	6.88	439,688	$ 2.00
$3.80	74,000	$ 3.80	7.32	37,000	$ 3.80
$4.00	130,000	$ 4.00	9.50	—	$ —
$5.40	816,418	$ 5.40	8.13	189,350	$ 5.40
	2,990,345			1,619,313	

Stock-based compensation

The Company recorded deferred stock-based compensation due to the issuances of stock options below the fair market value at the time, which is being recognized over the vesting period of the related stock options on a straight-line basis. The Company has reversed deferred stock-based compensation of nil, $6,000 and $120,000 during the years ended March 31, 2001, 2002 and 2003, respectively, due to forfeitures resulting from termination of employment. Future compensation charges are subject to reduction for any employee who terminates employment prior to the expiration of such employee's option vesting period. Unamortized deferred stock-based compensation was $1,646,000 and $531,000 at March 31, 2002 and 2003, respectively.

The Company recognized $1,445,000, $1,384,000 and $995,000 of stock-based compensation expense for the years ended March 31, 2001, 2002 and 2003, respectively, as follows (in thousands):

	Year Ended March 31,		
	2001	2002	2003
Cost of revenues	$ 507	$ 474	$ 299
Research and development	608	615	563
Selling, general and administrative	330	295	133
Total	$ 1,445	$ 1,384	$ 995

During the year ended March 31, 2003, the Company granted 8,000 options to a consultant in exchange for services performed during that year. The Company calculated fair value of those options to be $30,000 using the Black-Scholes option pricing model and the following assumptions: risk free interest rate of 3.82%; expected life of 4.45 years; volatility of 85%; and dividend yield of 0%. Stock based compensation expense of $30,000 related to these options was recognized during the year ended March 31, 2003.

NOTE 10—SEGMENT AND GEOGRAPHIC INFORMATION

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

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

	Year Ended March 31,		
	2001	2002	2003
United States	$ 43,506	$ 15,981	$ 10,999
China	4,246	2,114	6,848
Rest of the world	25,901	6,731	3,134
	$ 73,653	$ 24,826	$ 20,981

All sales are denominated in United States dollars.

The locations and net book value of long-lived assets are as follows (in thousands):

	March 31,	
	2002	2003
United States	$ 1,943	$ 2,857
Taiwan	124	82
	$ 2,067	$ 2,939

NOTE 11—EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution retirement plan (the "Retirement Plan"), which qualifies under Section 408(k) of the Internal Revenue Code of 1996. The Retirement Plan covers essentially all United States employees. Eligible employees may make contributions to the Retirement Plan up to 15% of their annual compensation, but no greater than the annual IRS limitation for any plan year. The Plan does not provide for Company contributions.

NOTE 12—ANTI-DUMPING DUTY

A significant percentage of the Company products are manufactured by independent wafer foundries and subcontractors located in Taiwan. In the past the Company was subject to anti-dumping proceedings in which a competitor alleged that the Company's Taiwan-manufactured products were being sold in the United States at less than their fair value. In April 1998, the United States Department of Commerce, or DOC, issued an anti-dumping order and imposed a duty of 12.1% of the value of the Company's Taiwan-manufactured products imported for sale in the United States, retroactive to October 1997. The duty was subsequently increased to 51.3% on products imported for sale between October 1998 and March 1999. The Company continued to accrue duties at the rate of 51.3% on Taiwan-manufactured products imported for sale subsequent to March 1999. These duties were recorded as a cost of revenues as products subject to the duties were sold. In August 2000, the Court of International Trade issued a ruling that our Taiwan-manufactured products do not materially injure, or threaten to injure, the U.S. industry. In January 2002, the DOC revoked its anti-dumping order, retroactive to October 1997 and the United States Customs Service ("USCS") was ordered to refund, with interest, all duties deposited under the 1998 anti-dumping order. The Company had paid an aggregate of $3,938,000 through the date of the refund order, of which $2,161,000 had been charged to cost of revenues during the period from the 1998 anti-dumping order date through March 31, 2001. The balance of the payments of $1,777,000 were reclassified to receivable from USCS on the date of the refund order. The Company received $3,542,000 of refunds during the year ended March 31, 2002, of which $2,161,000 was credited to cost of revenues, $396,000 was credited to interest income and $985,000 was credited to the receivable from USCS. The Company received $876,000 of refunds during the year ended March 31, 2003, of which $792,000 was credited to receivables and $84,000 was credited to interest income.

NOTE 13—SUBSEQUENT EVENTS

Initial public offering

On April 7, 2004, the Company's board of directors authorized management to file a registration statement with the Securities and Exchange Commission to permit the Company to sell shares of its common stock to the public.

Reincorporation

On April 7, 2004, the Company's board of directors authorized the reincorporation of the Company in Delaware. All references to per share amounts have been retroactively restated in the accompanying financial statements to give effect of reincorporation. The reincorporation will be effected prior to the date of the Company's initial public offering.

As result of reincorporation the Company is authorized to issue 30,000,000 shares of $0.001 par value common stock and 5,000,000 shares of $0.001 par value preferred stock. The board of directors has the authority to issue undesignated preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof.

2004 Equity Incentive Plan

On April 7, 2004, the Company's board of directors authorized the adoption of the 2004 Equity Incentive Plan (the "2004 Plan"), which will become effective after adoption and approval by the Company's stockholders. The 2004 Plan provides for the grant of stock options, stock appreciation rights, performance awards and deferred compensation awards. Options granted under the 2004 Plan may be either "incentive stock options", as defined under Section 422 of the Internal Revenue Code of 1986, or non-statutory stock options. Terms and conditions of the 2004 Plan will be finalized prior to the date of the Company's initial public offering.

2004 Employee Stock Purchase Plan

On April 7, 2004, the Company's board of directors authorized the adoption of the 2004 Employee Stock Purchase Plan (the "Purchase Plan"), which will become effective after adoption and approval by the Company's stockholders. The Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986 with the purpose of providing employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions. Terms and conditions of the Purchase Plan will be finalized prior to the date of the Company's initial public offering.

GSI TECHNOLOGY, INC.

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GSI TECHNOLOGY, INC.

INTERIM BALANCE SHEET

(Unaudited)

(In thousands, except share amounts)

	December 31, 2003	Pro Forma Redeemable Convertible Preferred Stock and Stockholders' Equity as of December 31, 2003 (Note 1)
ASSETS		
Cash and cash equivalents	$ 5,209	
Restricted cash	1,143	
Accounts receivable, net	5,559	
Inventories	11,122	
Prepaid expenses and other current assets	1,164	
Total current assets	24,197	
Property and equipment, net	2,393	
Other assets	71	
Total assets	$ 26,661	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,878	
Accrued expenses and other liabilities	2,546	
Deferred revenue	1,845	
Total current liabilities	7,269	
Commitments and contingencies		
Redeemable convertible preferred stock		
Authorized: 20,000,000 shares		
Issued and outstanding: 15,120,168 shares		
Liquidation preference: $9,007	9,007	$ —
Stockholders' equity:		
Preferred stock: $0.001 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: none	—	—
Common Stock: $0.001 par value		
Authorized: 30,000,000 shares		
Issued and outstanding: 5,722,925 and 20,843,093 shares	6	21
Additional paid-in capital	6,033	15,025
Deferred stock-based compensation	(273)	(273)
Retained earnings	4,619	4,619
Total stockholders' equity	10,385	$ 19,392
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 26,661	

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

GSI TECHNOLOGY, INC.

INTERIM STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Nine Months Ended December 31,	
	2002	2003
Net revenues	$ 16,186	$ 23,724
Cost of revenues	13,868	18,297
Gross profit	2,318	5,427
Operating expenses:		
Research and development	4,797	4,242
Selling, general and administrative	3,390	3,092
Total operating expenses	8,187	7,334
Loss from operations	(5,869)	(1,907)
Interest income, net	106	42
Other income (expense), net	(6)	93
Loss before income taxes	(5,769)	(1,772)
Benefit from income taxes	(2,135)	—
Net loss	$ (3,634)	$ (1,772)
Basic and diluted net loss per share	$ (0.69)	$ (0.31)
Weighted-average number of shares used in basic and diluted net loss per share calculation	5,278	5,654
Pro forma basic and diluted net loss per share		$ (0.09)
Weighted-average number of shares used in pro forma basic and diluted net loss per share calculation		20,774

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

GSI TECHNOLOGY, INC.

INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended December 31,	
	2002	2003

Cash flows from operating activities:		
Net loss	$ (3,634)	$ (1,772)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	(273)	83
Depreciation and amortization	796	771
Amortization of deferred stock-based compensation	774	448
Changes in operating assets and liabilities:		
Accounts receivable	(1,854)	(3,101)
Inventories	2,403	(3,541)
Prepaid expenses and other assets	1,631	2,214
Accounts payable	(821)	1,921
Accrued expenses and other liabilities	(174)	1,846
Deferred revenue	(198)	402
Net used in operating activities	(1,350)	(729)
Cash flows from investing activities:		
Purchases of property and equipment	(1,854)	(225)
Net cash used in investing activities	(1,854)	(225)
Cash flows from financing activities:		
Proceeds from issuance of Common Stock	76	13
Net cash provided by financing activities	76	13
Net decrease in cash and cash equivalents	(3,128)	(941)
Cash and cash equivalents, beginning of the period	9,334	6,150
Cash and cash equivalents, end of the period	$ 6,206	$ 5,209
Supplemental cash flow information:		
Cash paid for income taxes	$ 67	$ 5
Cash paid for interest	$ 8	$ 8

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

GSI TECHNOLOGY, INC.
NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

In the opinion of the management of the Company, the accompanying unaudited interim financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information included therein. The Company believes that the disclosures are adequate so that the information is not misleading. However, this financial data should be read in conjunction with the audited financial statements and related notes thereto included in this Prospectus.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates, although such differences are not expected to be material to the financial statements.

Results for the interim periods presented herein are not necessarily indicative of results which may be reported for any other interim period or for the entire fiscal year.

Unaudited interim pro forma information

Upon closing of the planned initial public offering, each of the outstanding shares of redeemable convertible preferred stock will convert into shares of common stock. The pro forma balance sheet and the pro forma basic and diluted net income (loss) per share reflect the conversion of all of the outstanding shares of redeemable convertible preferred stock into shares of common stock. The pro forma balance sheet does not give effect to the offering proceeds.

Accounting for stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). Under APB 25, compensation expense is based on the difference, if any, on the date of the grant, between the fair value of the Company's shares and the exercise price of the option.

Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for the awards under a method prescribed by SFAS 123 and amended by SFAS 148, the Company's net loss for the nine months ended December 31, 2002 and

2003 would have been decreased to the pro forma amounts indicated below (in thousands, except per share amounts):

		Nine Months Ended December 31,	
		2002	2003
		(Unaudited)	
Net loss, as reported		$ (3,634)	$ (1,772)
Add:	Total stock-based employee compensation expense reported in net income (loss), net of related tax effects	774	448
Deduct:	Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,607)	(1,436)
Pro forma net loss		$ (4,467)	$ (2,760)
Basic and diluted net loss per share, as reported		$ (0.69)	$ (0.31)
Pro forma basic and diluted net loss per share		$ (0.85)	$ (0.49)

The above pro forma effects on net loss may not be representative of the effects on net income (loss) for future years as option grants typically vest over several years and additional options are generally granted each year.

The fair value of each option and stock purchase plan grant has been estimated on the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

	Nine Months Ended December 31,	
	2002	2003
Risk-free interest rate	3.82%	2.97%
Expected life	4.45 years	4.48 years
Volatility	85%	80%
Dividend yield	0%	0%

Stock-based compensation

The Company recorded deferred stock-based compensation, due to the issuances of stock options at an exercise price below the fair market value of the underlying shares at the time of grant, of $193,000 for the nine months ended December 31, 2003, which is being recognized over the vesting period of the related stock options on a straight-line basis. The Company has reversed deferred stock-based compensation of $120,000 and $1,000 during the nine months ended December 31, 2002 and 2003, respectively, due to forfeitures resulting from termination of employment. Future compensation charges are subject to reduction for any employee who terminates employment prior to the expiration of such employee's option vesting period. Unamortized deferred stock-based compensation was $273,000 at December 31, 2003.

The Company recognized $774,000 and $448,000 of compensation expense for the nine months ended December 31, 2002 and 2003, respectively, as follows (in thousands):

	Nine Months Ended

	December 31,	
	2002	2003
Cost of revenues	$ 235	$ 63
Research and development	436	327
Selling, general and administrative	103	58
Total	$ 774	$ 448

Net income (loss) per share

Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the year. Diluted income per share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, redeemable convertible preferred stock and unvested shares subject to repurchase.

The following table sets forth the computation of basic and diluted loss attributable to stockholders per share (in thousands, except per share amount):

	Nine Months Ended December 31,	
	2002	2003
Numerator:		
Net loss	$ (3,634)	$ (1,772)
Denominator:		
Weighted-average common shares outstanding	5,398	5,654
Less: Unvested common shares subject to repurchase	(120)	—
Total shares, basic and diluted	5,278	5,654
Net loss per common share, basic and diluted	$ (0.69)	$ (0.31)

For the nine months ended December 31, 2002 and 2003, common stock equivalents of approximately 16.8 million and 16.5 million shares, in relation to outstanding redeemable convertible preferred stock, stock options and unvested shares subject to repurchase, were excluded from the computation of diluted loss per share as a result of their antidilutive effect. While these common stock equivalents are currently antidilutive, they could be dilutive in the future.

Pro forma loss per share

Upon the closing of the planned initial public offering, each of the outstanding shares of redeemable convertible preferred stock will convert into shares of common stock. The weighted average number of shares used in the pro forma basic and diluted net loss per share calculation for the nine months ended December 31, 2003 was computed as 5,654,000 weighted average common shares outstanding plus 15,120,000 shares of common stock equivalents from conversion of the preferred stock.

NOTE 2—INVENTORY

	December 31, 2003
	(in thousands)
Inventories:	
Work-in-progress	$ 7,545
Finshed goods	2,669
Inventory at distributors	908
	$ 11,122

NOTE 3—RELATED PARTY TRANSACTIONS

Together, HolyStone Enterprises Co. Ltd., its subsidiaries, and its Chief Executive Officer, who is also a director of the Company, hold approximately 37% of the outstanding shares of Series A Redeemable Convertible Preferred Stock, 38% of the outstanding shares of Series B Redeemable Convertible Preferred Stock and 18% of the outstanding shares of Series D Redeemable Convertible Preferred Stock as of December 31, 2002 and 2003. The Company has made sales of $225,000 and $678,000 to HolyStone Enterprises Co. Ltd. during the nine months ended December 31, 2002 and 2003.

The Company has a receivable balance of $59,000 from HolyStone Enterprises Co. Ltd. at December 31, 2003.

One of the Company's former directors is also a director of Chantek Electronic Co. Ltd. During the nine months ended December 31, 2002 and 2003, the Company did not acquire any services from Chantek Electronic Co. Ltd.

Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Shares

[GSI LOGO]

Common Stock

PROSPECTUS

Merrill Lynch & Co.

Needham & Company, Inc.

Friedman Billings Ramsey

C.E. Unterberg, Towbin

, 2004

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth all costs and expenses, other than the underwriting discount payable by the registrant in connection with the sale and distribution of the common stock being registered. All amounts shown are estimates except for the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market application fee.

Securities and Exchange Commission registration fee	$ 13,113
NASD filing fee	10,850
Nasdaq National Market application fee	100,000
Blue sky qualification fees and expenses	10,000
Printing and engraving expenses	
Legal fees and expenses	
Accounting fees and expenses	
Director and officer liability insurance	
Transfer agent and registrar fees	15,000
Miscellaneous expenses	
Total	$

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law permits indemnification of officers, directors and other corporate agents under certain circumstances and subject to certain limitations. The Registrant's Certificate of Incorporation and Bylaws provide that the Registrant shall indemnify its directors, officers, employees and agents to the full extent permitted by Delaware General Corporation Law, including in circumstances in which indemnification is otherwise discretionary under Delaware law. In addition, the Registrant intends to enter into separate indemnification agreements (Exhibit 10.1) with its directors and officers which would require the Registrant, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature). The Registrant also intends to maintain director and officer liability insurance, if available on reasonable terms. These indemnification provisions and the indemnification agreements may be sufficiently broad to permit indemnification of the Registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The Underwriting Agreement (Exhibit 1.1) provides for indemnification by the Underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act, or otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Not applicable.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(3) EXHIBITS.

Exhibit Number	Name of Document
*1.1	Form of Underwriting Agreement

3.1	Amended and Restated Articles of Incorporation of Registrant
3.2	Amended and Restated Bylaws of Registrant
*3.3	Form of Amended and Restated Certificate of Incorporation of Registrant to be filed after the completion of the offering
*3.4	Form of Bylaws to be effective after completion of the offering
*4.1	Specimen certificate representing the common stock
*5.1	Opinion of Gray Cary Ware & Freidenrich LLP
*10.1	Form of Indemnification Agreement between Registrant and Registrant's directors and officers
10.2	1997 Stock Option Plan
10.3	2000 Stock Option Plan
*10.4	2004 Equity Incentive Plan
*10.5	2004 Employee Stock Purchase Plan
10.6	Building Office Lease for 2360 Owen Street, Santa Clara, California 95054
10.7	Building Office Lease for United Technology Building A, Fantz PO, Chupei City, Taiwan
23.1	Consent of PricewaterhouseCoopers LLP, independent accountants
*23.2	Consent of Gray Cary Ware & Freidenrich LLP (included in Exhibit 5.1)
24.1	Power of Attorney (included on signature page)

* To be filed by amendment.

(b) FINANCIAL STATEMENT SCHEDULES.

All financial statement schedules have been omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

ITEM 17. UNDERTAKINGS.

