

SETTLEMENT AGREEMENT

I. PARTIES

This Settlement Agreement is entered into, by and among the United States of America ("United States"), acting through the United States Department of Justice, and Silicon Power Corporation ("Silicon Power"), a Pennsylvania corporation with headquarters in Malvern, Pennsylvania (collectively, "the Parties").

II. RECITALS

A. Silicon Power designs, tests, and manufactures high-power semiconductor devices, high-power pulsed-power modules, and other high-power utility systems.

B. The United States alleges that from at least July 14, 2004, to September 10, 2012, Silicon Power provided design and research services to the United States Army under two contracts, contract no. W15QKN-05-C-1109 and contract no. W911NF-08-2-0027 (collectively, "the contracts"). The total aggregate value of the contracts was \$9,928,425.00.

C. The United States alleges that Silicon Power overbilled and mischarged the United States under the contracts as described more fully in Exhibit A.

D. The United States contends that because of Silicon Power's alleged overbilling and mischarging, the United States Army paid money to Silicon Power that was not due and owing under the contracts, and Silicon Power received payments to which it was not entitled. The allegations in Paragraphs B-D are hereafter referred to as the "Covered Conduct."

E. The United States contends that, based upon the Covered Conduct, it has claims against Silicon Power under the statutory and common law doctrines identified in paragraph B of the Terms and Conditions below.

F. Silicon Power disputes the United States' allegations regarding the Covered Conduct, and contends instead that any issues relating to its billing under the contracts were attributable to bookkeeping and/or accounting errors that were made in good faith and without any intention to overbill or mischarge the United States Army. Silicon Power also contends that it cooperated fully in the United States' inquiry into its billing practices under the contracts by voluntarily producing records, making its employees available for interviews, and providing to the United States the results of an audit of Silicon Power's billing practices.

G. This Agreement is made in compromise of disputed claims. Thus, this Agreement is not an admission of facts or liability by Silicon Power. Silicon Power denies the allegations of the United States as set forth herein and denies that it engaged in any wrongful conduct.

H. To avoid the delay, uncertainty, inconvenience, and expense of litigation, the Parties have reached a settlement of all claims in relation to the Covered Conduct according to the Terms and Conditions set forth below.

III. TERMS AND CONDITIONS

In reliance on the foregoing Recitals, and in consideration of the mutual promises, covenants and obligations of this Settlement Agreement, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

A. Silicon Power shall pay to the United States the total sum of \$265,000.00 ("Settlement Amount") within five (5) business days after receipt of an executed original or counterpart of this Settlement Agreement. Payment to the United States of the Settlement Amount shall be made by electronic funds transfer pursuant to written instructions to be provided to Silicon Power by the United States prior to or upon its execution of this Settlement

Agreement. In the event that the Settlement Amount is not paid within five (5) business days after receipt of an executed original or counterpart of this Settlement Agreement, interest shall accrue on the Settlement Amount at the rate of 3 percent per year.

B. Subject to the exceptions set forth in Paragraph D below, and conditioned upon the full payment of the Settlement Amount, and subject to Paragraph H below (concerning bankruptcy proceedings commenced within 91 days of the Effective Date of this Settlement Agreement or any payment made under this Settlement Agreement), the United States (on behalf of itself, those acting on its behalf, its officers, agents, agencies, and departments including, but not limited to, the United States Army) releases Silicon Power, and its predecessors, successors, current and former assigns, business affiliates, subsidiaries, parents, and divisions (collectively, “the Silicon Power Released Parties”) from any and all civil or administrative monetary claims the United States has or may have under the Contract Disputes Act, 41 U.S.C. §§ 7101-7109, and under the common law theories of payment by mistake, unjust enrichment, breach of warranty, negligence, and breach of contract, related to the Covered Conduct.

C. Silicon Power fully and finally releases the United States, its agencies, employees, servants, and agents from any claims (including attorney fees, costs, and expenses of every kind and however denominated) that Silicon Power has asserted, could have asserted, or may assert in the future against the United States, its agencies, employees, servants, and agents, related to the Covered Conduct and the United States’ investigation, prosecution, and disposition thereof.

D. Notwithstanding any term of this Settlement Agreement, specifically reserved and excluded from the scope and terms of the releases in this Settlement Agreement as to any entity or person (including Silicon Power) are the following:

1. Any civil, criminal or administrative liability arising under Title 26, U.S. Code (Internal Revenue Code);
2. Any criminal liability;
3. Any administrative liability limited to the suspension or debarment rights of any federal agency;
4. Any liability to the United States (or its agencies) for any conduct other than that related to the Covered Conduct;
5. Any civil liability to the United States (or its agencies) arising under the False Claims Act, 31 U.S.C. §§ 3729-3733, and common law fraud for any conduct related or unrelated to the Covered Conduct;
6. Any liability based upon obligations that this Settlement Agreement creates; and
7. Any liability for personal injury or property damage or other consequential damages arising from the Covered Conduct.