(1) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(2) Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act, and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered hereunder, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(3) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective; and

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Santa Clara, State of California, on April 13, 2004.

GSI TECHNOLOGY, INC.

By: /s/ LEE-LEAN SHU

Lee-Lean Shu
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Lee-Lean Shu and Douglas M. Schirle, and each of them acting individually, as his true and lawful attorneys-in-fact and agents, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments or any abbreviated registration statement and any amendments thereto filed pursuant to Rule 462(b) increasing the number of securities for which registration is sought), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ LEE-LEAN SHU Lee-Lean Shu	President, Chief Executive Officer and Chairman *(Principal Executive Officer)*	April 13, 2004
/s/ DOUGLAS M. SCHIRLE Douglas M. Schirle	Chief Financial Officer *(Principal Financial and Accounting Officer)*	April 13, 2004
/s/ ROBERT YAU Robert Yau	Vice President, Engineering, Secretary and Director	April 13, 2004
/s/ JING RONG TANG Jing Rong Tang	Director	April 13, 2004
/s/ HSIANG-WEN CHEN Hsiang-Wen Chen	Director	April 13, 2004
/s/ RUEY L. LU Ruey L. Lu	Director	April 13, 2004

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10.7	Building Office Lease for United Technology Building A, Fantz PO, Chupei City, Taiwan
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*23.2	Consent of Gray Cary Ware & Freidenrich LLP (included in Exhibit 5.1)
24.1	Power of Attorney (included on signature page)

* To be filed by amendment.

Any significant order cancellations or order deferrals could adversely affect our operating results.
Demand for our products may decrease if our end-users and contract manufacturers experience difficulty manufacturing, marketing or selling their 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.
We may experience difficulties in transitioning to smaller geometry process technologies and other more advanced manufacturing process technologies and that may result in reduced manufacturing yields, delays in product deliveries and increased expenses.
Our products have lengthy sales cycles that make it difficult to plan our expenses and forecast results.
Our business will suffer if we are unable to protect our intellectual property.
We could become subject to claims and litigation regarding intellectual property rights, which could seriously harm our business and require us to incur significant costs.
As our business grows, such growth may place a significant strain on our management and operations and, as a result, our business might not succeed.
Our international business exposes us to additional risks.
Our third-party foundries and other subcontractors and many of our customers are located in the Pacific Rim, an area subject to significant earthquake risk and adverse consequences related to the outbreak of SARS and other epidemics.
Changes in Taiwan's political, social and economic environment may affect our business performance.
Our success depends on our ability to develop and manage our indirect distribution channels.
We are substantially dependent on the continued services and performance of our senior management and other key personnel.
If we are unable to recruit or retain qualified personnel, our business and product development efforts could be harmed.
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.
Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.
Being a public company will increase our administrative costs.

Risks Related to this Offering

There has been no prior market for our common stock and the price of our common stock may decline after this offering.
If securities analysts do not publish research or reports about our business, our stock price could decline.
The price of our stock may be volatile, which could harm our business or stockholders and result in litigation.
We have no specific plan for the use of the net proceeds, and our investment of the net proceeds may not yield a favorable return.
After this offering we will continue to be controlled by our executive officers, directors and major stockholders, whose interests may conflict with yours.
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.
You will experience immediate and substantial dilution in the book value of your shares.
There are a large number of shares of our common stock that may be sold in the market following this offering, which may depress the market price of our common stock.

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Exhibit 3.1

AMENDED AND RESTATED

ARTICLES OF INCORPORATION OF

GIGA SEMICONDUCTOR, INC.

a California corporation

The undersigned Lee-Lean Shu and Robert Yau hereby certify that:

1. They are the President and Secretary respectively of GIGA SEMICONDUCTOR, INC., a California corporation.

2. The Articles of Incorporation of this Corporation are amended and restated in their entirety to read as follows:

ARTICLE I.

The name of this Corporation is GIGA SEMICONDUCTOR, INC.

ARTICLE II.

The purpose of this Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

ARTICLE III.

(A) This Corporation is authorized to issue two classes of shares to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of Common Stock this Corporation is authorized to issue is 30,000,000, no par value, and the total number of shares of Preferred Stock this corporation is authorized to issue is 20,000,000, no par value. The first series of Preferred Stock shall be comprised of 4,350,000 shares and shall be designated "Series A Preferred Stock." The second series of Preferred Stock shall be comprised of 7,260,000 shares and shall be designated "Series B Preferred Stock." The third series of Preferred Stock shall be comprised of 253,500 shares and shall be designated "Series C Preferred Stock." The fourth series of Preferred Stock shall be comprised of 3,136,668 shares and shall be designated "Series D Preferred Stock." The fifth series of Preferred Stock shall be comprised of 120,000 shares and shall be designated "Series E Preferred Stock." The remaining Preferred Stock may be issued from time to time in one or more additional series. The Board of Directors of this Corporation is hereby authorized within the limitations and restrictions stated in these Articles of Incorporation, to (i) determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock other than the Series A, Series B, Series C, Series D, and Series E Preferred Stock, the number of shares constituting any such Series and the designation thereof, or any of them; and (ii) increase or decrease the number of shares of that series, but not below the number of shares of any series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(B) The Corporation shall from time to time in accordance with the laws of the State of California increase the authorized amount of its Common Stock if at any time the number of shares of Common Stock remaining unissued and available for issuance shall not be sufficient to permit conversion of the Preferred Stock.

The relative rights, preferences, privileges, and restrictions granted to or imposed upon the respective series of Preferred Stock or the holders thereof are as set forth below.

Section 1. Definition.

For purposes of this Article III, the following definitions shall apply:

1.1 "Board" shall mean the Board of Directors of the Company.

1.2 "Corporation" shall mean this corporation.

1.3 "Common Stock" shall mean the Common Stock, no par value, of the Corporation.

1.4 "Common Stock Dividend" shall mean a stock dividend declared and paid on the Common Stock that is payable in shares of Common Stock.

1.5 "Dividend Rate" shall mean $0.02 per share per annum for the Series A Preferred stock; $0.0375 per share per annum for the Series B Preferred Stock; $0.10 per share per annum for the Series C Preferred Stock; $0.15 per share per annum for the Series D Preferred Stock; and $0.38 per share per

annum for the Series E Preferred Stock.

1.6 "Original Issue Price" shall mean $0.20 per share for the Series A Preferred Stock; $0.375 per share for the Series B Preferred Stock; $1.00 per share for the Series C Preferred Stock; $1.50 per share for the Series D Preferred Stock; and $3.80 per share for the Series E Preferred Stock.

1.7 "Preferred Stock" shall mean the Series A Preferred Stock, the Series B Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock and any other series of Preferred Stock.

1.8 "Series A Preferred Stock" shall mean the Series A Preferred Stock, no par value, of the Corporation.

1.9 "Series B Preferred Stock" shall mean the Series B Preferred Stock, no par value, of the Corporation.

1.10 "Series C Preferred Stock" shall mean the Series C Preferred Stock, no par value, of the Corporation.

1.11 "Series D Preferred Stock" shall mean the Series D Preferred Stock, no par value, of the Corporation.

1.12 "Series E Preferred Stock" shall mean the Series E Preferred Stock, no par value, of the Corporation.

Section 2. Dividend Preferences.

2.1 *Non-cumulative Dividends.* In each calendar year, the holders of the then outstanding Preferred Stock shall be entitled to receive, when as and if declared by the Board, out of any funds and assets of the Corporation legally available therefor, non-cumulative dividends at the annual Dividend Rate for such series of Preferred Stock, prior and in preference to the payment of any dividends on the Common Stock in such calendar year (other than a Common Stock Dividend). No dividend (other than a Common Stock Dividend) shall be paid, with respect to the Common Stock during any calendar year unless dividends in the total amount of the annual Dividend Rate for each series of Preferred Stock shall have first been paid or declared and set apart for payment to the holders of such series of Preferred Stock during that calendar year. Payment of any dividends to the holders of Preferred Stock shall be paid pro rata, on an equal priority, pari passu basis among all holders of all series of Preferred Stock according to their respective dividend

preferences as set forth herein. Dividends on the Preferred Stock shall not be mandatory or cumulative, and no rights or interest shall accrue to the holders of the Preferred Stock in the amount of the annual Dividend Rate for such series of Preferred Stock or in any other amount in any calendar year or any fiscal year of the Corporation, whether or not the earnings of the Corporation in any calendar or fiscal year were sufficient to pay such dividends in whole or in part.

2.2 *No Participation Rights.* If, after dividends in the full preferential amount specified in this Section 2 for the Preferred Stock have been paid or declared and set apart in any calendar year of the Corporation, the Board shall declare additional dividends out of funds legally available therefor in that calendar year, then such additional dividends shall be declared solely on the Common Stock.

2.3 *Non-Cash Dividends.* Whenever a dividend provided for in this Section 2 shall be payable in property other than cash, the value of such dividend or distribution shall be deemed to be the fair market value of such property as determined in good faith by the Board.

Section 3. Voting Rights.

3.1 *Common Stock.* Each holder of shares of Common Stock shall be entitled to one (1) vote for each share thereof held.

3.2 *Preferred Stock.* In every vote for the election of directors, each holder of shares of Preferred stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Preferred Stock could be converted pursuant to the provisions of Section 5 below at the record date for the determination of the shareholders entitled to vote in the election or, if no such record date is established, the date such vote is taken or any written consent of shareholders is solicited.

Section 4. Liquidation Preference.

In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the funds and assets of the Corporation that may be legally distributed to the Corporation's shareholders (the "Available Funds and Assets") shall be distributed to shareholders in the following manner:

4.1 *Preferred Stock.* The holders of each share of Preferred Stock then outstanding shall be entitled to be paid out of the Available Funds and Assets, and prior and in preference to any payment or distribution (or any setting apart of any payment or distribution) of any Available Funds and Assets on any share of Common Stock, an amount per share equal to the Original Issue Price of such series of Preferred Stock plus all declared but unpaid dividends on such share of such series of Preferred Stock. If upon any liquidation, dissolution or winding up of the Corporation, the Available Funds and Assets shall be insufficient to permit the payment to holders of such series of Preferred Stock of their full preferential amount described in this subsection, then all of the remaining Available Funds and Assets shall be distributed among the holders of the then outstanding Preferred Stock pro rata, on an equal priority, pari passu basis, according to their respective liquidation preferences as set forth herein.

4.2 *Common Stock.* In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, and subject to the payment in full of the liquidation preferences with respect to the Preferred Stock as provided in Sections 4.1, the holders of the Common Stock shall be entitled to receive, prior and in preference to any further distribution of any of the Available Funds and Assets of the Corporation to the holders of the Preferred Stock, the amount of $0.02 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares) for each share of Common Stock then held by them and no more. Subject

to the payment in full of the liquidation preferences with respect to the Preferred Stock as provided in Section 4.1, if upon the occurrence of such event, the remaining Available Funds and Assets thus distributed among the holders of the Common Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amount, then the entire remaining Available Funds and Assets available for distribution shall be distributed among the holders of the Common Stock in proportion to the shares of Common Stock then held by them.

4.3 *Participation.* If there are any Available Funds and Assets remaining after the payment or distribution (or the setting aside for payment or distribution) to the holders of the Preferred Stock and Common Stock of their full preferential amounts described above in Sections 4.1 and 4.2, then all such remaining Available Funds and Assets shall be distributed among the holders of the Common Stock and the Preferred Stock in proportion to the shares of Common Stock held by them and the shares of Common Stock which they then have the right to acquire upon conversion of the shares of Preferred Stock then held by them.

4.4 *Merger or Sale of Assets.* For purposes of this Section 4, a liquidation, dissolution or winding up of the Corporation shall be deemed to be occasioned by, a merger or consolidation of the Corporation in which its shareholders do not retain a majority of the voting power in the surviving corporation, or a sale of substantially all assets.

4.5 *Non-Cash Consideration.* In any of the events set forth in Section 4.4, if the consideration received by the this Corporation is other than cash or indebtedness, its value, for purposes of payment of liquidation preferences, will be deemed to be its fair market value as determined by the Board, except that any securities to be distributed to shareholders in a liquidation, dissolution, or winding up of the Corporation shall be valued as follows:

(a) The method of valuation of securities not subject to investment letter or other similar restrictions on free marketability shall be as follows:

(i) if the securities are then traded on a national securities exchange or the Nasdaq National Market System (or a similar national quotation system), then the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the 30-day period ending three (3) days prior to the distribution; and

(ii) if actively traded over-the-counter, then the value shall be deemed to be the average of the closing bid prices over the 30-day period ending three (3) days prior to the closing of such merger, consolidation or sale; and

(iii) if there is no active public market, then the value shall be the fair market value thereof, as determined in good faith by the Board.

(b) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subparagraphs (a)(i), (ii), or (iii) of this subsection to reflect the approximate fair market value thereof, as determined in good faith by the Board.

Section 5. Conversions.

The outstanding shares of Preferred Stock shall be convertible into Common Stock as follows:

5.1 *Optional Conversion.*

(a) At the option of the holder thereof, each share of Preferred Stock shall be convertible, at any time or from time to time prior to the close of business on the business day before any date fixed for redemption of such share, into fully paid an nonassessable shares of Common Stock as provided herein.

(b) Each holder of Preferred Stock who elects to convert the same into shares of Common Stock shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Preferred Stock or Common Stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same and shall state therein the number of shares of Preferred Stock being converted. Thereupon, the Corporation shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled upon such conversion. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the certificate or certificates representing the shares of Preferred Stock to be converted, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

5.2 *Automatic Conversion.* Each share of Preferred Stock shall automatically be converted into fully paid and nonassessable shares of Common Stock, as provided herein immediately prior to the closing of a firm commitment underwritten public offering pursuant to an effective registration statement filed under the Securities Act of 1933 (the "Act"), covering the offer and sale of Common Stock for the account of the Corporation, other than a registration relating solely to a transaction under Rule 145 under the Act (or any successor thereto) or to an employee benefit plan of the Corporation, in which the aggregate public offering price (before deduction of underwriters' discounts and commissions) equals or exceeds $10,000,000 and the public offering price per share of which equals or exceeds $8.00 per share before deduction of underwriters' discounts and commissions.

5.3 *Conversion Price.* Each share of Preferred Stock shall be convertible in accordance with subsection 5.1 or subsection 5.2 above into the number of shares of Common Stock which results from dividing the Original Issue Price for such series of Preferred Stock by the conversion price for such series of Preferred Stock that is in effect at the time of conversion (the "Conversion Price"). The initial Conversion Price for the Preferred Stock shall be the Original Issue Price for such series of Preferred Stock. The Conversion Price of each series of Preferred Stock shall be subject to adjustment from time to time as provided below.

5.4 *Mechanics of Conversion.* No fractional shares of Common Stock shall be issued upon any conversion of Preferred Stock. In lieu of any fractional shares to which the holders would otherwise be entitled, the Corporation shall pay to such holder cash equal to such fraction multiplied by the then effective Conversion Price for such series of Preferred Stock, whichever applies.

(a) Before any holder of Preferred Stock shall be entitled to convert the same into full shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or any transfer agent for the Preferred Stock, and shall give written notice to the Corporation at such office that he elects to convert the same. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid, a check payable to such holder in the amount of any cash amounts payable as a result of the conversion of any shares of Preferred Stock into fractional shares of Common Stock. In addition, if less than all of the shares of the Preferred Stock represented by such certificate are converted into Common Stock pursuant to Section 5.1, the Corporation shall issue and deliver to such holder a new certificate for the balance of the shares of Preferred Stock not so converted. Except as provided in Section 5.2 such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable

upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

(b) If the conversion is automatically triggered by a firm commitment underwritten public offering pursuant to Section 5.2 hereof, the conversion shall be conditioned upon the closing with the underwriter of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of the Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities. Notice of such conversion shall be given by the Corporation by mail, postage prepaid, to the holders of the Preferred Stock at their addresses shown in the Corporation's records, within a reasonable time after the closing date of the sale of such securities. On or after the closing date of the sale of such securities as specified in such notice, each holder of Preferred Stock shall surrender the certificate or certificates representing such holder's shares of Preferred Stock for the number of shares of Common Stock to which such holder is entitled, at the office of the Corporation or any transfer agent for the Preferred Stock. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid, and a check payable to the holder in the amount of any cash amounts payable as a result of the conversion of any shares of Preferred Stock into fractional shares of Common Stock, and the amount of any declared and unpaid dividends on the converted Preferred Stock. Notwithstanding that any certificate representing the Preferred Stock to be converted shall not have been surrendered, each holder of such Preferred Stock shall thereafter be treated for all purposes as the record holder of the number of shares of Common Stock issuable to such holder upon such conversion.

5.5 *Adjustments to Conversion Price for Certain Diluting Issues.*

(i) *Special Definitions.* For purposes of this Section 5.5, the following definitions apply:

(1) "Options" shall mean rights, options, or warrants to subscribe for, purchase or otherwise acquire Common Stock, Preferred Stock, or Convertible Securities (defined below).

(2) "Convertible Securities" shall mean any evidence of indebtedness, shares (other than Common Stock and Preferred Stock) or other securities convertible into or exchangeable for Common Stock.

(3) "Original Issue Date" shall mean the date on which a share of Series E Preferred Stock was issued.

(4) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Corporation after the date on which a share of Series E Preferred Stock was first issued, other than shares of Common Stock issued or issuable:

(a) upon conversion of shares of any series of Preferred Stock;

(b) to officers, directors or employees of, or consultants to, the Corporation pursuant to stock option or stock purchase plans or agreements on terms approved by the Board of Directors, subject to adjustment for all subdivision and combinations.

(c) as a dividend or distribution on any series of Preferred Stock;

(d) upon exercise or conversion of outstanding options or warrants, respectively;

(e) for which adjustment of the Conversion Price is made pursuant to Sections 5.6 and 5.7; or

(f) to financial institutions or other person in connection with acquisition of equipment lease or debt financing for the Corporation.

(ii) *No Adjustment of Conversion Price.* Any provision herein to the contrary notwithstanding, no adjustment in the Conversion Price for a series of Preferred Stock shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Conversion Price for such series of Preferred Stock in effect on the date of, and immediately prior to, such issue.

(iii) *Deemed Issue of Additional Shares of Common Stock.* In the event the Corporation at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options for Convertible Securities or for any series

of Preferred Stock, the conversion or exchange of such Convertible Securities or such series of Preferred Stock, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(1) no further adjustments in the Conversation Price for any series of Preferred Stock shall be made upon the subsequent issue of such Convertible Securities, or a series of Preferred Stock or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities or such series of Preferred Stock;

(2) if such Options or Convertible Securities by the their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or decrease or increase in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Conversion Price for each series of Preferred Stock computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be computed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the Conversion Price for such series of Preferred Stock shall affect Common Stock previously issued upon conversion of such series of Preferred Stock);

(3) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Conversion Price computed upon the original issue thereof (or upon the occurrence

of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(A) in the case of Convertible Securities or Options for Common Stock the only Additional Shares of Common Stock issued were the shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange and

(B) in the case of Options for Convertible Securities or a series of Preferred Stock, only the Convertible Securities or such series of Preferred Stock, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or nor exercised, plus the consideration deemed to have been received by the Corporation (determined pursuant to Section 5.5*)* upon the issue of the Convertible Securities or such series of Preferred Stock with respect to which such Options were actually exercised;

(4) no readjustment pursuant to clause (2) or (3) above shall have the effect of increasing the Conversion Price for any series of Preferred Stock to an amount which exceeds the lower of (a) Conversion Price for such series of Preferred Stock on the original adjustment date, or (b) the Conversion Price for such series of Preferred Stock that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date;

(5) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the same manner provided in clause (3) above.

(iv) *Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock.* In the event this Corporation, at any time after the Original Issue Date shall issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 5.5(iii)) without consideration or for a consideration per share less than the Conversion Price with respect to any series of Preferred Stock in effect on the date of and immediately prior to such issue, then and in such event, the Conversion Price for such series of Preferred Stock shall be reduced, concurrently with such issue, to a price (calculated to the nearest cent) determined by multiplying the Conversion Price for such series of Preferred Stock by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the Corporation for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price for such series of Preferred Stock in effect immediately prior to such issuance, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common

Stock so issued. For the purpose of the above calculation, the number of shares of Common Stock outstanding immediately prior to such issue shall be calculated on a fully diluted basis, as if all shares of such series of Preferred Stock and all convertible securities had been fully converted into shares of Common Stock immediately prior to such issuance and any outstanding warrants, options or other rights for the purchase of shares of stock or Convertible Securities had been fully exercised immediately prior to such issuance (and the resulting securities fully converted into shares of Common Stock, if so convertible) as of such date.

(v) *Determination of Consideration.* For purposes of this Section 5.5, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(1) *Cash and Property.* Such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board if Directors.

(2) *Options and Convertible Securities.* The considerations per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section 5.5(iii), relating to Options and Convertible Securities shall be determined by dividing:

(A) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained the total amount, if any, received or therein designed to protect against dilution) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities or any series Preferred Stock, the exercise of such Options for Convertible Securities or such series Preferred Stock and the conversion or exchange of such Convertible Securities or such series Preferred Stock by

(B) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein designed to protect against the dilution) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

5.6 *Adjustments for Dividends, Distributions, Subdivisions, Combinations or Consolidation of Common Stock.*

(i) *Stock Dividends, Distributions or Subdivisions.* In the event the Corporation shall issue additional shares of Common Stock pursuant to a stock dividend, stock distribution or subdivision on shares of Common at any time or from time to time after

the Original Issue Date, the Conversion Price for each series of Preferred Stock in effect immediately prior to such stock dividend, stock distribution or subdivision shall concurrently with such stock dividend, stock distribution or subdivision, be proportionately decreased based on the ratio of (1) the number of shares of Common Stock outstanding immediately after stock dividend, stock distribution or subdivision to (2) the number of shares of Common Stock outstanding immediately prior to such stock dividend, stock distribution or subdivision.

(ii) *Combinations or Consolidation.* In the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price for each series of Preferred Stock in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased based on the ratio of (1) the number of shares of Common Stock outstanding immediately after such combination or consolidation to (2) the number of shares of Common Stock outstanding immediately prior to such combination or consolidation.

5.7 *Adjustment for Reorganizations, Merger, Consolidation or Sale of Assets.* If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5 *)* or a merger or consolidation of the Corporation with or into other Corporation or the sale of all or substantially all of the Corporation's properties and assets to any other person, then, as a part of and as a condition to the effectiveness of such reorganization, merger, consolidation or sale, lawful and adequate provision shall be made so that if the Corporation is not the surviving Corporation, each series Preferred Stock shall be converted into preferred stock of the surviving Corporation having equivalent preferences, rights and privileges except that in lieu of being able to convert into shares of Common Stock of the Corporation or the successor Corporation, the holders of each series of Preferred Stock (including any such preferred stock issued upon conversion of the preferred stock) shall thereafter be entitled to receive upon conversion of such series Preferred Stock (as the case may be) (including any such preferred stock issued upon conversion of such series Preferred Stock) the number of shares of stock or other securities or property of the Corporation or the successor Corporation resulting from such merger or consolidation or sale to which a holder of the number of shares of Common Stock deliverable upon conversion of such series of Preferred Stock immediately prior to the capital reorganization, merger, consolidation or sale would have been entitled on such capital reorganization, merger, consolidation, or sale. In any such case, appropriate provisions shall be made with respect to the rights of the holders of such series of Preferred Stock (including any such preferred stock issued upon conversion of such series of Preferred Stock (as the case may be) after the reorganization, merger, consolidation or sale that the provisions of this Section 4 (including without limitation, provisions for adjustment of the Conversion Price for such series of Preferred Stock and the number of shares purchasable upon conversion of such series of Preferred Stock or such preferred stock) shall thereafter be applicable, as nearly as may be, with respect to any shares of stock, securities or assets to be deliverable thereafter upon the conversion of such series of Preferred Stock or such preferred stock.

5.8 *No Impairment.* The Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of this Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of each series of Preferred Stock against impairment.

5.9 *Certificate as to Adjustments.* Upon the occurrence of each adjustment or readjustment of the Conversion Price for a series of Preferred Stock pursuant to Section 5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of such series of Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of a series Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) all such adjustments and readjustments since the original date of issue of any shares of the Preferred Stock, (ii) the Conversion Price for such series of Preferred Stock at the time in effect and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such series of Preferred Stock.

ARTICLE IV.

(A) *Limitation of Directors' Liability.* The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

(B) *Indemnification of Directors and Officers.* The Corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) for breach of duty to the Corporation and its shareholders through bylaw provisions or through agreements with the agents or both in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject to the limits on such excess indemnification set forth in Section 204 of the California Corporations Code.

(C) *Repeal or Modification.* Any repeal or modification of the foregoing provisions of this Article IV shall not adversely affect any right of indemnification or limitation of liability of an agent of the Corporation relating to acts or omissions occurring prior to such repeal or modification.

3. The foregoing Restated Articles of Incorporation have been duly approved by the Board of Directors of the Corporation.

4. The foregoing Amended and Restated Articles of Incorporation have been duly approved by the required vote of shareholders in accordance with Sections 902 and 903 of the California Corporations Code. This Corporation has 4,006,125 shares of Common Stock, 4,350,000 shares of Series A Preferred Stock, 7,260,000 shares of Series B Preferred Stock, 253,500 shares of Series C Preferred Stock, and 3,136,668 shares of Series D Preferred Stock outstanding. The number of shares of each class voting in favor of the foregoing Amended and Restated Articles of Incorporation equaled or exceeded the required vote. The percentage vote required was more than 50% of the outstanding Common Stock and more than 50% of the outstanding Preferred Stock.

IN WITNESS WHEREOF, the undersigned have executed these Amended and Restated Articles of Incorporation on July 1, 2000.

/s/ LEE-LEAN SHU

LEE-LEAN SHU, President

/s/ ROBERT YAU

ROBERT YAU, Secretary

The undersigned declare under penalty of perjury that the matters set forth in the foregoing Amended and Restated Articles of Incorporation are true and correct of their own knowledge.

Executed at Santa Clara, California on July 1, 2000.

/s/ LEE-LEAN SHU

LEE-LEAN SHU, President

/s/ ROBERT YAU

ROBERT YAU, Secretary

CERTIFICATE OF AMENDMENT
OF THE
ARTICLES OF INCORPORATION
OF
GIGA SEMICONDUCTOR, INC.

The undersigned certify that:

1. They are the president and the secretary, respectively, of Giga Semiconductor, Inc., a California corporation.

2. Article I of the Articles of Incorporation of this corporation is amended to read as follows:

"The name of the corporation is: GSI Technology"

3. The foregoing amendment of Articles of Incorporation has been duly approved by the board of directors.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902, California Corporations Code. The total number of outstanding shares of the corporation is 20,760,293 (twenty million seven hundred sixty thousand, two hundred ninety three). The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

DATE: October 31, 2003

/s/ LEE-LEAN SHU

Lee-Lean Shu, President

/s/ ROBERT YAU

Robert Yau, Secretary

QuickLinks

Exhibit 3.1

AMENDED AND RESTATED ARTICLES OF INCORPORATION OF GIGA SEMICONDUCTOR, INC. a California corporation
ARTICLE I.
ARTICLE II.
ARTICLE III.
ARTICLE IV.
CERTIFICATE OF AMENDMENT OF THE ARTICLES OF INCORPORATION OF GIGA SEMICONDUCTOR, INC.

Exhibit 3.2

BYLAWS

OF

GIGA SEMICONDUCTOR, INC.

A California Corporation

ARTICLE I
OFFICES

Section 1. PRINCIPAL EXECUTIVE OR BUSINESS OFFICES. The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside California and the corporation has one or more business offices in California, the board shall fix and designate a principal business office in California.

ARTICLE II
MEETINGS OF SHAREHOLDERS

Section 1. PLACE OF MEETINGS. Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of a designation by the board, shareholders' meetings shall be held at the corporation's principal executive office.

Section 2. ANNUAL MEETING. The annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. In the absence of such designation, the annual meeting of shareholders shall be held on the 15th of March in each year at 9:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding full business day. At each annual meeting, directors shall be elected and any other proper business within the power of the shareholders may be transacted.

Section 3. SPECIAL MEETING. A special meeting of the shareholders may be called at any time by the board of directors, by the chair of the board or by the president or by one or more shareholders holding shares that in the aggregate are entitled to cast ten percent or more of the votes at that meeting.

If a special meeting is called by anyone other than the board of directors, the person or persons calling the meeting shall make a request in writing, delivered personally or sent by registered mail or by telegraphic or other facsimile transmission, to the chair of the board or the president, vice president, or secretary, specifying the time and date of the meeting (which is not less than 35 nor more than 60 days after receipt of the request) and the general nature of the business proposed to be transacted. Within 20 days after receipt, the officer receiving the request shall cause notice to be given to the shareholders entitled to vote, in accordance with Sections 4 and 5 of this Article II, stating that a meeting will be held at the time requested by the person(s) calling the meeting, and stating the general nature of the business proposed to be transacted. If notice is not given within 20 days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph shall be construed as limiting, fixing, or affecting the time when a meeting of shareholders called by action of the board may be held.

Section 4. NOTICE OF SHAREHOLDERS' MEETINGS. All notices of meetings of shareholders shall be sent or otherwise given in accordance with bylaw provisions on manner of giving notice, e.g., Section 5 of this Article II not fewer than 10 nor more than 60 days before the date of the meeting. Shareholders entitled to notice shall be determined in accordance with Section 11 of this Article II. The notice shall specify the place, date, and hour of the meeting, and (i) in the case of a

special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters that the board of directors, at the time of giving the notice, intends to present for action by the shareholders. If directors are to be elected, the notice shall include the names of all nominees whom the board intends, at the time of the notice, to present for election.

The notice shall also state the general nature of any proposed action to be taken at the meeting to approve any of the following matters:

(i) A transaction in which a director has a financial interest, within the meaning of § 310 of the California Corporations Code;

(ii) An amendment of the articles of incorporation under § 902 of that Code:

(iii) A reorganization under § 1201 of that Code;

(iv) A voluntary dissolution under § 1900 of that Code; or

(v) A distribution in dissolution that requires approval of the outstanding shares under § 2007 of that Code.

Section 5. MANNER OF GIVING NOTICE: AFFIDAVIT OF NOTICE. Notice of any shareholders' meeting shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the shareholder at the address appearing on the corporation's books or given by the shareholder to the corporation for purposes of notice. If no address appears on the corporation's books or has been given as specified above, notice

shall be either (1) sent by first-class mail addressed to the shareholder at the corporation's principal executive office, or (2) published at least once in a newspaper of general circulation in the county where the corporation's principal executive office is located. Notice is deemed to have been given at the time when delivered personally or deposited in the mall or sent by other means of written communication.

If any notice or report mailed to a shareholder at the address appearing on the corporation's books is returned marked to indicate that the United States Postal Service is unable to deliver the document to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if the corporation holds the document available for the shareholder on written demand at the corporation's principal executive office for a period of one year from the date the notice or report was given to all other shareholders.

An affidavit of the mailing, or other authorized means of giving notice or delivering a document, of any notice of shareholders' meeting, report, or other document sent to shareholders, may be executed by the corporation's secretary, assistant secretary, or transfer agent, and, if executed, shall be filed and maintained in the minute book of the corporation.

Section 6. QUORUM. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of the shareholders shall constitute a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. ADJOURNED MEETING; NOTICE. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 6 of this Article II.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice of the adjourned meeting need not be given if the time and place are announced at the meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or

unless the adjournment is for more than 45 days from the date set for the original meeting, in which case the board of directors shall set a new record date. Notice of any such adjourned meeting, if required, shall be given to each shareholder of record entitled to vote at the adjourned meeting, in accordance with Sections 4 and 5 of this Article II. At any adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting.

Section 8. VOTING. The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with Section 11 of this Article II, subject to the provisions of sections 702 through 704 of the California Corporations Code relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership. The shareholders' vote may be by voice vote or by ballot, provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun. On any matter other than the election of directors, any shareholder may vote part of the shares the shareholder is to vote in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the shareholder fails to specify the number of shares that the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares that the shareholder is entitled to vote. If a quorum is present (or if a quorum has been present earlier at the meeting but some shareholders have withdrawn), the affirmative vote of a majority of the shares represented and voting, provided such shares voting affirmatively also constitute a majority of the number of shares required for a quorum, shall be the act of the shareholders unless the vote of a greater number or voting by classes is required by law or by the articles of incorporation.

At a shareholders' meeting at which directors are to be elected, no shareholder shall be entitled to cumulate votes (i.e., cast for any candidate a number of votes greater than the number of votes which that shareholder normally would be entitled to cast), unless the candidates' names have been placed in nomination before commencement of the voting and a shareholder has given notice at the meeting, before the voting has begun, of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then all shareholders entitled to vote may cumulate their votes for candidates in nomination, and may give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are normally entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. WAIVER OF NOTICE OR CONSENT BY ABSENT SHAREHOLDERS. The transactions of any meeting of shareholders, either annual or special, however called and noticed and wherever held, shall be as valid as though they were had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if each person entitled to vote who was not present in person or by proxy, either before or after the meeting, signs a written waiver of notice or a consent to holding the meeting or an approval of the minutes of the meeting. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of the shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in section 601(f) of the California Corporations Code, i.e.:

(i) A transaction in which a director has a financial interest, within the meaning of § 310 of the California Corporations Code;

(ii) An amendment of the articles of incorporation under § 902 of that Code:

(iii) A reorganization under § 1201 of that Code;

(iv) A voluntary dissolution under § 1900 of that Code;

or

(v) A distribution in dissolution that requires approval of the outstanding shares under § 2007 of that Code.

The waiver of notice or consent is required to state the general nature of the action or proposed action. All waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

A shareholder's attendance at a meeting also constitutes a waiver of notice of that meeting, unless the shareholder at the beginning of the meeting objects to the transaction of any business on the ground that the meeting was not lawfully called or convened. In addition, attendance at a meeting does not constitute a waiver of any right to object to consideration of matters required by law to be included in the notice of the meeting which were not so included, if that objection is expressly made at the meeting.

Section 10. SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING. Any action that could be taken at an annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted.

Directors may be elected by written consent of the shareholders without a meeting only if the written consents of all outstanding shares entitled to vote are obtained, except that vacancies on the board (other than vacancies created by removal) not filled by the board may be filled by the written consent of the holders of a majority of the outstanding shares entitled to vote.

All consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any shareholder or other authorized person who has given a written consent may revoke it by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

Unless the consents of all shareholders entitled to vote have been solicited in writing, prompt notice shall be given of any corporate action approved by shareholders without a meeting by less than unanimous consent, to those shareholders entitled to vote who have not consented in writing. As to approvals required by California Corporations Code section 310 (transactions in which a director has a financial interest), section 317 (indemnification of corporate agents), section 1201 (corporate reorganization), or section 2007 (certain distributions on dissolution), notice of the approval shall be given at least ten days before the consummation of any action authorized by the approval. Notice shall be given in the manner specified in Section 5 of this Article II.

Section 11. RECORD DATE FOR SHAREHOLDER NOTICE OF MEETING, VOTING, AND GIVING CONSENT.

(a) For purposes of determining the shareholders entitled to receive notice of and vote at a shareholders' meeting or give written consent to corporate action without a meeting, the board may fix in advance a record date that is not more than 60 nor less than 10 days before the date of a shareholders' meeting, or not more than 60 days before any other action.