E. Silicon Power agrees to the following:

1. Unallowable Costs Defined: that all costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47) incurred by or on behalf of Silicon Power, and its present or former officers, directors, employees, shareholders, and agents in connection with:
 - a. the matters covered by this Settlement Agreement;
 - b. the United States' audit(s) and civil investigation(s) of the matters covered by this Settlement Agreement;

- c. Silicon Power's investigation, defense, any corrective actions undertaken in response to the United States' audit(s) and civil investigation(s) in connection with the matters covered by this Settlement Agreement (including attorney fees);
 - d. the negotiation and performance of this Settlement Agreement; and
 - e. the payment Silicon Power makes to the United States pursuant to this Settlement Agreement, including costs and attorney fees, are "Unallowable Costs" for government contracting purposes (hereinafter referred to as "Unallowable Costs").
2. Future Treatment of Unallowable Costs: Silicon Power will separately determine and account for Unallowable Costs, and Silicon Power shall not charge such Unallowable Costs directly or indirectly to any contracts with the United States.
3. Treatment of Unallowable Costs Previously Submitted for Payment: Within 90 days of the Effective Date of this Settlement Agreement, Silicon Power shall identify and repay any Unallowable Costs included in payments that Silicon Power previously sought from the United States. Silicon Power agrees that the United States shall be entitled, at a minimum, to recoup from Silicon Power any overpayment plus applicable

interest and penalties as a result of the inclusion of such Unallowable Costs on any previously-submitted requests for payment.

4. Nothing in this Settlement Agreement shall constitute a waiver of the rights of the United States to audit, examine, or re-examine Silicon Power's books and records to determine that no Unallowable Costs have been claimed in accordance with the provisions of this Paragraph.

F. Silicon Power waives and shall not assert any defenses it may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Settlement Agreement bars a remedy sought in such criminal prosecution or administrative action. Nothing in this paragraph or any other provision of this Settlement Agreement constitutes an agreement by the United States concerning the characterization of the Settlement Amount for purposes of the Internal Revenue laws, Title 26 of the United States Code.

G. Silicon Power warrants that it has reviewed its financial situation and that it is currently solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(1)(B)(ii)(1), and shall remain solvent following payment to the United States of the Settlement Amount. Further, the Parties warrant that, in evaluating whether to execute this Settlement Agreement, they have: (a) intended that the mutual promises, covenants, and obligations set forth constitute a contemporaneous exchange for new value given to Silicon Power within the meaning of 11 U.S.C. § 547(c)(1); and (b) concluded that these mutual promises, covenants, and obligations constitute such a contemporaneous exchange. Further, the Parties warrant that the mutual

promises, covenants, and obligations set forth herein are intended to and do, in fact, represent a reasonably equivalent exchange of value that is not intended to hinder, delay, or defraud any entity to which Silicon Power was or became indebted to on or after the date of this transfer, within the meaning of 11 U.S.C. § 548(a)(1).

H. If within 91 days of the Effective Date of this Settlement Agreement or of any payment made under this Settlement Agreement, Silicon Power or a third party commence any case, proceeding, or other action under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors: (a) seeking to have any order for relief of Silicon Power's debts, or seeking to adjudicate Silicon Power as bankrupt or insolvent; or (b) seeking appointment by a receiver, trustee, custodian, or other similar official for Silicon Power, or for all or any substantial part of Silicon Power's assets, Silicon Power agrees as follows:

1. Silicon Power's obligations under this Settlement Agreement may not be avoided pursuant to 11 U.S.C. § 547, and Silicon Power shall not argue or otherwise take the position in any such case, proceeding, or action that:
 - a. Silicon Power's obligations under this Settlement Agreement may be avoided under 11 U.S.C. § 547;
 - b. Silicon Power was insolvent at the time this Settlement Agreement was entered into, or became insolvent as a result of the payment made to the United States; or
 - c. the mutual promises, covenants, and obligations set forth in this Settlement Agreement do not constitute a contemporaneous exchange for new value given to Silicon Power.

2. If Silicon Power's obligations under this Settlement Agreement are avoided for any reason, including, but not limited to, through the exercise of a trustee's avoidance powers under the Bankruptcy Code, the United States, at its sole option, may rescind the releases in this Settlement Agreement and bring any civil and/or administrative claim, action, or proceeding against Silicon Power for the claims that would otherwise be covered by the releases provided in Paragraphs B-C, above.