(b) If no record date is fixed:

(i) The record date for determining shareholders entitled to receive notice of and vote at a shareholders' meeting shall be the business day next preceding the day on which notice is given, or if notice is waived as provided in Section 9 of this Article II on the business day next preceding the day on which the meeting is held.

(ii) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, if no prior action has been taken by the board, shall be the day on which the first written consent is given.

(iii) The record date for determining shareholders for any other purpose shall be as set forth in Section 1 of Article VIII of these bylaws.

(c) A determination of shareholders of record entitled to receive notice of and vote at a shareholders' meeting shall apply to any adjournment of the meeting unless the board fixes a new record date for the adjourned meeting. However, the board shall fix a new record date if the adjournment is to a date more than 45 days after the date set for the original meeting.

(d) Only shareholders of record on the corporation's books at the close of business on the record date shall be entitled to any of the notice and voting rights listed in subsection (a) of this section, notwithstanding any transfer of shares on the corporation's books after the record date, except as otherwise required by law.

Section 12. PROXIES. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, or otherwise) by the shareholder or the shareholder's attorney in fact. A validly executed proxy that does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by attendance at the meeting and voting in person by the person executing the proxy or by a subsequent proxy executed by the same person and presented at the meeting; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of 11 months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of sections 705(e) and 705(f) of the Corporations Code of California.

Section 13. INSPECTORS OF ELECTION. Before any meeting of shareholders, the board of directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chair of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one or three. If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one or three inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chair of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

These inspectors shall: (a) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; (b) receive votes, ballots, or consents; (c) hear and determine all challenges and questions in any way arising in connection with the right to vote; (d) count and tabulate all votes or consents; (e) determine when the polls shall close; (f) determine the result; and (g) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III
DIRECTORS

Section 1. POWERS. Subject to the provisions of the California General Corporation Law and any limitations in the articles of incorporation and these bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to these general powers, and subject to the same limitations, the board of directors shall have the power to:

(a) Select and remove all officers, agents, and employees of the corporation; prescribe any powers and duties for them that are consistent with law, with the articles of incorporation, and with these bylaws; fix their compensation; and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or country and conduct business within or outside the State of California; and designate any place within or outside the State of California for holding any shareholders' meeting or meetings, including annual meetings.

(c) Adopt, make, and use a corporate seal; prescribe the forms of certificates of stock; and alter the form of the seal and certificates.

(d) Authorize the issuance of shares of stock of the corporation on any lawful terms, in consideration of money paid, labor done, services actually rendered, debts or securities canceled, or tangible or intangible property actually received.

(e) Borrow money and incur indebtedness on behalf of the corporation, and cause to be executed and delivered for the corporation's purposes, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidences of debt and securities.

Section 2. NUMBER AND QUALIFICATION OF DIRECTORS. The authorized number of directors shall be no fewer than three nor more than seven. The exact number of authorized directors shall be five until changed, within the limits specified above, by a bylaw amending this section, duly adopted by the board of directors or by the shareholders. The maximum or minimum number of directors cannot be changed, nor can a fixed number be substituted for the maximum and minimum numbers, except by a duly adopted amendment to the articles of incorporation or by an amendment to this bylaw duly approved by a majority of the outstanding shares entitled to vote. An amendment that would reduce the minimum number to fewer than three, however, cannot be adopted if the votes cast against its adoption at a shareholders' meeting or the shares not consenting to an action by written consent are equal to one-third ($33^{1}/_{3}\%$) or more of the outstanding shares entitled to vote.

Section 3. ELECTION AND TERM OF OFFICE OF DIRECTORS. Directors shall be elected at each annual meeting of the shareholders to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Section 4. VACANCIES. A vacancy in the board of directors shall be deemed to exist: (a) if a director dies, resigns, or is removed by the shareholders or an appropriate court, as provided in sections 303 or 304 of the California Corporations Code; (b) if the board of directors declares vacant

the office of a director who has been convicted of a felony or declared of unsound mind by an order of court; (c) if the authorized number of directors is increased; or (d) if at any shareholders' meeting at which one or more directors are elected the shareholders fail to elect the full authorized number of directors to be voted for at that meeting.

Any director may resign effective on giving written notice to the chair of the board, the president, the secretary, or the board of directors, unless the notice specifies a later effective date. If the resignation is effective at a future time, the board may elect a successor to take office when the resignation becomes effective.

Except for a vacancy caused by the removal of a director, vacancies on the board may be filled by approval of the board or, if the number of directors then in office is less than a quorum, by (1) the unanimous written consent of the directors then in office, (2) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice complying with section 307 of the Corporations Code, or (3) a sole remaining director. A vacancy on the board caused by the removal of a director may be filled only by the shareholders, except that a vacancy created when the board declares the office of a director vacant as provided in clause (b) of the first paragraph of this section of the bylaws may be filled by the board of directors.

The shareholders may elect a director at any time to fill a vacancy not filled by the board of directors.

The term of office of a director elected to fill a vacancy shall run until the next annual meeting of the shareholders, and such a director shall hold office until a successor is elected and qualified.

Section 5. PLACE OF MEETINGS; TELEPHONE MEETINGS. Regular meetings of the board of directors may be held at any place within or outside the State of California as designated from time to time by the board. In the absence of a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or outside the State of California designated in the notice of the meeting, or if the notice does not state a place, or if there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, provided that all directors participating can hear one another.

Section 6. ANNUAL DIRECTORS' MEETING. Immediately after each annual shareholders' meeting, the board of directors shall hold a regular meeting at the same place, or at any other place that has been designated by the board of directors, to consider matters of organization, election of officers, and other business as desired. Notice of this meeting shall not be required unless some place other than the place of the annual shareholders' meeting has been designated.

Section 7. OTHER REGULAR MEETINGS. Other regular meetings of the board of directors shall be held without call at times to be fixed by the board of directors from time to time. Such regular meetings may be held without notice.

Section 8. SPECIAL MEETINGS. Special meetings of the board of directors may be called for any purpose or purposes at any time by the chair of the board, the president, any vice president, the secretary, or any two directors.

Special meetings shall be held on four days' notice by mail or forty-eight hours' notice delivered personally or by telephone or telegraph. Oral notice given personally or by telephone may be transmitted either to the director or to a person at the director's office who can reasonably be expected to communicate it promptly to the director. Written notice, if used, shall be addressed to each director at the address shown on the corporation's records. The notice need not specify the purpose of the meeting, nor need it specify the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. QUORUM. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 11 of this Article III. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of California Corporations Code section 310 (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest); section 311 (as to appointment of committees), and section 317(e) (as to indemnification of directors). A meeting at which a quorum is initially present may continue to transact business, despite the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 10. WAIVER OF NOTICE. Notice of a meeting, although otherwise required, need not be given to any director who (i) either before or after the meeting signs a waiver of notice or a consent to holding the meeting without being given notice; (ii) signs an approval of the minutes of the meeting; or (iii) attends the meeting without protesting the lack of notice before or at the beginning of the meeting. Waivers of notice or consents need not specify the purpose of the meeting. All waivers, consents, and approvals of the minutes shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 11. ADJOURNMENT TO ANOTHER TIME OR PLACE. Whether or not a quorum is present, a majority of the directors present may adjourn any meeting to another time or place.

Section 12. NOTICE OF ADJOURNED MEETING. Notice of the time and place of resuming a meeting that has been adjourned need not be given unless the adjournment is for more than 24 hours, in which case notice shall be given, before the time set for resuming the adjourned meeting, to the directors who were not present at the time of the adjournment. Notice need not be given in any case to directors who were present at the time of adjournment.

Section 13. ACTION WITHOUT A MEETING. Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board of directors individually or collectively consent in writing to that action. Any action by written consent shall have the same force and effect as a unanimous vote of the board of directors. All written consents shall be filed with the minutes of the proceedings of the board of directors.

Section 14. FEES AND COMPENSATION OF DIRECTORS. Directors and members of committees of the board may be compensated for their services, and shall be reimbursed for expenses, as fixed or determined by resolution of the board of directors. This section shall not be construed to preclude any director from serving the corporation in any other capacity, as an officer, agent, employee, or otherwise, and receiving compensation for those services.

ARTICLE IV
COMMITTEES

Section 1. COMMITTEES OF THE BOARD. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors. The board may designate one or more directors as alternate members of any committee, to replace any absent member at a committee meeting. The appointment of committee members or alternate members requires the vote of a majority of the authorized number of directors. A committee may be granted any or all of the powers and authority of the board, to the extent provided in the resolution of the board of directors establishing the committee, except with respect to:

(a) Approving any action for which the California Corporations Code also requires the approval of the shareholders or of the outstanding shares;

(b) Filling vacancies on the board of directors or any committee of the board;

(c) Fixing directors' compensation for serving on the board or a committee of the board;

(d) Adopting, amending, or repealing bylaws;

(e) Amending or repealing any resolution of the board of directors that by its express terms is not so amendable or repealable;

(f) Making distributions to shareholders, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) Appointing other committees of the board or their members.

Section 2. MEETINGS AND ACTION OF COMMITTEES. Meetings and action of committees shall be governed by, and held and taken in accordance with, bylaw provisions applicable to meetings and actions of the board of directors, with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that (a) the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee; (b) special meetings of committees may also be called by resolution of the board of directors; and (c) notice of special meetings of committees shall also be given to all alternative members who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the governance of any committee not inconsistent with these bylaws.

ARTICLE V
OFFICERS

Section 1. OFFICERS. The officers of the corporation shall be a president, a chief executive officer, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chair of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. APPOINTMENT OF OFFICERS. The officers of the corporation, except for subordinate officers appointed in accordance with Section 3 of this Article V, shall be appointed annually by the board of directors, and shall serve at the pleasure of the board of directors.

Section 3. SUBORDINATE OFFICERS. The board of directors may appoint, and may empower the president to appoint other officers as required by the business of the corporation, whose duties shall be as provided in the bylaws, or as determined from time to time by the board of directors or the president.

Section 4. REMOVAL AND RESIGNATION OF OFFICERS. Any officer chosen by the board of directors may be removed at any time, with or without cause or notice, by the board of directors. Subordinate officers appointed by persons other than the board under Section 3 of this Article V may be removed at any time, with or without cause or notice, by the board of directors or by the officer by whom appointed. Officers may be employed for a specified term under a contract of employment if authorized by the board of directors; such officers may be removed from office at any time under this section, and shall have no claim against the corporation or individual officers or board members because of the removal except any right to monetary compensation to which the officer may be entitled under the contract of employment.

Any officer may resign at any time by giving written notice to the corporation. Resignations shall take effect on the date of receipt of the notice, unless a later time is specified in the notice. Unless otherwise specified in the notice, acceptance of the resignation is not necessary to make it effective.

Any resignation is without prejudice to the rights, if any, of the corporation to monetary damages under any contract of employment to which the officer is a party.

Section 5. VACANCIES IN OFFICES. A vacancy in any office resulting from an officer's death, resignation, removal, disqualification, or from any other cause shall be filled in the manner prescribed in these bylaws for regular election or appointment to that office.

Section 6. CHAIR OF THE BOARD. The board of directors may elect a chair, who shall preside, if present, at board meetings and shall exercise and perform such other powers and duties as may be assigned from time to time by the board of directors. If there is no president, the chair of the board shall in addition be the chief executive officer of the corporation, and shall have the powers and duties as set forth in Section 7 of this Article V.

Section 7. PRESIDENT. Except to the extent that the bylaws or the board of directors assign specific powers and duties to the chair of the board (if any), the president shall be the corporation's general manager and chief executive officer and, subject to the control of the board of directors, shall have general supervision, direction, and control over the corporation's business and its officers. The managerial powers and duties of the president shall include, but are not limited to, all the general powers and duties of management usually vested in the office of president of a corporation, and the president shall have other powers and duties as prescribed by the board of directors or the bylaws. The president shall preside at all meetings of the shareholders and, in the absence of the chair of the board or if there is no chair of the board, shall also preside at meetings of the board of directors.

Section 8. VICE PRESIDENTS. If desired, one or more vice presidents may be chosen by the board of directors in accordance with the provisions for appointing officers set forth in Section 2 of this Article V. In the absence or disability of the president, the president's duties and responsibilities shall be carried out by the highest ranking available vice president if vice presidents are ranked or, if not, by a vice president designated by the board of directors. When so acting, a vice president shall have all the powers of and be subject to all the restrictions on the president. Vice presidents of the corporation shall have such other powers and perform such other duties as prescribed from time to time by the board of directors, the bylaws, or the president (or chair of the board if there is no president).

Section 9. SECRETARY.

(a) Minutes.

The secretary shall keep, or cause to be kept, minutes of all of the shareholders' meetings and of all other board meetings. If the secretary is unable to be present, the secretary or the presiding officer of the meeting shall designate another person to take the minutes of the meeting.

The secretary shall keep, or cause to be kept, at the principal executive office or such other place as designated by the board of directors, a book of minutes of all meetings and actions of the shareholders, of the board of directors, and of committees of the board. The minutes of each meeting shall state the time and place the meeting was held; whether it was regular or special; if special, how it was called or authorized; the names of directors present at board or committee meetings; the number of shares present or represented at shareholders' meetings; an accurate account of the proceedings; and when it was adjourned.

(b) Record of Shareholders.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the transfer agent or registrar, a record or duplicate record of shareholders. This record shall show the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of

share certificates issued to each shareholder, and the number and date of cancellation of any certificates surrendered for cancellation.

(c) Notice of Meetings.

The secretary shall give notice, or cause notice to be given, of all shareholders' meetings, board meetings, and meetings of committees of the board for which notice is required by statute or by the bylaws. If the secretary or other person authorized by the secretary to give notice fails to act, notice of any meeting may be given by any other officer of the corporation.

(d) Other Duties.

The secretary shall keep the seal of the corporation. if any, in safe custody. The secretary shall have such other powers and perform other duties as prescribed by the board of directors or by the bylaws.

Section 10. CHIEF FINANCIAL OFFICER. The chief financial officer shall keep, or cause to be kept, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall (1) deposit corporate funds and other valuables in the corporation's name and to its credit with depositaries designated by the board of directors; (2) make disbursements of corporate funds as authorized by the board; (3) render a statement of the corporation's financial condition and an account of all transactions conducted as chief financial officer whenever requested by the president or the board of directors; and (4) have other powers and perform other duties as prescribed by the board of directors or the bylaws.

ARTICLE VI
INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

Section 1. AGENTS, PROCEEDINGS, AND EXPENSES. For the purposes of this Article, "agent" means any person who is or was a director, officer, employee, or other agent of this corporation, or who is or was serving at the request of this corporation as a director, officer, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or who was a director, officer, employee, or agent of a foreign or domestic corporation that was a predecessor corporation of this corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative, or investigative; and "expenses" includes, without limitation, attorney fees and any expenses of establishing a right to indemnification under Section 4 or Section 5(d) of this Article VI.

Section 2. ACTIONS OTHER THAN BY THE CORPORATION. This corporation shall have the power to indemnify any person who was or is a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of this corporation to procure a judgment in its favor) by reason of the fact that such person is or was an agent of this corporation, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with such proceeding if that person acted in good faith and in a manner that the person reasonably believed to be in the best interests of this corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of that person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner that the person reasonably believed to be in the best interests of this corporation or that the person had reasonable cause to believe that the person's conduct was not unlawful.

Section 3. ACTIONS BY OR IN THE RIGHT OF THE CORPORATION. This corporation shall have the power to indemnify any person who was or is a party, or is threatened to be made a

party, to any threatened, pending, or completed action by or in the right of this corporation to procure a judgment in its favor by reason of the fact that such person is or was an agent of this corporation, against expenses actually and reasonably incurred by such person in connection with the defense or settlement of that action, if such person acted in good faith, in a manner such person believed to be in the best interests of this corporation and its shareholders. No indemnification shall be made under this Section 3 for the following:

(a) With respect to any claim, issue, or matter as to which such person has been adjudged to be liable to this corporation in the performance of such person's duty to the corporation and its shareholders, unless and only to the extent that the court in which such proceeding is or was pending shall determine on application that, in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine;

(b) Amounts paid in settling or otherwise disposing of a pending action without court approval; or

(c) Expenses incurred in defending a pending action that is settled or otherwise disposed of without court approval.

Section 4. SUCCESSFUL DEFENSE BY AGENT. To the extent that an agent of this corporation has been successful on the merits in defense of any proceeding referred to in Section 2 or 3 of this Article VI, or in defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

Section 5. REQUIRED APPROVAL. Except as provided in Section 4 of this Article V1, any indemnification under this Section shall be made by the corporation only if authorized in the specific case, after a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 2 or 3 by one of the following:

(a) A majority vote of a quorum consisting of directors who are not parties to such proceeding;

(b) Independent legal counsel in a written opinion if a quorum of directors who are not parties to such a proceeding is not available;

(c) (i) The affirmative vote of a majority of shares of this corporation entitled to vote represented at a duly held meeting at which a quorum is present; or

(ii) the written consent of holders of a majority of the outstanding shares entitled to vote (for purposes of this subsection 5(c), the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote thereon); or

(d) The court in which the proceeding is or was pending, on application made by this corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney, or other person is opposed by this corporation.

Section 6. ADVANCE OF EXPENSES. Expenses incurred in defending any proceeding may be advanced by the corporation before the final disposition of such proceeding on receipt of an undertaking by or on behalf of the agent to repay such amounts if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article VI.

Section 7. OTHER CONTRACTUAL RIGHTS. The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in an official capacity and as to action in another capacity while holding

such office, to the extent such additional rights to indemnification are authorized in the articles of the corporation. Nothing in this section shall affect any right to indemnification to which persons other than such directors and officers may be entitled by contract or otherwise.

Section 8. LIMITATIONS. No indemnification or advance shall be made under this Article VI, except as provided in Section 4 or Section 5(d), in any circumstance if it appears:

(a) That it would be inconsistent with a provision of the articles, bylaws, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving settlement.

Section 9. INSURANCE. This corporation may purchase and maintain insurance on behalf of any agent of the corporation insuring against any liability asserted against or incurred by the agent in that capacity or arising out of the agent's status as such, whether or not this corporation would have the power to indemnify the agent against that liability under the provisions of this Article VI. Notwithstanding the foregoing, if this corporation owns all or a portion of the shares of the company issuing the policy of insurance. the insuring company and/or the policy shall meet the conditions set forth in section 317(i) of the Corporations Code.

Section 10. FIDUCIARIES OF CORPORATE EMPLOYEE BENEFIT PLAN. This Article VI does not apply to any proceeding against any trustee, investment manager, or other fiduciary of an employee benefit plan in that person's capacity as such, even though that person may also be an agent of the corporation. The corporation shall have the power to indemnify, and to purchase and maintain insurance on behalf of any such trustee, investment manager, or other fiduciary of any benefit plan for any or all of the directors, officers, and employees of the corporation or any of its subsidiary or affiliated corporations.

ARTICLE VII
RECORDS AND REPORTS

Section 1. MAINTENANCE OF SHAREHOLDER RECORD AND INSPECTION BY SHAREHOLDERS. The corporation shall keep at its principal executive office or at the office of its transfer agent or registrar, as determined by resolution of the board of directors, a record of the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders holding at least 5 percent in the aggregate of the outstanding voting shares of the corporation have the right to do either or both of the following:

(a) Inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours, on five days' prior written demand on the corporation, or

(b) Obtain from the corporation's transfer agent, on written demand and tender of the transfer agent's usual charges for this service, a list of the names and addresses of shareholders who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which a list has been compiled or as of a specified date later than the date of demand. This list shall be made available within five days after (i) the date of demand or (ii) the specified later date as of which the list is to be compiled. The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or holder of a voting trust certificate. Any inspection and

copying under this section may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

Section 2. MAINTENANCE AND INSPECTION OF BYLAWS. The corporation shall keep at its principal executive office, or if its principal executive office is not in the State of California, at its principal business office in this state, the original or a copy of the bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in this state, the secretary shall, on the written request of any shareholder, furnish to that shareholder a copy of the bylaws as amended to date.

Section 3. MAINTENANCE AND INSPECTION OF MINUTES AND ACCOUNTING RECORDS. The minutes of proceedings of the shareholders, board of directors, and committees of the board, and the accounting books and records, shall be kept at the principal executive office of the corporation, or at such other place or places as designated by the board of directors. The minutes shall be kept in written form, and the accounting books and records shall be kept either in written form or in a form capable of being converted into written form. The minutes and accounting books and records shall be open to inspection on the written demand of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. These rights of inspection shall extend to the records of each subsidiary of the corporation.

Section 4. INSPECTION BY DIRECTORS. Every director shall have the absolute right at any reasonable time to inspect all books, records, and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. This inspection by a director may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts of documents.

Section 5. ANNUAL REPORT TO SHAREHOLDERS.

(a) For as long as, there are fewer than 100 shareholders, the requirement of an annual report to shareholders referred to in section 1501 of the California Corporations Code is expressly waived. However, nothing in this provision shall be interpreted as prohibiting the board of directors from issuing annual or other periodic reports to the shareholders, as the board considers appropriate.

(b) If at any time the number of shareholders shall exceed 100, subsection (a) shall be deemed repealed, and the following provisions shall be substituted:

"The board of directors shall cause an annual report to be sent to the shareholders not later than 120 days after the close of the fiscal year adopted by the corporation. This report shall be sent at least 15 days (if third class mail is used, 35 days) before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified for giving notice in Section 5 of Article II of these bylaws. The annual report shall contain a balance sheet and an income statement as of the end of the fiscal year and a statement of changes in financial position for the fiscal year prepared in accordance with generally accepted accounting principles applied on a consistent basis and accompanied by any report of independent accountants, or if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the corporation's books and records."

Section 6. FINANCIAL STATEMENTS. The corporation shall keep a copy of each annual financial statement, quarterly or other periodic income statement, and accompanying balance sheets prepared by the corporation on file in the corporation's principal executive office for 12 months; these

documents shall be exhibited at all reasonable times, or copies provided, to any shareholder on demand.

If no annual report for the last fiscal year has been sent to shareholders, on written request of any shareholder made more than 120 days after the close of the fiscal year the corporation shall deliver or mail to the shareholder, within 30 days after receipt of the request, a balance sheet as of the end of that fiscal year and an income statement and statement of changes in financial position for that fiscal year.

A shareholder or shareholders holding 5 percent or more of the outstanding shares of any class of stock of the corporation may request in writing an income statement for the most recent three-month, six-month, or nine-month period (ending more than 30 days before the date of the request) of the current fiscal year, and a balance sheet of the corporation as of the end of that period. If such documents are not already prepared, the chief financial officer shall cause them to be prepared and shall deliver the documents personally or mail them to the requesting shareholders within 30 days after receipt of the request. A balance sheet, income statement, and statement of changes in financial position for the last fiscal year shall also be included, unless the corporation has sent the shareholders an annual report for the last fiscal year.

Quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of independent accountants engaged by the corporation or the certificate of an authorized corporate officer stating that the financial statements were prepared without audit from the corporation's books and records.

Section 7. ANNUAL STATEMENT OF GENERAL INFORMATION.

(a) Every year, during the calendar month in which the original articles of incorporation were filed with the California Secretary of State, or during the preceding five calendar months, the corporation shall file a statement with the Secretary of State on the prescribed form, setting forth the authorized number of directors; the names and complete business or residence addresses of all incumbent directors; the names and complete business or residence addresses of the chief executive officer, the secretary, and the chief financial officer; the street address of the corporation's principal executive office or principal business office in this state; a statement of the general type of business constituting the principal business activity of the corporation: and a designation of the agent of the corporation for the purpose of service of process, all in compliance with section 1502 of the Corporations Code of California.

(b) Notwithstanding the provisions of paragraph (a) of this section, if there has been no change in the information in the corporation's last annual statement on file in the Secretary of State's office, the corporation may, in lieu of filing the annual statement described in paragraph (a) of this section, advise the Secretary of State, on the appropriate form, that no changes in the required information have occurred during the applicable period.

ARTICLE VIII
GENERAL CORPORATE MATTERS

Section 1. RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING. For purposes of determining the shareholders entitled to receive payment of dividends or other distributions or allotment of rights, or entitled to exercise any rights in respect of any other lawful action (other than voting at and receiving notice of shareholders' meetings and giving written consent of the shareholders without a meeting), the board of directors may fix in advance a record date, which shall be not more than 60 nor less than 10 days before the date of the dividend payment, distribution, allotment, or other action. If a record date is so fixed, only shareholders of record at the close of business on that date shall be entitled to receive the dividend, distribution, or allotment of rights, or to

exercise the other rights, as the case may be, notwithstanding any transfer of shares on the corporation's books after the record date, except as otherwise provided by statute.

If the board of directors does not so fix a record date in advance, the record date shall be at the close of business on the later of (1) the day on which the board of directors adopts the applicable resolution or (2) the 60th day before the date of the dividend payment, distribution, allotment of rights, or other action.

Section 2. AUTHORIZED SIGNATORIES FOR CHECKS. All checks, drafts, other orders for payment of money, notes, or other evidences of indebtedness issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner authorized from time to time by resolution of the board of directors.

Section 3. EXECUTING CORPORATE CONTRACTS AND INSTRUMENTS. Except as otherwise provided in the articles or in these bylaws, the board of directors by resolution may authorize any officer, officers, agent, or agents to enter into any contract or to execute any instrument in the name of and on behalf of the corporation. This authority may be general or it may be confined to one or more specific matters. No officer, agent, employee, or other person purporting to act on behalf of the corporation shall have any power or authority to bind the corporation in any way, to pledge the corporation's credit, or to render the corporation liable for any purpose or in any amount, unless that person was acting with authority duly granted by the board of directors as provided in these bylaws, or unless an unauthorized act was later ratified by the corporation.

Section 4. CERTIFICATES FOR SHARES. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each shareholder when any of the shares are fully paid. All certificates shall certify the number of shares and the class or series of shares represented by the certificate. All certificates shall be signed in the name of the corporation by (1) either the chair of the board of directors, the vice chair of the board of directors, the president, or any vice president, and (2) either the chief financial officer, any assistant treasurer, the secretary, or any assistant secretary. All of the signatures on the certificate may be facsimile. If any officer, transfer, agent, or registrar who has signed (or whose facsimile signature has been placed on) a certificate shall have ceased to be that officer, transfer agent, or registrar before that certificate is issued, the certificate may be issued by the corporation with the same effect as if that person were an officer, transfer agent, or registrar at the date of issue.

Section 5. LOST CERTIFICATES. Except as provided in this Section 5, no new certificates for shares shall be issued to replace old certificates unless the old certificate is surrendered to the corporation for cancellation at the same time. If share certificates or certificates for any other security have been lost, stolen, or destroyed, the board of directors may authorize the issuance of replacement certificates on terms and conditions as required by the board, which may include a requirement that the owner give the corporation a bond (or other adequate security) sufficient to indemnify the corporation against any claim that may be made against it (including any expense or liability) on account of the alleged loss, theft, or destruction of the old certificate or the issuance of the replacement certificate.

Section 6. SHARES OF OTHER CORPORATIONS: HOW VOTED. Shares of other corporations standing in the name of this corporation shall be voted by one of the following persons, listed in order of preference: (1) chair of the board, or person designated by the chair of the board; (2) president, or person designated by the president; (3) first vice president, or person designated by the first vice president; (4) other person designated by the board of directors.

The authority to vote shares granted by this section includes the authority to execute a proxy in the name of the corporation for purposes of voting the shares.

Section 7. REIMBURSEMENT OF CORPORATION IF PAYMENT NOT TAX DEDUCTIBLE. If all or part of the compensation, including expenses, paid by the corporation to a director, officer, employee, or agent is finally determined not to be allowable to the corporation as a federal or state income tax deduction, the director, officer, employee, or agent to whom the payment was made shall repay to the corporation the amount disallowed. The board of directors shall enforce repayment of each such amount disallowed by the taxing authorities.

Section 8. CONSTRUCTION AND DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in sections 100 through 195 of the California Corporations Code shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX
AMENDMENTS

Section 1. AMENDMENT BY BOARD OF DIRECTORS OR SHAREHOLDERS. Except as otherwise required by law or by the articles of incorporation, these bylaws may be amended or repealed, and new bylaws may be adopted, by the board of directors or by the holders of a majority of the outstanding shares entitled to vote.

CERTIFICATE OF BYLAWS BY SECRETARY

KNOW ALL BY THESE PRESENTS:

I, Robert Yau, certify that I am Secretary of GIGA SEMICONDUCTOR, INC., a California corporation (the "Company"), that I am duly authorized to make this certification, that the attached Bylaws are a true and correct copy of the Bylaws duly adopted by the Board of Directors of the Company and that the same are the Bylaws of the Company now in effect without amendment thereto.

Dated: March 31, 1997

/s/ ROBERT YAU

Robert Yau, Secretary

QuickLinks

Exhibit 3.2

BYLAWS OF GIGA SEMICONDUCTOR, INC. A California Corporation
ARTICLE I OFFICES
ARTICLE II MEETINGS OF SHAREHOLDERS
ARTICLE III DIRECTORS
ARTICLE IV COMMITTEES
ARTICLE V OFFICERS
ARTICLE VI INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS
ARTICLE VII RECORDS AND REPORTS
ARTICLE VIII GENERAL CORPORATE MATTERS
ARTICLE IX AMENDMENTS
CERTIFICATE OF BYLAWS BY SECRETARY

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Exhibit 10.2

GIGA SEMICONDUCTOR, INC.

1997 STOCK PLAN

1. *Purposes of the Plan.* The purposes of this Stock Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and any Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code and the regulations promulgated thereunder. Stock Purchase Rights may also be granted under the Plan.

2. *Definitions.* As used herein, the following definitions shall apply:

(a) "*Administrator*" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "*Board*" means he Board of Directors of the Company.

(c) "*Code*" means the Internal Revenue Code of 1986, as amended.

(d) "*Committee*" means a Committee appointed by the Board of Directors in accordance with Section 4 of the Plan.

(e) "*Common Stock*" means the Common Stock of the Company.

(f) "*Company*" means GIGA SEMICONDUCTOR, INC., a California corporation.

(g) "*Consultant*" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services and is compensated for such services, and any Director of the Company whether compensated for such services or not. If the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include Directors who are not compensated for their services or are paid only a Director's fee by the Company.

(h) "*Continuous Status as an Employee or Consultant*" means that the employment or consulting relationship with the Company, any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. A leave of absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract, including Company policies. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, on the 91st day of such leave any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(i) "*Director*" means a member of the Board of Directors of the Company.

(j) "*Employee"* means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(k) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(l) "*Fair Market Value*" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Stock Market, Inc.'s National Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination and reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on a Nasdaq market (but not on the Nasdaq National Market) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(m) "*Incentive Stock Option*" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(n) "*Nonstatutory Stock Option*" means an Option not intended to qualify as an Incentive Stock Option.

(o) "*Officer*" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "*Option*" means a stock option granted pursuant to the Plan.

(q) "*Optioned Stock*" means the Common Stock subject to an Option or a Stock Purchase Right.

(r) "*Optionee*" means an Employee or Consultant who receives an Option or Stock Purchase Right.

(s) "*Parent*" means a "parent corporation" whether now or hereafter existing, as defined in Section 424(e) of the Code.

(t) "*Plan*" means this 1997 Stock Plan.

(u) "*Restricted Stock*" means shares of Common Stock acquired pursuant to a grant of a Stock Purchase Right under Section 4 below.

(v) "*Share*" means a share of the Common Stock, as adjusted in accordance with Section 12 below.

(w) "*Stock Purchase Right*" means a right to purchase Common Stock pursuant to Section 11 below.

(x) "*Subsidiary*" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. *Stock Subject to the Plan.* Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be subject to option and sold under the Plan is 3,450,000 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.

If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if Shares of Restricted Stock are repurchased by the Company at their original purchase price, and the original purchaser of such Shares did not receive any benefits of ownership of such Shares, such Shares shall become available for future grant under the Plan. For purposes of the preceding sentence, voting rights shall not be considered a benefit of Share ownership.

4. *Administration of the Plan.*

(a) *Initial Plan Procedure*. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) *Plan Procedure After the Date, if any, upon Which the Company becomes Subject to the Exchange Act*.

(i) *Multiple Administrative Bodies*. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to Directors, Officers and Employees who are neither Directors nor Officers.

(ii) *Administration With Respect to Directors and Officers*. With respect to grants of Options and Stock Purchase Rights to Employees who are also Officers or Directors of the Company, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") with respect to a plan intended to qualify thereunder as a discretionary plan, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted in such a manner as to permit the Plan to comply with Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Rule 16b-3 with respect to a plan intended to qualify thereunder as a discretionary plan.

(iii) *Administration With Respect to Other Employees and Consultants*. With respect to grants of Options and Stock Purchase Rights to Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of California corporate and securities laws, of the Code, and of any applicable stock exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) *Powers of the Administrator*. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any stock exchange

upon which the Common Stock is listed, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(l) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions of any award granted hereunder;

(vii) to determine whether and under what circumstances an Option may be settled in cash under subsection 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option has declined since the date the Option was granted; and

(ix) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(d) *Effect of Administrator's Decision*. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options or Stock Purchase Rights.

5. *Eligibility.*

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of Shares subject to an Optionee's Incentive Stock Options granted by the Company, any Parent or Subsidiary, which become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuation of his or her employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

(d) Upon the Company or a successor corporation issuing any class of common equity securities required to be registered under Section 12 of the Exchange Act or upon the Plan being assumed by a corporation having a class of common equity securities required to be registered

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under Section 12 of the Exchange Act, the following limitations shall apply to grants of Options and Stock Purchase Rights to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options and Stock Purchase Rights to purchase more than 1,000,000 Shares.

(ii) The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 12.

(iii) If an Option or Stock Purchase Right is canceled in the same fiscal year of the Company in which it was granted (other than in connection with a transaction described in Section 12), the canceled Option shall be counted against the limit set forth in Section 5(d)(i). For this purpose, if the exercise price of an Option is reduced, such reduction will be treated as a cancellation of the Option and the grant of a new Option.

6. *Term of Plan.* The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company, as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. *Term of Option.* The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. *Option Exercise Price and Consideration.*

(a) The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option

(A) granted to a person who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any other person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note, (4) other Shares which (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the

aggregate exercise price of the Shares as to which such Option shall be exercised, (5) delivery of a properly executed exercise notice together with such other documentation as the Administrator and a broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. *Exercise of Option.*

(a) *Procedure for Exercise: Rights as a Shareholder*. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) hereof. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote, receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment shall be made for dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 hereof.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) *Termination of Employment or Consulting Relationship*. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (but not in the event of an Optionee's change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically covert [sic] to a Nonstatutory Stock Option on the ninety-first (91st) day following such change of status) or from Consultant to Employee), such Optionee may, but only within such period of time as is determined by the Administrator (which period shall not be less than thirty (30) days), with such determination in the case of an Incentive Stock Option not exceeding three (3) months after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(c) *Disability of Optionee*. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her disability, the Optionee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. If such disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive

Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three (3) months and one day following such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) *Death of 0ptionee*. In the event of the death of an Optionee, the Option may be exercised at any time within twelve (12) months following the date of death (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant) by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent that the Optionee was entitled to exercise the Option on the date of death. If, at the time of death, the Optionee was not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after the Optionee's death, the Optionee's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) *Rule 16b-3*. Options granted to persons subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(f) *Buyout Provisions*. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. *Non-Transferability of Options and Stock Purchase Rights.* Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. *Stock Purchase Rights.*

(a) *Rights to Purchase.* Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such Restricted Stock purchase agreement shall grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the purchaser's employment with the Company for any reason (including death or Disability). The purchase price for Shares repurchased pursuant to the Restricted Stock purchase agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(b) *Other Provisions*. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respeption [sic] shall lapse at such rate as the Administrator may determine, but in no case at a rate of less than 20% per year over five years from the date of purchase.