Silicon Power agrees that: (i) any such claims, actions, or proceedings brought by the United States are not subject to an "automatic stay" pursuant to 11 U.S.C. § 362(a) as a result of the action, case, or proceedings described in the first clause of this Paragraph, and Silicon Power or a related party shall not argue or otherwise contend that the United States' claims, actions, or proceedings are subject to an automatic stay; (ii) Silicon Power or a related party shall not plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any such civil or administrative claims, actions, or proceeding that are brought by the United States within ninety (90) calendar days of written notification to Silicon Power that the releases have been rescinded pursuant to this Paragraph; and (iii) any such claims against Silicon Power are valid in the full amount of all federal funds used under the contracts trebled plus the statutory maximum penalty for each invoice submitted to the United States by Silicon Power, and the United States may pursue its claims against Silicon Power in the case,

action, or proceeding referenced in the first clause of this Paragraph, as well as in any other case, action, or proceeding.

3. Silicon Power acknowledges that its agreement in this Paragraph is provided in exchange for valuable consideration provided in this Settlement Agreement.

I. This document contains the full and complete Settlement Agreement with respect to the matters covered herein. No modification of this Settlement Agreement shall be effective unless in writing, signed by the Parties, and agreed to by the United States.

J. All Parties consent to the public disclosure of this Settlement Agreement, and information about this Settlement Agreement may be made available to the public upon request.

K. Each person who signs this Settlement Agreement in a representative capacity warrants that he or she is duly authorized to do so. Further, each Party itself (a) acknowledges that such Party has been advised by competent legal counsel in connection with the execution of this Settlement Agreement and the accompanying releases, has read each and every paragraph of this Settlement Agreement, and understands the respective rights and obligations set forth herein, and (b) represents that the commitments, acknowledgment, representations, and promises set forth herein are freely and willingly undertaken and given.

L. This Settlement Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between and among the Parties under this Settlement Agreement is the United States District Court for the Eastern District of Pennsylvania.

M. Each Party to this Settlement Agreement shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Settlement Agreement.

N. For purposes of construction, this Settlement Agreement shall be deemed to have been drafted by all Parties to this Settlement Agreement and shall not, therefore, be construed against any Party for that reason in any subsequent dispute.

O. This Settlement Agreement is intended to be for the benefit of Silicon Power and the United States only, and by this instrument, Silicon Power and the United States do not release any claims against any other person or entity, except those released within this Settlement Agreement.

P. Silicon Power represents that this Settlement Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

Q. This Settlement Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same Settlement Agreement.

R. This Settlement Agreement is binding on Silicon Power and its successors, transferees, and assigns.

S. This Settlement Agreement is effective on the date of signature of the last signatory to the Settlement Agreement (“Effective Date of this Settlement Agreement”). Facsimiles or scanned PDFs of signatures shall constitute acceptable, binding signatures for purposes of this Settlement Agreement.

T. The Tolling Agreement executed by the Parties on June 20, 2013, is deemed terminated pursuant to the terms of paragraph 6 of that agreement as of the Effective Date of this Settlement Agreement.

IN WITNESS WHEREOF, the Parties have executed the foregoing Settlement Agreement or counterparts thereof, intending to be bound.

EXHIBIT A

The United States alleges that Silicon Power overbilled and mischarged the United States under the contracts by billing the United States Army:

1. the same amount on multiple vouchers;
2. sums reflected in purchase orders when the invoices to Silicon Power reflected lower actual costs;
3. sums that subcontractors had credited back to Silicon Power;
4. sums that reflected accrued expenses when Silicon Power incurred lower actual invoiced expenses;
5. sums that failed to reflect volume discounts that Silicon Power received;
6. sums for travel expenses that were higher than Silicon Power's internal cost reports for the travel;
7. sums that Silicon Power carried over from previous vouchers without adjusting to reflect current costs; and
8. sums for non-contract project numbers for which the contracts did not allow payment.

THE UNITED STATES OF AMERICA

DATED: 2/4/2015

BY:



Zane David Memeger
United States Attorney



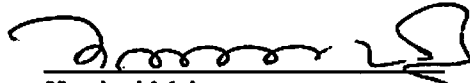
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SILICON POWER CORPORATION

BY:


Harshad Mehta
President and CEO
Silicon Power Corporation

1/26/15

COUNSEL FOR
SILICON POWER CORPORATION

BY:

A handwritten signature in black ink, appearing to read "Matthew D. Lee", written over a horizontal line.

Matthew D. Lee, Esq.
Blank Rome LLP