(c) *Other Provisions*. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the plan as may be determined by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respect to each purchaser.

(d) *Rights as a Shareholder*. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder and shall be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. *Adjustments Upon Changes in-Capitalization or Merger.*

(a) *Changes in Capitalization*. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option or Stock Purchase Right, and the number of Shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price per share of Common Stock covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Stock Purchase Right.

(b) *Dissolution or Liquidation*. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.

(c) *Merger*. In the event of a merger of the Company with or into another corporation, each outstanding Option or Stock Purchase Right shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If, in such event, an Option or Stock Purchase Right is not assumed or substituted, the Option or Stock Purchase Right shall terminate as of the date of the closing of the merger. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger, the Option or Stock Purchase Right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger the consideration (whether stock, cash, or other securities or property) received in the merger by holders of Common Stock for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger.

13. *Time of Granting Options and Stock Purchase Rights.* The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice

of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. *Amendment and Termination of the Plan.*

(a) *Amendment and Termination*. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) *Effect of Amendment or Termination*. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15. *Conditions Upon Issuance of Shares.* Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. *Reservation of Shares.* The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. *Agreements.* Options and Stock Purchase Rights shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

18. *Shareholder Approval.* Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange upon which the Common Stock is listed.

19. *Information to Optionees and Purchasers.* The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Optionee or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company ensure their access to equivalent information.

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Exhibit 10.3

GIGA SEMICONDUCTOR, INC.
2000 STOCK OPTION PLAN

1. **ESTABLISHMENT, PURPOSE AND TERM OF PLAN.**

1.1 **Establishment.** The Giga Semiconductor, Inc. 2000 Stock Option Plan (the "***Plan***") is hereby established effective as of , 2000 (the "***Effective Date***").

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its shareholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Options granted under the Plan have lapsed. However, all Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the shareholders of the Company.

2. **DEFINITIONS AND CONSTRUCTION.**

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) *"**Board**"* means the Board of Directors of the Company. If one or more Committees have been appointed by the Board to administer the Plan, *"**Board**"* also means such Committee(s).

(b) *"**Code**"* means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(c) *"**Committee**"* means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. Unless the powers of the Committee have been specifically limited, the Committee shall have all of the powers of the Board granted herein, including, without limitation, the power to amend or terminate the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law.

(d) *"**Company**"* means Giga Semiconductor, Inc., a California corporation, or any successor corporation thereto.

(e) *"**Consultant**"* means a person engaged to provide consulting or advisory services (other than as an Employee or a Director) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on either the exemption from registration provided by Rule 701 under the Securities Act or, if the Company is required to file reports pursuant to Section 13 or 15(d) of the Exchange Act, registration on a Form S-8 Registration Statement under the Securities Act.

(f) *"**Director**"* means a member of the Board or of the board of directors of any other Participating Company.

(g) *"**Disability**"* means the inability of the Optionee, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of the Optionee's position with the Participating Company Group because of the sickness or injury of the Optionee.

(h) *"**Employee**"* means any person treated as an employee (including an Officer or a Director who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a Director nor payment of a director's fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(i) *"**Exchange Act**"* means the Securities Exchange Act of 1934, as amended.

(j) *"**Fair Market Value**"* means, as of any date, the value of a share of Stock or other property as determined by the Board, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) If, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market

system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

(ii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(k) *"**Incentive Stock Option**"* means an Option intended to be (as set forth in the Option Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(l) *"**Insider**"* means an Officer, a Director of the Company or other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(m) *"**Nonstatutory Stock Option**"* means an Option not intended to be (as set forth in the Option Agreement) or which does not qualify as an Incentive Stock Option.

(n) *"**Officer**"* means any person designated by the Board as an officer of the Company.

(o) *"**Option**"* means a right to purchase Stock pursuant to the terms and conditions of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(p) *"**Option Agreement**"* means a written agreement between the Company and an Optionee setting forth the terms, conditions and restrictions of the Option granted to the Optionee and any shares acquired upon the exercise thereof. An Option Agreement may consist of a form of "Notice of Grant of Stock Option" and a form of "Stock Option Agreement" incorporated therein by reference, or such other form or forms as the Board may approve from time to time.

(q) *"**Optionee**"* means a person who has been granted one or more Options.

(r) *"**Parent Corporation**"* means any present or future "parent corporation" of the Company, as defined in Section 424(e) of the Code.

(s) *"**Participating Company**"* means the Company or any Parent Corporation or Subsidiary Corporation.

(t) *"**Participating Company Group**"* means, at any point in time, all corporations collectively which are then Participating Companies.

(u) *"**Rule 16b-3**"* means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(v) *"**Securities Act**"* means the Securities Act of 1933, as amended.

(w) *"**Service**"* means an Optionee's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. An Optionee's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Optionee renders Service to the Participating Company Group or a change in the Participating Company for which the Optionee renders such Service, provided that there is no interruption or termination of the Optionee's Service. Furthermore, an Optionee's Service with the Participating Company Group shall not be deemed to have terminated if the Optionee takes any military leave, sick leave, or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Optionee's Service shall be deemed to have terminated unless the Optionee's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Optionee's Option Agreement. The Optionee's Service shall be deemed to have terminated either upon an actual termination of Service or upon the corporation for which the Optionee performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Optionee's Service has terminated and the effective date of such termination.

(x) *"**Stock**"* means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2.

(y) *"**Subsidiary Corporation**"* means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(z) *"**Ten Percent Owner Optionee**"* means an Optionee who, at the time an Option is granted to the Optionee, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company within the meaning of Section 422(b)(6) of the Code.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise

indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

3.1 **Administration by the Board.** The Plan shall be administered by the Board. All questions of interpretation of the Plan or of any Option shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Option.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

3.3 **Powers of the Board.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Board shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Options shall be granted and the number of shares of Stock to be subject to each Option;

(b) to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Option (which need not be identical) and any shares acquired upon the exercise thereof, including, without limitation, (i) the exercise price of the Option, (ii) the method of payment for shares purchased upon the exercise of the Option, (iii) the method for satisfaction of any tax withholding obligation arising in connection with the Option or such shares, including by the withholding or delivery of shares of stock, (iv) the timing, terms and conditions of the exercisability of the Option or the vesting of any shares acquired upon the exercise thereof, (v) the time of the expiration of the Option, (vi) the effect of the Optionee's termination of Service with the Participating Company Group on any of the foregoing, and (vii) all other terms, conditions and restrictions applicable to the Option or such shares not inconsistent with the terms of the Plan;

(e) to approve one or more forms of Option Agreement;

(f) to amend, modify, extend, cancel or renew any Option or to waive any restrictions or conditions applicable to any Option or any shares acquired upon the exercise thereof;

(g) to accelerate, continue, extend or defer the exercisability of any Option or the vesting of any shares acquired upon the exercise thereof, including with respect to the period following an Optionee's termination of Service with the Participating Company Group;

(h) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt supplements to, or alternative versions of, the Plan, including, without limitation, as the Board deems necessary or desirable to comply with the laws of, or to accommodate the tax policy or custom of, foreign jurisdictions whose citizens may be granted Options; and

(i) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Option Agreement and to make all other determinations and take such other actions with respect to the Plan or any Option as the Board may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.4 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.5 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or officers or employees of the Participating Company Group, members of the Board and any officers or employees of the Participating Company Group to whom authority to act for the Board or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys' fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. **SHARES SUBJECT TO PLAN.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be three million (3,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Option for any reason expires or is terminated or canceled or if shares of Stock are acquired upon the exercise of an Option subject to a Company repurchase option and are repurchased by the Company at the Optionee's exercise price, the shares of Stock allocable to the unexercised portion of such Option or such repurchased shares of Stock shall again be available for issuance under the Plan. However, except as adjusted pursuant to Section 4.2, in no event shall more than three million (3,000,000) shares of Stock be available for issuance pursuant to the exercise of Incentive Stock Options (the "***ISO Share Issuance Limit***"). Notwithstanding the foregoing, at any such time as the offer and sale of securities pursuant to the Plan is subject to compliance with Section 260.140.45 of Title 10 of the California Code of Regulations ("***Section 260.140.45***"), the total number of shares of Stock issuable upon the exercise of all outstanding Options (together with options outstanding under any other stock option plan of the Company) and the total number of shares provided for under any stock bonus or similar plan of the Company shall not exceed thirty percent (30%) (or such other higher percentage limitation as may be approved by the shareholders of the Company pursuant to Section 260.140.45) of the then outstanding shares of the Company as calculated in accordance with the conditions and exclusions of Section 260.140.45.

4.2 **Adjustments for Changes in Capital Structure.** In the event of any stock dividend, stock split, reverse stock split, recapitalization, combination, reclassification or similar change in the capital structure of the Company, appropriate adjustments shall be made in the number and class of shares subject to the Plan and to any outstanding Options, in the ISO Share Issuance Limit set forth in Section 4.1, and in the exercise price per share of any outstanding Options. If a majority of the shares which are of the same class as the shares that are subject to outstanding Options are exchanged for, converted into, or otherwise become (whether or not pursuant to an Ownership Change Event, as defined in Section 8.1) shares of another corporation (the ***"New Shares"***), the Board may unilaterally amend the outstanding Options to provide that such Options are exercisable for New Shares. In the event of any such amendment, the number of shares subject to,

and the exercise price per share of, the outstanding Options shall be adjusted in a fair and equitable manner as determined by the Board, in its discretion. Notwithstanding the foregoing, any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number, and in no event may the exercise price of any Option be decreased to an amount less than the par value, if any, of the stock subject to the Option. The adjustments determined by the Board pursuant to this Section 4.2 shall be final, binding and conclusive.

5. **ELIGIBILITY AND OPTION LIMITATIONS.**

5.1 **Persons Eligible for Options.** Options may be granted only to Employees, Consultants, and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Options are granted in connection with written offers of an employment or other service relationship with the Participating Company Group. Eligible persons may be granted more than one (1) Option. However, eligibility in accordance with this Section shall not entitle any person to be granted an Option, or, having been granted an Option, to be granted an additional Option.

5.2 **Option Grant Restrictions.** Any person who is not an Employee on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee shall be deemed granted effective on the date such person commences Service with a Participating Company, with an exercise price determined as of such date in accordance with Section 6.1.

5.3 **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by an Optionee for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars ($100,000), the portions of such options which exceed such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section 5.3, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a different limitation from that set forth in this Section 5.3, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section 5.3, the Optionee may designate which portion of such Option the Optionee is exercising. In the absence of such designation, the Optionee shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Separate certificates representing each such portion shall be issued upon the exercise of the Option.

6. **TERMS AND CONDITIONS OF OPTIONS.**

Options shall be evidenced by Option Agreements specifying the number of shares of Stock covered thereby, in such form as the Board shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Option Agreement. Option Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Board; provided, however, that (a) the exercise price per share for an Incentive Stock Option shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option, (b) the exercise price per share for a Nonstatutory Stock Option shall be not less than eighty-five percent (85%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option, and (c) no Option granted to a Ten Percent Owner Optionee shall

have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Board and set forth in the Option Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner Optionee shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service with a Participating Company, and (d) with the exception of an Option granted to an Officer, a Director or a Consultant, no Option shall become exercisable at a rate less than twenty percent (20%) per year over a period of five (5) years from the effective date of grant of such Option, subject to the Optionee's continued Service. Subject to the foregoing, unless otherwise specified by the Board in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 **Payment of Exercise Price.**

(a) ***Forms of Consideration Authorized.*** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or cash equivalent, (ii) by tender to the Company, or attestation

to the ownership, of shares of Stock owned by the Optionee having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a ***"Cashless Exercise"***), (iv) provided that the Optionee is an Employee (unless otherwise not prohibited by law, including, without limitation, any regulation promulgated by the Board of Governors of the Federal Reserve System) and in the Company's sole discretion at the time the Option is exercised, by delivery of the Optionee's promissory note in a form approved by the Company for the aggregate exercise price, provided that, if the Company is incorporated in the State of Delaware, the Optionee shall pay in cash that portion of the aggregate exercise price not less than the par value of the shares being acquired, (v) by such other consideration as may be approved by the Board from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Board may at any time or from time to time, by approval of or by amendment to the standard forms of Option Agreement described in Section 7, or by other means, grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) ***Limitation on Forms of Consideration.***

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless

otherwise provided by the Board, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Optionee for more than six (6) months (and not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise.

(iii) **Payment by Promissory Note.** No promissory note shall be permitted if the exercise of an Option using a promissory note would be a violation of any law. Any permitted promissory note shall be on such terms as the Board shall determine. The Board shall have the authority to permit or require the Optionee to secure any promissory note used to exercise an Option with the shares of Stock acquired upon the exercise of the Option or with other collateral acceptable to the Company. Unless otherwise provided by the Board, if the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

6.4 **Tax Withholding.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable upon the exercise of an Option, or to accept from the Optionee the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to such Option or the shares acquired upon the exercise thereof. Alternatively or in addition, in its discretion, the Company shall have the right to require the Optionee, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise, to make adequate provision for any such tax withholding obligations of the Participating Company Group arising in connection with the Option or the shares acquired upon the exercise thereof. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates. The Company shall have no obligation to deliver shares of Stock or to release shares of Stock from an escrow established pursuant to the Option Agreement until the Participating Company Group's tax withholding obligations have been satisfied by the Optionee.

6.5 **Repurchase Rights.** Shares issued under the Plan may be subject to a right of first refusal, one or more repurchase options, or other conditions and restrictions as determined by the Board in its discretion at the time the Option is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Optionee shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

6.6 **Effect of Termination of Service.**

(a) ***Option Exercisability*.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Board in the grant of an Option and set forth in the Option Agreement, an Option shall be exercisable after an Optionee's termination

of Service only during the applicable time period determined in accordance with this Section 6.6 and thereafter shall terminate:

(i) **Disability.** If the Optionee's Service terminates because of the Disability of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of twelve (12) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Option Agreement evidencing such Option (the ***"Option Expiration Date"***).

(ii) **Death.** If the Optionee's Service terminates because of the death of the Optionee, the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee's legal representative or other person who acquired the right to exercise the Option by reason of the Optionee's death at any time prior to the expiration of twelve (12) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service

terminated, but in any event no later than the Option Expiration Date. The Optionee's Service shall be deemed to have terminated on account of death if the Optionee dies within three (3) months (or such longer period of time as determined by the Board, in its discretion) after the Optionee's termination of Service.

(iii) **Termination After Change in Control.** The Board may, in its discretion, provide in any Option Agreement that if the Optionee's Service ceases as a result of "Termination After Change in Control" (as defined in such Option Agreement), then (1) the Option, to the extent unexercised and exercisable on the date on which the Optionee's Service terminated, may be exercised by the Optionee (or the Optionee's guardian or legal representative) at any time prior to the expiration of six (6) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date, and (2) the exercisability and vesting of the Option and any shares acquired upon the exercise thereof shall be accelerated effective as of the date on which the Optionee's Service terminated to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement. Notwithstanding the foregoing, if the Company and the other party to the transaction constituting a Change in Control agree to treat such transaction as a "pooling-of-interests" for accounting purposes and it is determined that the provisions or operation of this Section 6.6(a)(iii) would preclude treatment of such transaction as a "pooling-of-interests" and provided further that in the absence of the preceding sentence such transaction would be treated as a "pooling-of-interests," then this Section 6.6(a)(iii) shall be without force or effect, and the vesting and exercisability of the Option shall be determined under any other applicable provision of the Plan or the Option Agreement evidencing such Option.

(iv) **Other Termination of Service.** If the Optionee's Service terminates for any reason, except Disability, death or Termination After Change in Control, the Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee's Service terminated, may be exercised by the Optionee at any time prior to the expiration of three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date on which the Optionee's Service terminated, but in any event no later than the Option Expiration Date.

(b) ***Extension if Exercise Prevented by Law*.** Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.6(a) is prevented by the provisions of Section 10 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Board, in its discretion) after the date the Optionee is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) ***Extension if Optionee Subject to Section 16(b).*** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.6(a) of shares acquired upon the exercise of the Option would subject the Optionee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Optionee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Optionee's termination of Service, or (iii) the Option Expiration Date.

6.7 **Transferability of Options.** During the lifetime of the Optionee, an Option shall be exercisable only by the Optionee or the Optionee's guardian or legal representative. No Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Board, in its discretion, and set forth in the Option Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in Section 260.140.41 of Title 10 of the California Code of Regulations, Rule 701 under the Securities Act, and the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. STANDARD FORMS OF OPTION AGREEMENT.

7.1 **Option Agreement.** Unless otherwise provided by the Board at the time the Option is granted, an Option shall comply with and be subject to the terms and conditions set forth in the form of Option Agreement approved by the Board concurrently with its adoption of the Plan and as amended from time to time.

7.2 **Authority to Vary Terms.** The Board shall have the authority from time to time to vary the terms of any standard form of Option Agreement described in this Section 7 either in connection with the grant or amendment of an individual Option or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Option Agreement are not inconsistent with the terms of the Plan.

8. CHANGE IN CONTROL.

8.1 **Definitions.**

(a) An ***"Ownership Change Event"*** shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the shareholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company.

(b) A ***"Change in Control"*** shall mean an Ownership Change Event or a series of related Ownership Change Events (collectively, a ***"Transaction"***) wherein the shareholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction described in Section 8.1(a)(iii), the corporation

or other business entity to which the assets of the Company were transferred (the *"**Transferee**"*), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

8.2 **Effect of Change in Control on Options.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the *"**Acquiring Corporation**"*), may, without the consent of any Optionee, either assume the Company's rights and obligations under outstanding Options or substitute for outstanding Options substantially equivalent options for the Acquiring Corporation's stock. In the event the Acquiring Corporation elects not to assume or substitute for outstanding Options in connection with a Change in Control, the exercisability and vesting of each such outstanding Option and any shares acquired upon the exercise thereof held by Optionees whose Service has not terminated prior to such date shall be accelerated, effective as of the date ten (10) days prior to the date of the Change in Control, to such extent, if any, as shall have been determined by the Board, in its discretion, and set forth in the Option Agreement evidencing such Option. The exercise or vesting of any Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section 8.2 and the provisions of such Option Agreement shall be conditioned upon the consummation of the Change in Control. Any Options which are neither assumed or substituted for by the Acquiring Corporation in connection with the Change in Control nor exercised as of the date of the Change in Control shall terminate and cease to be outstanding effective as of the date of the Change in Control. Notwithstanding the foregoing, shares acquired upon exercise of an Option prior to the Change in Control and any consideration received pursuant to the Change in Control with respect to such shares shall continue to be subject to all applicable provisions of the Option Agreement evidencing such Option except as otherwise provided in such Option Agreement. Furthermore, notwithstanding the foregoing, if the corporation the stock of which is subject to the outstanding Options immediately prior to an Ownership Change Event described in Section 8.1(a)(i) constituting a Change in Control is the surviving or continuing corporation and immediately after such Ownership Change Event less than fifty percent (50%) of the total combined voting power of its voting stock is held by another corporation or by other corporations that are members of an affiliated group within the meaning of Section 1504(a) of the Code without regard to the provisions of Section 1504(b) of the Code, the outstanding Options shall not terminate unless the Board otherwise provides in its discretion.

9. **PROVISION OF INFORMATION.**

At least annually, copies of the Company's balance sheet and income statement for the just completed fiscal year shall be made available to each Optionee and purchaser of shares of Stock upon the exercise of an Option. The Company shall not be required to provide such information to key employees whose duties in connection with the Company assure them access to equivalent information. Furthermore, the Company shall deliver to each Optionee such disclosures as are required in accordance with Rule 701 under the Securities Act.

10. **COMPLIANCE WITH SECURITIES LAW.**

The grant of Options and the issuance of shares of Stock upon exercise of Options shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. Options may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or

regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Option may be exercised unless (a) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (b) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of any Option, the Company may require the Optionee to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

11. **TERMINATION OR AMENDMENT OF PLAN.**

The Board may terminate or amend the Plan at any time. However, subject to changes in applicable law, regulations or rules that would permit otherwise, without the approval of the Company's shareholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule. No termination or amendment of the Plan shall affect any then outstanding Option unless expressly provided by the Board. In any event, no termination or amendment of the Plan may adversely affect any then outstanding Option without the consent of the Optionee, unless such termination or amendment is required to enable an Option designated as an Incentive Stock Option to qualify as an Incentive Stock Option or is necessary to comply with any applicable law, regulation or rule.

12. **SHAREHOLDER APPROVAL.**

The Plan or any increase in the maximum aggregate number of shares of Stock issuable thereunder as provided in Section 4.1 (the *"**Authorized Shares**"*) shall be approved by the shareholders of the Company within twelve (12) months of the date of adoption thereof by the Board. Options granted prior to shareholder approval of the Plan or in excess of the Authorized Shares previously approved by the shareholders shall become exercisable no earlier than the date of shareholder approval of the Plan or such increase in the Authorized Shares, as the case may be.

PLAN HISTORY

_____, 2000	Board adopts Plan, with an initial reserve of 3,000,000 shares.
_____, 2000	Shareholders approve Plan, with an initial reserve of 3,000,000 shares.

QuickLinks

Exhibit 10.3

GIGA SEMICONDUCTOR, INC. 2000 STOCK OPTION PLAN
PLAN HISTORY

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.6

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE—MODIFIED NET
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. Basic Provisions ("Basic Provisions").

1.1 **Parties**: This Lease ("**Lease**"), dated for reference purposes only, March 16, 2000, is made by and between Sheridan Investment Company ("**Lessor**") and Giga Semiconductor, Inc., a California corporation ("**Lessee**"), (collectively the "**Parties**," or individually a "**Party**").

1.2 (a) **Premises**: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 2360 Owen Street, located in the City of Santa Clara, County of Santa Clara, State of California, with zip code 95054, as outlined on Exhibit A attached hereto ("**Premises**"). The "**Building**" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): approximately 11,824+ square feet of Office/R&D space being a portion of a larger free-standing building. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "**Industrial Center**." (Also see Paragraph 2.)

1.2 (b) **Parking**: Forty-four (44) unreserved vehicle parking spaces ("**Unreserved Parking Spaces**"); and N/A reserved vehicle parking spaces ("**Reserved Parking Spaces**"). (Also see Paragraph 2.6.)

1.3 **Term**: 5 years and 0 months ("**Original Term**") commencing May 1, 2000 ("**Commencement Date**") and ending April 30, 2005 ("**Expiration Date**"). (Also see Paragraph 3.)

1.4 **Early Possession**: N/A ("**Early Possession Date**"). (Also see Paragraph 3.2 and 3.3.)

1.5 **Base Rent**: $24,830.00 per month ("**Base Rent**"), payable on the first day of each month commencing May 1, 2000. (Also see Paragraph 4.)

☒ If this box is checked, this Lease provides for the Base Rent to be adjusted per Addendum 49, attached hereto.

1.6 (a) **Base Rent Paid Upon Execution**: $24,830.00 as Base Rent for the period May 1, 2000—May 31, 2000.

1.6 (b) **Lessee's Share of Common Area Operating Expenses**: Fifty-eight point one percent (58.1%) ("**Lessee's Share**") as determined by o prorata square footage of the Premises as compared to the total square footage of the Building or o other criteria as described in Addendum .

1.7 **Security Deposit**: $75,000.00 (see Addendum Par 50) ("**Security Deposit**"). (Also see Paragraph 5.)

1.8 **Permitted Use**: Office, testing of electronic components, storage and distribution and other related legal uses thereto ("**Permitted Use**") (Also see Paragraph 6.)

1.9 **Insuring Party**. Lessor is the "**Insuring Party**." (Also see Paragraph 8.)

1.10 (a) **Real Estate Brokers**. The following real estate broker(s) (collectively, the "**Brokers**") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):

☒ Cornish & Carey Commercial / BT Commercial represents Lessor exclusively ("**Lessor's Broker**");

☒ Equus Associates represents Lessee exclusively ("**Lessee's Broker**"); or

o _____ represents both Lessor and Lessee ("**Dual Agency**"). (Also see Paragraph 15.)

1.10 (b) **Payment to Brokers**. Upon the execution of this Lease by both Parties, Lessor shall pay to said Broker(s) jointly, or in such separate shares as they may mutually designate in writing, a fee as set forth in a separate written agreement between Lessor and said Broker(s) (or in the event there is no separate written agreement between Lessor and said Broker(s), the sum as per separate agreement for brokerage services rendered by said Broker(s) in connection with this transaction.

1.11 **Guarantor**. The obligations of the Lessee under this Lease are to be guaranteed by N/A ("**Guarantor**"). (Also see Paragraph 37.)

1.12 **Addenda and Exhibits**. Attached hereto is an Addendum or Addenda consisting of Paragraph 49 through 52, and Exhibits A through A, all of which constitute a part of this Lease.

2. Premises, Parking and Common Areas.

2.1 **Letting**. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been used in calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 **Condition**. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems, and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within ninety (90) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 **Compliance with Covenants, Restrictions and Building Code**. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility Installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 **Acceptance of Premises**. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy Itself with respect to the condition of the Premises including, but not limited to, the

electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations, and any covenants or restrictions of record (collectively, "**Applicable Laws**") and the present and future suitability of the Premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 **Lessee as Prior Owner/Occupant**. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

2.6 **Vehicle Parking**. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used for parking by vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called "**Permitted Size Vehicles**." Vehicles other than Permitted Size Vehicles shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

(c) Lessor shall at the Commencement Date of this Lease provide the parking facilities required by Applicable Law.

2.7 **Common Areas—Definition**. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general nonexclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.8 **Common Areas—Lessee's Rights**. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and

remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 **Common Areas—Rules and Regulations**. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable Rules and Regulations with respect thereto in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.10 **Common Areas—Changes**. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. Term.

3.1 **Term**. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 **Early Possession**. If an Early Possession Date is specified in Paragraph 1.4 and if Lessee totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy. All other terms of this Lease, however (including, but not limited to, the obligations to pay Lessee's Share of Common Area Operating Expenses and to carry the insurance required by Paragraph 8), shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

3.3 **Delay in Possession**. If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4, or if no Early Possession Date is specified, by the Commencement Date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease, or the obligations of Lessee hereunder, or extend the term hereof, but in such case, Lessee shall not, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days after the end of said sixty (60) day period, cancel this Lease, in which event the

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Parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the Original Term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to the period during which the Lessee would have otherwise enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

4. Rent.

4.1 **Base Rent**. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

4.2 **Common Area Operating Expenses**. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "**Common Area Operating Expenses**" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the Industrial Center, including, but not limited to, the following:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

(cc) Fire detection and sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Lessor for the Building and the Common Areas under Paragraph 10 hereof.

(vi) The costs of the premiums for the insurance policies maintained by Lessor under Paragraph 8 hereof.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed Statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments under this Paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be credited the amount of such overpayment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. **Security Deposit**. Lessee shall deposit with Lessor upon Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use.

6.1 **Permitted Use**.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee, Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 Hazardous Substances.

(a) **Reportable Uses Require Consent**. The term "**Hazardous Substance**" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "**Reportable Use**" shall mean (i) the installation or use of any above or below ground storage tank; (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority; and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without

Lessor's prior consent, but upon notice to Lessor and in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may (but without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefore, including, but not limited to, the installation (and, at Lessor's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) **Duty to inform Lessor**. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building,

other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including, but not limited to, all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) **Indemnification**. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 **Lessee's Compliance with Requirements**. Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "**Applicable Requirements**," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including, but not limited to, matters pertaining to (i) industrial hygiene; (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions; and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 **Inspection; Compliance with Law**. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("**Lenders**") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless the inspection is requested or ordered by a governmental authority as the result

of any such existing or imminent violation or contamination. In such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations.

7.1 **Lessee's Obligations**.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation System for the Premises. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain the contract for the heating, air conditioning and ventilating systems, and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 **Lessor's Obligations**. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants. Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke detection systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Building, Industrial Center or Common Areas in good order, condition and repair.

7.3 **Utility Installations, Trade Fixtures, Alterations**.

(a) **Definitions; Consent Required**. The term "**Utility Installations**" is used in this Lease to refer to all air lines, power panels, electrical distribution, security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "**Trade Fixtures**" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "**Alterations**" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures. "**Lessee-Owned Alterations and/or Utility Installations**" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent but upon notice to Lessor, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed $2,500.00.

(b) **Consent**. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility Installation that costs $2,500.00 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) **Lien Protection**. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor, in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 **Ownership, Removal, Surrender, and Restoration**.

(a) **Ownership**. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee.

(b) **Removal**. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their installation may have been consented to by Lessor. Lessor may require the removal at any time of all or any part of any Alterations or Utility Installations made without the required consent of Lessor.

(c) **Surrender/Restoration**. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. Insurance; Indemnity.

8.1 **Payment of Premiums**. The cost of the premiums for the insurance policies maintained by Lessor under this Paragraph 8 shall be a Common Area Operating Expense pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 **Liability Insurance**.

(a) **Carried by Lessee**. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee

shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) **Carried by Lessor**. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 **Property Insurance—Building, improvements and Rental Value**.

(a) **Building and Improvements**. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage, including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall also contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) **Rental Value**. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) **Adjacent Premises**. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) **Lessee's Improvements**. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 **Lessee's Property Insurance**. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's option, by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned Alterations and Utility Installations in, on, or about the Premises similar in coverage to that carried by

Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from Lessor, Lessee shall provide Lessor with written evidence that such insurance is in force.

8.5 **Insurance Policies**. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to modification except after thirty (30) days' prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand.

8.6 **Waiver of Subrogation**. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 **Indemnity**. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 **Exemption of Lessor from Liability**. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any

other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 **Definitions**.

(a) "**Premises Partial Damage**" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "**Premises Total Destruction**" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "**Insured Loss**" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage limits involved.

(d) "**Replacement Cost**" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "**Hazardous Substance Condition**" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 **Premises Partial Damage—Insured Loss**. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, Lessor shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten

(10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Lessor does not receive such funds or

assurance within such ten (10) day period, and if Lessor does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 **Partial Damage—Uninsured Loss**. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), Lessor may, at Lessor's option, either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's Intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 **Total Destruction**. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 **Damage Near End of Term**. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

9.6 Abatement of Rent; Lessee's Remedies.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and

other charges, if any, payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "**Commence**" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 **Hazardous Substance Conditions**. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(c) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (b) an amount equal to twelve (12) times the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory assurance thereof within thirty (30) days following said commitment by Lessee. In such event this Lease shall Continue in full force and effect, and Lessor shall proceed to make such investigation and remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time period specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.8 **Termination—Advance Payments**. Upon termination of this Lease pursuant to this Paragraph 9, Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 **Waiver of Statutes**. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

10. Real Property Taxes.

10.1 **Payment of Taxes**. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Industrial Center, and except as otherwise provided in Paragraph 10 3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.2 **Real Property Tax Definition**. As used herein, the term "**Real Property Taxes**" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof. Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "**Real Property Taxes**" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including, but not limited to, a change in the ownership of the Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Properly Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 **Additional Improvements**. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 **Joint Assessment**. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 **Lessee's Property Taxes**. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When possible, Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. **Utilities**. Lessee shall pay directly for all utilities and Services supplied to the Premises, including, but not limited to, electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

12. Assignment and Subletting.

12.1 **Lessor's Consent Required**.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(b) A change in the control of Lessee shall constitute an assignment requiring Lessor's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than fifty percent (50%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent "**Net Worth of Lessee**" for purposes of this Lease shall be the net worth of Lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such

unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days' written notice ("**Lessor's Notice**"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect. Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 **Terms and Conditions Applicable to Assignment and Subletting**.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including, but not limited to, the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of $1,000 or ten percent (10%) of the monthly Base Rent applicable to the portion of the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as reasonable consideration for Lessor's considering and processing the request for consent Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment schedule of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment schedule for property similar to the Premises as then constituted, as determined by Lessor.

12.3 **Additional Terms and Conditions Applicable to Subletting**. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made

by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease, Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, of any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 **Default; Breach**. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), $350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "**Default**" by Lessee is defined as a failure by Lessee to Observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "**Breach**" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by

Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to lake possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 **Remedies**. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including, but not limited to, the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not

be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraphs 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree that the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 **Inducement Recapture In Event of Breach**. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "**Inducement Provisions**" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13.1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 **Late Charges**. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shaft, at Lessor's option, become due and payable quarterly in advance.

13.5 **Breach by Lessor**. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. **Condemnation**. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent (10%) of the floor

area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution of value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

15. Brokers' Fees.

15.1 **Procuring Cause**. The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 **Additional Terms**. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent properly in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in effect at the time of the execution of this Lease.

15.3 **Assumption of Obligations**. Any buyer or transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1.10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.4 **Representations and Warranties**. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

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16. Tenancy and Financial Statements.

16.1 **Tenancy Statement**. Each Party (as "**Responding Party**") shall within ten (10) days after written notice from the other Party (the "**Requesting Party**") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "**Tenancy Statement**" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 **Financial Statement**. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including, but not limited to, Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. **Lessor's Liability**. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. **Severability**. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. **Interest on Past-Due Obligations**. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. **Time of Essence**. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. **Rent Defined**. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. **No Prior or Other Agreements; Broker Disclaimer**. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the

nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. Each Broker shall be an intended third party beneficiary of the provisions of this Paragraph 22.

23. Notices.

23.1 **Notice Requirements**. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner

specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 **Date of Notice**. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. **Waivers**. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other terms, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. **Recording**. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. **No Right to Holdover**. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee.

27. **Cumulative Remedies**. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. **Covenants and Conditions**. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. **Binding Effect; Choice of Law**. This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the state in which the Premises

are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 **Subordination**. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "**Security Device**"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 **Attornment**. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 **Non-Disturbance**. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 **Self-Executing**. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. **Attorneys' Fees**. If any Party or Broker brings an action or proceeding to enforce the terms hereof declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "**Prevailing Party**" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31.

32. **Lessor's Access; Showing Premises; Repairs**. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may

reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of Rent or liability to Lessee.

33. **Auctions**. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. **Signs**. Lessee shall not place any sign upon the exterior of the Premises or the Building, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Lessor. The installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Building, and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. **Termination; Merger**. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including, but not limited to, architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including, but not limited to, consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall

not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. Guarantor.

37.1 **Form of Guaranty**. If there are to be any Guarantors of this Lease per Paragraph 1.11, the form of the guaranty to be executed by each such Guarantor shall be in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease, including, but not limited to, the obligation to provide the Tenancy Statement and information required in Paragraph 16.

37.2 **Additional Obligations of Guarantor**. It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and resolution of its board of directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signatures of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. **Quiet Possession**. Upon payment by Lessee of the Rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. Options.

39.1 **Definition**. As used in this Lease, the word "**Option**" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2 **Options Personal to Original Lessee**. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 **Multiple Options**. In the event that Lessee has any multiple Options to extend or renew this Lease, a later option cannot be exercised unless the prior Options to extend or renew this Lease have been validly exercised.

39.4 **Effect of Default on Options**.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease,

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or (iv) in the event that Lessor has given to Lessee three (3) or more notices of separate Default under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. **Rules and Regulations**. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("**Rules and Regulations**") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. **Security Measures**. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. **Reservations**. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. **Performance Under Protest**. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. **Authority**. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. **Conflict**. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. **Offer**. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. **Amendments**. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The Parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. **Multiple Parties**. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY FOR THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The Parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Palo Alto, CA

on: April 12, 2000

By LESSOR:
SHERIDAN INVESTMENT COMPANY

By: /s/ ALLAN F. BROWN

Name Printed: ALLAN F. BROWN

Title: GENERAL PARTNER
By:

Name Printed:

Title:

Address: 3197 PARK BOULEVARD, PALO ALTO, CA 94306-2233
Telephone: (650) 849-9900 X113
Facsimile: (650) 849-9908

BROKER:
Executed at:

on:

By:

Name Printed:

Title:

Title:

Address:

Executed at:

on:

By LESSEE:
GIGA SEMICONDUCTOR, INC., A CALIFORNIA CORPORATION

By: /s/ LEE-LEAN SHU

Name Printed: LEE-LEAN SHU

Title: PRESIDENT
By:

Name Printed:

Title:

Address: 2371 OWEN STREET, SANTA CLARA, CA 95954
Telephone: (408) 980-8388
Facsimile: (408) 980-8377

BROKER:
Executed at:

on:

By:

Name Printed:

Title:

Title:

Address:

Telephone: ( ) Telephone: ( )

Facsimile: ( ) Facsimile: ( )

NOTE: These forms are often modified to meet changing requirements of law and needs of the Industry. Always write or call to make sure you are utilizing the most current form AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 700 South Flower Street, Suite 600, Los Angeles, California 90017, (213) 687-8777.

DISCLOSURE REQUIREMENTS

Date:	March 16, 2000	**Subject Property:**	2360 Owen Street
Lessor:	Sheridan Investment Company	**Subject Property:**	Santa Clara, California
Lessee:	Giga Semiconductor, Inc. a California corporation	**Brokers:**	Cornish & Carey Commercial BT Commercial Equus Associates

Various laws, regulations and policies require us to disclose the following information:

1. ***Alquist-Priolo Notification: Alquist-Priolo Special Earthquake Studies Zone Act***:

The Property described above is or may be situated in a "Special Study Zone" as designated under the Alquist-Priolo Special Studies Zone Act, Sections 2621-2630, inclusive, of the California Public Resources Code; and, as such, the construction or development on the Property of any structure for human occupancy may be subject to the findings of a geologic report prepared by a geologist registered in the State of California, unless such report is waived by the city or county under the terms of that act. No representations on the subject are made by Lessor or by Cornish & Carey Commercial, or its agents or employees, and the Lessee should make his/her/its own inquiry or investigation.

2. ***Notification re: National Flood Insurance Program***:

The Property is or may be located in a Special Flood Hazard Area on United States Department of Housing and Urban Development (H.U.D.) "Special Flood Zone Area Maps." Federal law requires that as a condition of obtaining federally related financing on most properties located in "flood zones," banks, savings and loan associations, and some insurance lenders require flood insurance be carried where the property, real or personal, is security for a loan. This requirement is mandated by the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. Cities or counties may have adopted building or zoning restrictions, or other measures which could affect the value of the property. Lessee should contact the city or county in which the property is located to determine any such restrictions. The extent of coverage available in this area and the cost of this coverage may vary, and for further information, Lessee should consult a lender or insurance carrier.

3. ***Hazardous Wastes of Substances and Underground Storage Tanks***:

Comprehensive federal and state laws and regulations have been enacted in the past several years in an effort to control the use, storage, handling, clean-up, removal and disposal of hazardous wastes or substances. Some of these laws and regulations (such as, for example, the Comprehensive Environmental Response Compensation and Liability Act [CERCLA]) provide for broad liability on the part of owners, tenants or other users of the property for clean-up costs and damages regardless of fault. Other laws and regulations set standards for the handling of asbestos, and establish requirements for the use, modification, abandonment, and closure of underground storage tanks.

It is not practical or possible to list all such laws and regulations in this Notice. Therefore, Lessors and Lessees are urged to consult legal counsel to determine their respective rights and liabilities with respect to the issues described in this Notice, as well as all other aspects of the proposed transaction. If hazardous wastes or substances have been, or are going to be used, stored, handled or disposed of on

the Property, or if the Property has or may have underground storage tanks, it is essential that legal and technical advice be obtained to determine, among other things, the nature of permits and approvals which have been obtained or may be required; the estimated costs and expenses associated with the use, storage, handling, clean-up, disposal or removal of hazardous wastes or substances; and the nature and extent of contractual provisions necessary or desirable in this transaction. Broker recommends expert assistance and site investigation to determine past uses of the property, which may provide valuable information as to the likelihood of hazardous wastes or substances, or underground storage tanks, being on the Property.

Lessor agrees to disclose to Broker and to Lessee any and all information which he/she/it has regarding present and future zoning and environmental matters affecting the Property and regarding the condition of the Property, including, but not limited to structural, mechanical and soils conditions, the presence and location of asbestos, PCB transformers, other toxic, hazardous or contaminated substances, and underground storage tanks, in, on, or about the Property.

Broker has conducted no investigation regarding the subject matter hereof, except as may be contained in separate written document signed by Broker. Broker makes no representations concerning the existence or nonexistence of hazardous wastes or substances, or underground storage tanks, in, on, or about the Property. Lessee should contact a professional, such as a civil engineer, industrial hygienist or other persons with experience in these matters, to advise on these matters.

The term "hazardous wastes or substances" is used herein in its very broadest sense and includes, but is not limited to, petroleum based products, paints and solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonium compounds, asbestos, PCBs and other chemical products. Hazardous wastes or

substances and underground storage tanks may be present on all types of real property. This Notice is intended to apply to any transaction involving any type of real property, whether improved or unimproved.

4. ***The Americans With Disabilities Act***:

Please be advised that an owner or tenant of real property may be subject to the Americans With Disabilities Act (the ADA). The Act requires owners and tenants of "public accommodations" to remove barriers to access by disabled persons and provide auxiliary aids and services for hearing, vision or speech impaired persons. You are advised to consult your attorney with respect to the application of this Act to the Property. Cornish & Carey Commercial cannot give you legal advice on this Act or its requirements.

5. ***Broker Disclosure***:

The parties hereby expressly acknowledges that Broker has made no independent determination or investigation regarding, but not limited to, the following: present or future use of the Property; environmental matters affecting the Property; the condition of the Property, including, but not limited to structural, mechanical and soils conditions, as well as issues surrounding hazardous wastes or substances as set out above; violations of the Occupational Safety and Health Act or any other federal, state, county or municipal laws, ordinances, or statutes; measurements of land and/or buildings. Lessee agrees to make its own investigation and determination regarding such items.

Receipt of a copy of this Notice and Agreement is hereby acknowledged.

Acknowledged and Agreed:

Lessor: SHERIDAN INVESTMENT COMPANY

By: /s/ ALAN F. BROWN

Alan F. Brown General Partner

Date: April 11, 2000

Broker: CORNISH & CAREY COMMERCIAL

By: /s/ FRANK COX

Frank Cox

Date: 4/12/00

Lessee: GIGA SEMICONDUCTOR, INC.,
a California corporation

By: /s/ LEE-LEAN SHU

Lee-Lean Shu, President

Date: _____

Broker: BT COMMERCIAL

By: _____

Brian McCarthy

Date: _____

Broker: EQUUS ASSOCIATES

By: /s/ DEAN CHESNUT

Dean Chesnut

Date: _____

CONSULT YOUR ADVISORS: NO REPRESENTATION OR RECOMMENDATION IS MADE BY CORNISH & CAREY COMMERCIAL OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL EFFECT, INTERPRETATION, OR ECONOMIC CONSEQUENCES OF THE NATIONAL FLOOD INSURANCE PROGRAM AND RELATED LEGISLATION, NOR OF OTHER LEGISLATION REFERRED TO HEREIN. THESE ARE QUESTIONS THAT YOU SHOULD ADDRESS WITH YOUR CONSULTANTS AND ADVISORS.

LEASE ADDENDUM

ADDENDUM TO THE LEASE DATED MARCH 16, 2000, BY AND BETWEEN SHERIDAN INVESTMENT COMPANY (LESSOR) AND GIGA SEMICONDUCTOR, INC., A CALIFORNIA CORPORATION (LESSEE), FOR THOSE PREMISES LOCATED AT 2360 OWEN STREET, SANTA CLARA, CALIFORNIA.

49. Rent Schedule:

Months 01 - 12	$24,830.00 per month NNN
Months 13 - 24	$26,072.00 per month NNN
Months 25 - 36	$27,376.00 per month NNN
Months 37 - 48	$28,744.00 per month NNN
Months 49 - 60	$30,182.00 per month NNN

50. Security Deposit:

As long as Lessee is not in default of the terms and conditions of this Lease, then the twelfth (12th) month of the lease ($24,830.00) shall be paid from the Security Deposit, leaving a security deposit on account of $50,170.00.

51. Tenant Improvements—Lessor:

Lessor shall, at Lessor's sole cost, complete the following repairs and improvements:

A. All interior walls shall be newly painted and Premises shall be thoroughly cleaned.

B. All floors shall be new carpet or VCT, as desired by tenant.

C. All ceilings, except janitors closet and toilet rooms, to have t-bar acoustic.

D. All spaces to have HVAC.

E. Lighting shall be lay-in fluorescent to 80 FC level.

F. Room 121 shall have standard large office electrical (ceiling drops).

51. Tenant Improvements—Lessee:

A. Lessee shall be allowed, at Lessee's sole cost and expense, to add more private offices with Landlord's approval. Landlord approval shall not be unreasonably withheld.

Lessor: SHERIDAN INVESTMENT COMPANY

By: /s/ ALLAN F. BROWN Date: April 11, 2000

Allan F. Brown, General Partner

Lessee: GIGA SEMICONDUCTOR, INC.,
A CALIFORNIA CORPORATION

By: /s/ LEE-LEAN SHU Date: _____

Lee-Lean Shu, President

AMENDMENT NUMBER ONE TO LEASE

2360 Owen Street
Santa Clara, California 95054

THIS AMENDMENT NUMBER ONE TO LEASE (this "Amendment"), dated for reference purposes as of June 19, 2002, is made and entered into by and between SHERIDAN STREET INVESTMENT COMPANY, L.P., a California Limited Partnership ("Lessor"), and GIGA SEMICONDUCTOR, INC., a California corporation ("Lessee").

RECITALS

A. Lessor and Lessee entered into that certain Standard Industrial/Commercial Multi-Tenant Lease—Modified Net dated as of March 22, 2000 and Addendum to Lease (the "Lease") with regard to certain premises located at 2360 Owen Street, Santa Clara, California 95054 (the "Premises"). Lessee is in possession of the Premises pursuant to the Lease.

B. Lessor and Lessee have agreed to enlarge (by approximately 2,285 square feet) the premises to include the rear warehouse/shipping portion of 2370 Owen Street, as set forth in Exhibit "B". The additional space will be co-terminus with the existing premises.

C. The Base Rent and Common Area Operating Expenses (CAOE) will be adjusted to include the expanded premises.

D. Lessor, at Lessor's sole cost, has agreed to prepare the added premises as set forth below and prior to Lessee occupying the space.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. *Definitions.* All capitalized terms and phrases used but not defined in this Amendment shall have the meanings given to them in the Lease.

2. *Base Rent.* Effective August 1, 2002, Paragraph 1.5 and Paragraph 4., Base Rent, is hereby amended to provide that an additional monthly rent of Three Thousand Eighty-five Dollars ($3,085.00) shall be paid to Lessor.

3. *Lessee's Share.* Paragraph 1.6(b), Lessee's Share of Common Area Operating Expenses, is hereby amended to read as follows:

"1.6(b) *Lessee's Share of Common Area Operating Expenses:* Sixty-nine point four percent (69.4%) ("Lessee's Share") as determined by pro rata square footage of the Premises as compared to the total square footage of the Building."

5. *Rent Schedule.* Paragraph 49, Rent Schedule, of the Addendum to the Lease is hereby amended to include Lessee paying an additional monthly rent of Three Thousand Eighty-Five Dollars ($3,085.00) commencing August 1, 2002.

6. *Tenant Improvements—Lessor:*

A. The existing double door will be in-filled.

B. One new double door to match existing 2360 Owen St. testing room door will be installed into the demising wall of Lessee's existing testing area. If wall width dimensions do not allow the installation of a double door, a 48" wide single door will be installed.

C. Remove and in-fill single door.

D. Extend drywall to ceiling in storage room.

E. Paint interior full height walls and storage room.

F. Paint ceiling or if feasible, install a cap-sheet to the ceiling.

G. Patch and repair VCT flooring.

H. Connect electrical to 2370 Owen Street and re-lamp strip fixtures.

7. *Effect of Amendment.* Except to the extent the Lease is modified by this Amendment, the remaining terms and provisions of the Lease shall remain unmodified and in full force and effect, including paragraph 3.3 to apply for the added premises. In the event of conflict between the terms of the Lease and the terms of this Amendment, the terms of this Amendment shall prevail.

8. *Entire Agreement.* This Amendment embodies the entire understanding between Lessor and Lessee with respect to its subject matter and can be changed only by an instrument in writing signed by Lessor and Lessee.

9. *Counterparts.* This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed, as of the date first above written.

LESSOR:

SHERIDAN INVESTMENT COMPANY, L.P.,
a California limited partnership

By: VANCE BROWN, INC.,
a California corporation,
its General Partner

By: /s/ RAY FRESCHI

Its: Property Manager

LESSEE:

GIGA SEMICONDUCTOR, INC.
a California corporation

By: /s/ LEE-LEAN SHU

Its: CEO

By: /s/ DOUGLAS SCHIRLE

Its: CFO

QuickLinks

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE—MODIFIED NET AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
DISCLOSURE REQUIREMENTS
LEASE ADDENDUM
AMENDMENT NUMBER ONE TO LEASE
2360 Owen Street Santa Clara, California 95054
RECITALS
AGREEMENT

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Exhibit 10.7

RENTAL AGREEMENT

This agreement, entered into this first day of October 1999, by and between UNITED ENERGY CORP. and GSI, hereinafter called respectively lessor and lessee.

Witnesseth: That for and in consideration of the payment of the rents and the performance of the convenants contained on the part of lessee said lessor does hereby demise and let unto the lessee, and lessee hires from lessor use as an industrious premises described as located at No. 17 floor, United Technology Building #A, Fantz PO, Chupei City for a tenancy from Oct. 1, 1999 to Sep. 30, 2004, for five years.

Rental payment		
1st year	NT$	132,000.00
2nd year		136,000.00
3rd year		144,000.00
4th year		151,000.00
5th year		158,000.00

Parking fee is payable monthly in advance on the 1st day of each and every month. Rent will be paid for 12 months, lessor notifies lessee to pay at Oct 1, and lessee will be paid three days before November 1. If there is a returned check, the lessee will be adding 2% interest for each day late, and lessor could stop rental agreement, lessee will have to move out. Deposit is NT$390.000.00, after the end of lease the lessor will pay for all utilities including the electric, gas, and telephone bill. Lessor will give a receipt for the check from lessee when lessor pays income tax.

The limit of rental:

1. Lessee shall not sub-lease the demised premises or any part thereof, or assign this agreement without the lessor's written consent.

2. Lessee couldn't use building for resident use.

3. Lessee shall keep and maintain the premises in a clean and sanitary condition at all times.

4. That all alterations, additions, or improvements made in and to the said premises shall, unless otherwise provided by written agreement between the parties hereto, be the property of lessor and shall remain upon and be surrendered with the premises.

Failure to obey the rule:

1. If lessee disobeys the rule, lessor could stop the agreement and take over the building.

2. Rental agreement is in effect to the ending date, lessee shall return the building to lessor and cannot ask any additional fees. When the lease ends, the lessor will take the equipment in the building. If lessee fails to move by the end of the lease, a monthly rent 2% to the lessor will be deducted from the deposit.

3. If lessee doesn't follow the contract, the lessor could sue lessee.

Additional agreement:

1. Lessee's business should pay income taxes to IRS and have not owed IRS in the past.

2. The building cannot store dangerous cargo.

3. The lessor pays property taxes. Electricity, water, gas, telephone and business taxes by lessee.

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4. If the areas in the building need fixing, the lessee should do regular maintenance.

5. Lessee moves out before the rental agreement, the rent will not be refunded.

6. Rental agreement must kept by both parties, otherwise the losing party will pay for all legal costs.

7. If lessee wants to cancel the contract, and if both parties can find new lessee to continue the rental, the rent will not be refunded, and the lessee will pay for the remaining period.

8. Supporter of lessee would keep the responsibility of the contract, and won't give up duty.

9. The paper work will be delivered to each party.

10. Contract will not be given to another party except another partner.

11. Air-condition system, ceiling, and electricity are the responsibility of the lessor and the lessee pays for the utilities.

The rule of agreement: If lessee will not return the building after the ending date, or doesn't want to pay rent, the partner will then be responsible.

Both parties will settle disagreements in Shin-Chu district court.

Both parties have the contract copy.

The contract of rental agreement says that if the lessee needs more space, then lessor will offer an addition space in the building; otherwise lessee could stop the contract.

If the building new, and the structure is not safe for use, lessee could stop the contract, and lessor will pay for the loss of lessee.

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated April 12, 2004 relating to the financial statements of GSI Technology, Inc. (formerly Giga Semiconductor, Inc.), which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

San Jose, California
April 12, 2004

QuickLinks

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS