



INTERPHASE[®]

2010 Annual Report

Notice of 2011 Annual Meeting
and Proxy Statement

Summary Financial Information

Statement of Operations Data: (In thousands, except per share amounts)

Year Ended December 31,	2010	2009	2008
<i>Revenues</i>	\$ 18,207	\$ 25,585	\$ 26,231
<i>Gross margin</i>	9,187	12,289	14,031
<i>Research and development</i>	6,572	7,970	9,198
<i>Sales and marketing</i>	4,512	5,753	5,237
<i>General and administrative</i>	3,843	4,275	4,100
<i>Restructuring charge</i>	3,339	1,236	403
<i>Loss from operations</i>	(9,079)	(6,945)	(4,907)
<i>Other, net</i>	23	289	618
<i>Loss before income tax</i>	(9,056)	(6,656)	(4,289)
<i>Net loss</i>	\$ (8,419)	\$ (5,554)	\$ (3,026)
<i>Net loss per share</i>			
<i>Basic EPS</i>	\$ (1.23)	\$ (0.81)	\$ (0.46)
<i>Diluted EPS</i>	\$ (1.23)	\$ (0.81)	\$ (0.46)
<i>Weighted average common shares</i>	6,839	6,899	6,550
<i>Weighted average common and dilutive shares</i>	6,839	6,899	6,550

Company Profile

Interphase Corporation and subsidiaries (“Interphase” or the “Company”) delivers solutions for LTE and WiMAX, interworking gateways, packet processing, network connectivity, and security for key applications for the communications and enterprise markets. Founded in 1974, Interphase provides expert engineering design and electronics manufacturing services, in addition to its commercial-off-the-shelf (COTS) portfolio of products. Interphase is headquartered in Plano, Texas, with sales offices in the United States and Europe. Clients include Alcatel-Lucent, Emerson Network Power, Fujitsu Ltd., Genband, Hewlett Packard, ip.access, Nokia Siemens Networks, Samsung, and Sun Microsystems.

Balance Sheet Data: (In thousands)

December 31,	2010	2009	2008
<i>Working capital</i>	\$ 13,117	\$ 21,257	\$ 25,301
<i>Total assets</i>	19,314	28,647	31,248
<i>Total liabilities</i>	8,304	9,385	6,962
<i>Shareholders' equity</i>	\$ 11,010	\$ 19,262	\$ 24,286

To Our Shareholders

2010 remained challenging for our Company and the telecommunications industry at large. This was reflected in our 2010 Company results. During the third quarter of 2010, we implemented a Company-wide restructuring effort, resulting in a reduction of operating expenses of more than \$5 million or about 35% of our expense base in order to bring our expenses in line with our revenue run rate. With these actions now complete, it is clear that they were absolutely necessary. As a result of the actions taken *and three consecutive quarters of sequential revenue growth*, we returned to profitability in the fourth quarter of 2010 and positioned Interphase for profitability in 2011. We will continue to diligently manage our expenses and investments while we pursue the path of diversifying the markets we address and continue to look for efficiencies throughout our Company. With that said, 2011 is off to a much better start than 2010 and we expect to see both revenue growth and profit in 2011 and beyond.

Diversifying Our Offerings

In 2010, Interphase embarked upon a multi-tiered strategy to diversify itself into a number of new business areas, with a focus on expanding our base of customer opportunities both within and outside of the telecommunications market. We also determined that as we expand our market presence, we wanted to change our position within the value chain of each of these new markets, positioning ourselves closer to the end user. This decision came as a result of carefully examining each of a number of attributes related to our telecommunications value chain position and realizing the challenges related to that position. So, in 2010, we began our launch into a broad range of new products and services which we will continue to aggressively pursue in 2011:

- Engineering Design Services. In 2011, we will increase our efforts in this business, with the goal of growing our reach into new and exciting markets. These efforts not only generate revenue for our Company in the near term but also, in many cases, provide additional productization opportunities for the future. We continued to expand our overall services business with multiple wins and deliveries during the first quarter of 2011.
- Cloud Computing Clients. During 2011, we will be expanding our reach into the rapidly growing cloud computing market with a new line of desktop virtualization products. Interphase will support this growth with a line of robust yet cost-effective clients addressing education and enterprise market segments. We already have secured our first product design and customer win, and we expect to expand our presence in this market during 2011.
- Packet Processors. We continue to move forward with our portfolio of products in the packet processing marketplace. During the second half of 2010 we had design wins with our 16-core PCI-x packet processing card and our 12-core AMC cards. Near the end of the fourth quarter of 2010 we engaged in new bids for our 10Gig packet processing cards, and we have been awarded two new design wins during the first quarter of 2011.
- Electronics Manufacturing Services. Clients in need of outsourcing high-quality, high-mix, and low-to-medium-volume product builds are now looking to Interphase to meet their needs. Among Interphase's many strengths, the quality of our products, our process discipline, and our manufacturing

capabilities have consistently been identified by our customers as being “world class.” We intend to differentiate ourselves on the basis of fast customer responsiveness, high quality, and low total cost of engagement. Since we have honed our processes of design for manufacture and we supplement electronics manufacturing services along with engineering design services described above, we provide our customers with the opportunity to meet their one-stop-shop outsourcing needs by partnering with Interphase as a qualified supplier. It is clear from the feedback we are receiving that our offerings are unique and strongly desired in the market and that new opportunities are emerging every day. We expect to grow this business substantially in 2011.

- *LTE Baseband Products.* We feature a number of new innovative solutions that we believe will not only expand our presence within the traditional telecom sector but also open up new market segments within the broader communications marketplace. Last year we introduced a new, very innovative solution that integrates state-of-the-art system-on-a-chip (or SoC) technology and optimized protocol software to target high-performance mobile broadband applications and offer our customers significant time-to-market and time-to-revenue advantages. Our iSPAN 36701 Wireless Base Station Module supports all of the essential functions of a 4G LTE base station and is easily tailored to private mobile radio, rapidly deployable networks, and military wireless broadband applications. We recently demonstrated high-performance video over RF with this product to key global equipment providers and received a great deal of enthusiastic response. We also showcased this product’s capabilities in an over-the-air demonstration at Mobile World Congress in Barcelona during February of 2011, and customer response was overwhelming. The mounting pressure on wireless carriers to attract new customers with higher-performance services has fueled an urgent need to reduce their cost per bit in order to handle the exponentially increasing load on their networks at an affordable price. Therefore, we continue to see growing interest in our LTE AMC and customized form factor products to immediately enable our customers’ development of Home eNodeB’s as well as enterprise Femtocells and Metrocell products. We expect to begin to see product customization revenue during 2011 related to these products as well as some number of unit sales primarily for lab use with customers.
- *Embedded Computer Vision.* Over the past two years we have made a strategic investment in identifying a new and exciting future for the Company. Last year we chose Embedded Computer Vision as a new strategic area of business. In the past year we have made great progress on developing a product that we believe will be a *game changer* for the markets it targets. We are very excited about the growth potential that this disruptive technology approach should bring to those markets. During the latter part of 2011, we will begin our product launch activities, and you will be able to learn more about it at that time.

Creating Our Future

Our goal in the above-mentioned strategy is to expand beyond the telecom industry and diversify our profile as a company by entering robust new market segments that will allow us to generate growth in a variety of ways, thus fortifying our future. So far in 2011, we have already begun to see the fruit of implementing this strategy.

I know that these past several years have been tough for our Company, our employees, and also our shareholders. I don’t know if anyone could have predicted the major shifts that the telecom industry underwent or the impact it would have on its major players ... and on Interphase. I want you to know, however, that I am very sensitive to the

impact this has had upon our investors. The actions outlined above are designed to bring an added measure of stability and growth to our Company in the future. I appreciate your patience as we reorganized and redeployed our resources into new and exciting markets. During 2011, we will continue to work diligently to capitalize on revenue opportunities and improve our process efficiency at a more rapid pace than ever before so that we are able to compete effectively within these new markets.

We have an outstanding team at Interphase, one I am privileged to lead. This team has done a great job of managing our Company's resources during a tough year, and you can expect us to continue to judiciously manage them in the future, as we believe these are strategic assets needed for our future expansion. We are excited about the future of our Company and look forward to expanding our horizons into new markets that will embrace the value proposition we offer.

With warmest regards,

A handwritten signature in black ink that reads "Gregory B. Kalush". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

Gregory B. Kalush

Chairman, President and CEO



INTERPHASE[®]
Designed To Perform. Designed To Last.™

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 4, 2011

To the Holders of Common Stock of
Interphase Corporation:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of Interphase Corporation, a Texas corporation (the “Company”), will be held on May 4, 2011 at 9:00 a.m. local time at the Embassy Suites Hotel at 7600 John Q. Hammons Drive, Frisco, Texas, for the following purposes:

- (a) to elect six directors of the Company to serve until the next annual meeting of shareholders or until their respective successors shall be elected and qualified;
- (b) to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the year ending December 31, 2011; and
- (c) to transact such other business as may properly come before the meeting or any adjournment thereof.

It is desirable that as large a proportion as possible of the shareholders' interests be represented at the meeting. Whether or not you plan to be present at the meeting, you are urged to sign the enclosed proxy and return it promptly in the enclosed envelope.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 4, 2011. This Proxy Statement and Annual Report on Form 10-K are available online at www.proxydocs.com/inph.

By order of the Board of Directors

S. Thomas Thawley
Vice Chairman and Secretary

Plano, Texas
April 1, 2011

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**Interphase Corporation
Parkway Centre I
2901 North Dallas Parkway, Suite 200
Plano, Texas 75093**

**PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
To be Held May 4, 2011**

This Proxy Statement is furnished to shareholders of Interphase Corporation, a Texas corporation (the “Company”), in connection with the solicitation of proxies by the Board of Directors of the Company (the “Board of Directors” or the “Board”) for use at the annual meeting of shareholders to be held on May 4, 2011. Proxies in the form enclosed will be voted at the meeting if properly executed, returned to the Company prior to the meeting, and not revoked. This proxy statement is first being mailed to shareholders on or about April 1, 2011. This proxy statement and the Company’s 2010 annual report are available online at www.proxydocs.com/inph.

PERSONS MAKING THE SOLICITATION

The accompanying proxy is being solicited by the Board of Directors of the Company. The cost of soliciting the proxies and the annual meeting will be borne entirely by the Company. In addition to the use of the mail, proxies may be solicited by personal interview, telephone, and facsimile transmission by directors and officers and employees of the Company. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of shares of Common Stock, \$.10 par value (“Common Stock”), held of record by such persons, and the Company may reimburse them for reasonable out-of-pocket expenses they incur in connection with forwarding the solicitation material. The Company may also engage a solicitor or other third-party firm to assist in the distribution and solicitation of proxies.

OUTSTANDING CAPITAL STOCK AND RECORD DATE

The record date for shareholders entitled to notice of and to vote at the annual meeting is March 16, 2011. At the close of business on that date, the Company had issued, outstanding and entitled to be voted at the meeting 6,773,296 shares of Common Stock.

VOTING BY PROXY; REVOCATION OF PROXY

Shareholders of record may vote by proxy by completing, signing and returning the accompanying proxy form in the accompanying postage-paid envelope. A proxy may be revoked at any time before it is exercised. A shareholder giving a proxy may revoke it by (1) submitting another proxy with a later date, (2) giving written notice to the Company’s Secretary before the annual meeting that the proxy has been revoked or (3) voting in person at the annual meeting.

ACTION TO BE TAKEN AT THE MEETING

The accompanying proxy, unless the shareholder otherwise specifies in the proxy, will be voted **FOR** the election as directors of the Company of the six persons named under the caption “**Election of Directors**”, **FOR** the ratification of the appointment of Grant Thornton LLP as our independent registered

public accounting firm for the year ending December 31, 2011 and, in the discretion of the proxy holder, with respect to such other business as may properly come before the meeting.

Where shareholders have appropriately specified how their proxies are to be voted, they will be voted accordingly. If any other matter or business is brought before the meeting, the proxy holders may vote the proxies at their discretion. The Board does not know of any such other matter or business.

QUORUM AND VOTING

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the annual meeting. In deciding all questions, a holder of Common Stock is entitled to one vote, in person or by proxy, for each share held in his or its name on the record date. Directors are elected by a plurality of the votes cast at the meeting. Because the six nominees for director who receive the most votes will be elected, abstentions and broker-non-votes (i.e., shares held by brokers or other nominees that are present at the meeting but not voted for a particular matter) will not be included in vote totals and will have no effect on the election of directors. The ratification of the auditors will require the affirmative vote of a majority of the shares present at the meeting. Accordingly, abstentions and broker-non-votes will have the same effect as a negative vote on that matter.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information as to the number of shares of Common Stock of the Company beneficially owned as of March 16, 2011 by (i) each person who is known to the Company to own beneficially more than 5% of the outstanding Common Stock of the Company, (ii) the named executive officers (identified in “Executive Compensation – Summary Compensation Table” below) and each director of the Company and (iii) all named executive officers and directors as a group. To the knowledge of the Company, each of the owners named below has sole voting and investment power with respect to the shares of Common Stock beneficially owned by him or it unless otherwise indicated.

Name and address of Beneficial Owner	Amount and Nature of Beneficial Ownership		Percent of Class
Gregory B. Kalush	334,977	(1)	4.8%
S. Thomas Thawley	278,626	(1)	4.1%
Randall E. McComas	208,805	(1)	3.0%
Michael J. Myers	53,501	(1)	0.8%
Thomas N. Tipton, Jr.	48,893	(1)	0.7%
Paul N. Hug	48,501	(1)	0.7%
Kenneth V. Spenser	47,501	(1)	0.7%
Yoram Solomon	34,413	(1)	0.5%
Marc E. DeVinney	31,683	(1)	0.5%
Christopher B. Strunk	12,167		0.2%
All executive officers and directors as a group (10 persons)	1,099,067	(2)	15.1%
Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	477,229	(3)	7.0%

Renaissance Technologies, LLC
Renaissance Technologies
Holdings Corporation
800 Third Avenue
New York, NY 10022

367,400 (4) 5.4%

- (1) Includes vested options to purchase shares of Common Stock, and options exercisable within 60 days of the date of this proxy statement, if any, with exercise prices ranging from \$4.12-\$11.45 per share (fair market value on the respective dates of grant) as follows: Mr. Kalush, 185,000 shares; Mr. Thawley, 35,000 shares; Mr. McComas, 191,540 shares; Mr. Myers, 35,000 shares; Mr. Tipton, 7,500 shares; Mr. Hug, 35,000 shares; and Mr. Spenser, 35,000 shares.
- (2) Includes 524,040 shares that may be acquired upon exercise of vested stock options, and options exercisable within 60 days of the date of this proxy statement, if any.
- (3) Based solely upon information contained in an amended Schedule 13G filed with the Securities and Exchange Commission on January 13, 2011.
- (4) Based solely upon information contained in an amended Schedule 13G filed by Renaissance Technologies, LLC (“RT, LLC”), James H. Simons, and Renaissance Technologies Holdings Corporation (“RTHC”) with the Securities and Exchange Commission on February 11, 2011. It appears from the Schedule 13G that RT, LLC has sole voting and investment power over the shares; that RTHC, as the majority owner of RT, LLC, is deemed to have voting and investment power over the shares; and that Mr. Simons, a former control person of RT, LLC, has no voting or investment power over the shares.

ELECTION OF DIRECTORS

Six directors are to be elected at the meeting. To be elected a director, each nominee must receive a plurality of all of the votes cast at the meeting for the election of directors. Should any nominee become unable or unwilling to accept nomination or election, the proxy holders may vote the proxies for the election in his stead of any other person the Board of Directors may recommend. Each nominee has expressed his intention to serve the entire term for which election is sought.

A brief description of each nominee for director of the Company is provided below. Directors hold office until the next annual meeting of shareholders or until their successors are elected and qualified.

OUR BOARD OF DIRECTORS AND NOMINATING AND GOVERNANCE COMMITTEE UNANIMOUSLY RECOMMEND THAT SHAREHOLDERS VOTE “FOR” EACH OF THE FOLLOWING NOMINEES FOR DIRECTOR.

Gregory B. Kalush, 54, was elected Chairman of the Board in May 2000. Mr. Kalush was appointed the Chief Executive Officer, President and Director of the Company in March 1999. He joined the Company in February 1998 as Chief Financial Officer, Vice President of Finance and Treasurer. Mr. Kalush is also the sole member of the New Employee and Retention Stock Award Committee of the Board of Directors. Prior to joining Interphase, Mr. Kalush was with DSC Communications Corporation from 1995 to 1998. While at DSC, he served as Vice President of Transmission Data Services, Vice President of Operations, International Access Products and Group Vice President of Finance, Transport Systems Group.

Prior to DSC, Mr. Kalush was with IBM Corporation from 1978 to 1994. During that time his positions included Chief Financial Officer and Operations Executive for the Skill Dynamics Business Unit, Director of Finance, Planning and Administration for the Southwest Area, and Division Director of Finance and Operations for the Data Systems Division.

Mr. Kalush's depth of experience in leading Interphase as CEO and Chairman of the Board, his responsibilities for the strategic direction and management of Interphase's day-to-day operations, and his experience as the former Chief Financial Officer of Interphase and other executive general management experiences in the telecommunications and enterprise computing technology sector bring a broad array of industry experience and institutional knowledge to the Board.

Paul N. Hug, 67, was elected a director in 1984. He has been a certified public accountant engaged in public accounting practice as owner of Paul Hug & Co. CPAs since 1980. Mr. Hug is a member of the Compensation Committee, the Nominating and Governance Committee and is Chairman of the Audit Committee of the Board of Directors.

Mr. Hug is an experienced financial professional with the skills necessary to lead our Audit Committee. His experiences in handling complex financial issues make him a valuable asset, both on our Board of Directors and as the Chairman of our Audit Committee. Mr. Hug qualifies as an "audit committee financial expert" under the guidelines of the Securities and Exchange Commission ("SEC").

Michael J. Myers, 64, was elected a director in 2002. From 2002 until his retirement in 2006, Mr. Myers served as President and CEO of Coppercom Inc., a provider of networking equipment for telecommunications operators. Mr. Myers served as the President of the Broadband Systems Division of Alcatel from 2000 to 2002 and as Group Vice President for Alcatel's Networking Systems Group from 1998 to 2000. Prior to 1998, Mr. Myers worked for DSC Communications Corporation, serving as its Executive Vice President and Chief Operating Officer from 1997 to 1998, at its DSC Denmark A/S subsidiary, and as a Group Vice President for its transmission business in 1997. Mr. Myers also had prior experience with Nortel Networks, NCR, and General Motors Corporation. Mr. Myers is Chairman of the Compensation Committee and a member of the Nominating and Governance Committee and the Audit Committee of the Board of Directors.

As a former chief executive officer and senior executive with both general management and finance expertise as well as significant international experience across a variety of industry sectors, including telecommunications, computing and automotive, Mr. Myers contributes valuable insight to the Board in the areas of general management, financial acumen, strategic insight and governance.

Kenneth V. Spenser, 62, was elected a director in 2002. Mr. Spenser is currently the Chief Executive Officer for Entivity Holdings. Mr. Spenser served as President, Chief Executive Officer and Chairman of the Board for Entivity, Inc. or its predecessors from 1997 to 2004. Entivity is a leading provider of PC-based control systems to the automation marketplace. In 2007, Mr. Spenser became President of Better Rehab, LLC. Better Rehab was founded by orthopedic surgeons, exercise physiologists and rehabilitation specialists to assist patients who underwent total joint replacements. Prior to founding Entivity, Mr. Spenser served as Vice President for Texas Instruments' Information Technology Group and as General Manager for Autodesk's Mechanical Division. Mr. Spenser spent ten years on active duty as a naval aviator and twelve years in the Naval Reserves, retiring in 1993 with the rank of Captain. Mr. Spenser is a member of the Nominating and Governance Committee and the Audit Committee of the Board of Directors.

As a chief executive officer and a former senior executive in the technology industry along with his successful entrepreneurial experiences, Mr. Spenser offers a unique and insightful perspective to the Board in the areas of strategic market selection, positioning and market expansion, sales and channel development and overall general management.

Christopher B. Strunk, 62, was elected a director in 2007. Prior to his retirement in 2004, Mr. Strunk served as Senior Vice President, North American Sales for Alcatel, from 2002 to 2004. He was Vice President Sales-Bell Atlantic/Verizon for Alcatel from 1998 to 2002. Prior to 1998, Mr. Strunk was Regional Vice President-Sales for DSC Communications Corporation. Mr. Strunk also had prior experience with Granger Associates, AT&T, Bell of Pennsylvania and Diamond State Telephone. Mr. Strunk is a member of the Compensation Committee and the Nominating and Governance Committee.

As a senior executive with significant sales experience in the telecommunications industry, Mr. Strunk contributes valuable insight about the telecom market and customer trends to the Board.

S. Thomas Thawley, 70, is a co-founder of the Company and has served as Secretary and a director of the Company since its incorporation in 1977. Mr. Thawley was elected Vice Chairman in May 2000 and is the Chairman of the Nominating and Governance Committee of the Board of Directors.

Mr. Thawley's experience in leading the business as co-founder of Interphase brings broad electronics industry experience and technical expertise and specific institutional knowledge to the Board.

Committees and Meetings of the Board of Directors

The Board of Directors has established four committees, the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the New Employee and Retention Stock Award Committee. During 2010, the Audit Committee was composed of Mr. Hug (Chairman), Mr. Myers, and Mr. Spenser. The Audit Committee met seven times during 2010. The Audit Committee's responsibilities are described in the Audit Committee Charter, which is included as an exhibit to this proxy statement (See Exhibit A). During 2010, the Compensation Committee was composed of Mr. Myers (Chairman), Mr. Hug, and Mr. Strunk. The Compensation Committee met four times during 2010 and reviewed the executive compensation plan of the Company in light of industry practices and circumstances unique to the Company. The Compensation Committee has overall responsibility for the Company's executive compensation policies as provided in a written charter adopted by the Board of Directors, which is available on the Company's website at www.interphase.com. During 2010, the Nominating and Governance Committee was composed of Mr. Thawley (Chairman), Mr. Hug, Mr. Myers, Mr. Spenser, and Mr. Strunk. The Nominating and Governance Committee is responsible for considering and approving nominees for election as director and performing the other responsibilities set forth in its charter, which is available on the Company's website at www.interphase.com. The Nominating and Governance Committee met four times during 2010. In 2010, the New Employee and Retention Stock Award Committee was composed of one member, Mr. Kalush. The New Employee and Retention Stock Award Committee has the authority to grant stock options and restricted stock under the 2004 Long-Term Stock Incentive Plan to newly hired employees of the Company and, for retention purposes, to existing employees of the Company. The New Employee and Retention Stock Award Committee met two times during 2010.

The Board of Directors held seven meetings during the year ended December 31, 2010. None of the directors attended fewer than 75% of the meetings of the Board of Directors and its committees on which such director served.

The Company encourages Board members and nominees for director to attend the annual meeting of shareholders. All current Board members attended the Company's 2010 annual meeting of shareholders.

Board Leadership Structure and Role in Risk Oversight

Our Chief Executive Officer also serves as the Chairman of the Board. The Board has chosen this structure because it believes the Chief Executive Officer serves as a bridge between management and the Board, ensuring that both groups act with a common purpose. However, the Board believes that it is simultaneously important to have a strong governance structure to ensure a strong and independent Board. All directors, with the exception of the Chairman, are "independent" as defined under SEC rules and NASDAQ Global Market listing requirements, and the Audit Committee, the Compensation and Nominating and Governance Committee are composed entirely of independent directors. The Committee chairs set the agendas for their committees and report to the full Board on their work. The chairman of the Nominating and Governance Committee also serves as the lead independent director. The "independent" members of the Board meet regularly in executive session, without management present.

In its corporate governance guidelines, the Board acknowledges its responsibility for reviewing the process for assessing the major risks facing the Company and the options for their mitigation. Each of our Board committees considers the risks within its areas of responsibilities. For example, the Audit Committee is responsible for reviewing and discussing with management and the Company's registered public accountant the Company's major risk exposures and the policies management has implemented to monitor such exposures, including the Company's financial risk exposures and risk management policies. Additionally, the outcome of the Company's Audit Risk assessment is presented to the Audit Committee annually; this assessment identifies internal control risks and drives the internal control testing for the coming year. The Compensation Committee reviews the Company's overall compensation program and its effectiveness at both linking executive pay to performance and aligning the interests of our executives and our stockholders. Finally, the Nominating and Governance Committee reviews the Company's management and Board performance as well as the Board's structure on a regular basis. Material violations of the Company's Code of Ethics and related policies are reported to the full Board.

Limitation of Liability and Indemnification

The Company's Articles of Incorporation, as amended, include a provision that eliminates the personal liability of the Company's directors for monetary damages for breach of fiduciary duty as a director, except for liability (1) for any breach of the director's duty of loyalty to the Company or its shareholders, (2) for any act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law, (3) for any transaction from which the director received an improper personal benefit, or (4) under the Texas corporate statute regarding unlawful dividends and stock repurchases.

The Company's current Amended and Restated Bylaws provide that the Company (1) must indemnify the Company's directors and officers to the fullest extent permitted by Texas law, subject to limited exceptions, (2) may indemnify the Company's other employees and agents to the same extent that the Company indemnifies its directors and officers, and (3) must advance expenses, as incurred, to the Company's directors and officers in connection with the defense of a legal proceeding to the fullest extent permitted by Texas law, subject to limited exceptions.

Compensation of Directors

The following table sets forth the compensation paid to our non-employee directors, who during 2010 were Mr. Hug, Mr. Myers, Mr. Spenser, Mr. Strunk, and Mr. Thawley.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards \$(1)</u>	<u>Total (\$)</u>
Paul N. Hug	33,200	-	33,200
Michael J.	33,200	-	33,200
Kenneth V. Spenser	25,200	-	25,200
Christopher B. Strunk	23,000	-	23,000
S. Thomas Thawley	23,000	-	23,000

(1) During 2010, there were no awards of restricted stock or stock options granted to non-employee directors.

Each non-employee member of the Board received a quarterly cash retainer of \$5,000 for his service. Each committee chairman, except the Nominating and Governance Committee Chairman, received an annual retainer of \$5,000. The Nominating and Governance Committee Chairman received an annual retainer of \$3,000. Each member of the Compensation Committee, including the chairman, received an annual retainer of \$3,000. Each member of the Audit Committee, including the chairman, received an annual retainer of \$5,200. All directors are reimbursed for their reasonable out-of-pocket expenses in serving on the Board or any committee of the Board. Mr. Kalush does not receive cash compensation for his service on the Board.

AUDIT COMMITTEE

The Audit Committee of the Board is currently composed of Mr. Hug (Chairman), Mr. Myers, and Mr. Spenser. The purpose of the Audit Committee is to assist the Board of Directors in carrying out its responsibility to oversee the Company's internal controls and financial reporting process.

Audit Committee Charter

The Board of Directors has adopted and maintains a written charter for the Audit Committee, which describes the Audit Committee's authority, responsibilities and functions. A copy of the Audit Committee Charter is available on the Company's website at www.interphase.com and is included as an exhibit to this proxy statement (See Exhibit A).

Audit Committee Member Independence

The Board has made the determination that all members of the Audit Committee are "independent" as defined in the applicable requirements of the SEC and the listing standards of the NASDAQ Global Market.

Financial Expert

The Board has determined that Mr. Hug meets the SEC criteria of an “audit committee financial expert.” Mr. Hug has been a certified public accountant engaged in public accounting practice as owner of Paul Hug & Co. CPAs since 1980, and as such, has participated in dealing with accounting, auditing, internal control, and risk management issues.

Report of Audit Committee

We have reviewed and discussed with management the Company’s internal control over financial reporting and its audited financial statements as of and for the year ended December 31, 2010.

We have discussed with Grant Thornton LLP (“Grant Thornton”), our independent accountants, the matters required to be discussed by Statement on Auditing Standards No. 61 as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 2300T.

We have received and reviewed the written disclosures and the letter from Grant Thornton as required by Independence Standards Board Standard No. 1, “Independence Discussions with Audit Committees”, as amended, by the Independence Standards Board, and have discussed with Grant Thornton its independence with respect to the Company.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

THE AUDIT COMMITTEE

Paul N. Hug, Chairman
Kenneth V. Spenser
Michael J. Myers

NOMINATING AND GOVERNANCE COMMITTEE

The members of the Nominating and Governance Committee are Mr. Thawley (Chairman), Mr. Hug, Mr. Myers, Mr. Spenser and Mr. Strunk. All members of the Committee meet the independence requirements of the NASDAQ Global Market.

The responsibilities of the Nominating and Governance Committee are to identify individuals qualified to serve as directors of the Company (“Directors”) consistent with criteria developed by the Nominating and Governance Committee and approved by the Board. The Nominating and Governance Committee recommends nominees for election as Directors at the Company’s annual meetings of shareholders; develops and recommends to the Board corporate governance principles applicable to the Company; and oversees the evaluation of the Board and the Company by the Directors. The Company has adopted a Nominating and Governance Committee Charter, which is available on the Company’s website at www.interphase.com.

The Nominating and Governance Committee proposes, and the Board of Directors adopts, guidelines for identifying and evaluating Director candidates. Under those guidelines, the Nominating

and Governance Committee shall consider a number of factors when identifying potential nominees, including: applicable requirements of law and of the NASDAQ Global Market, independence from management, diversity, relevant business experience, good business judgment, specific expertise, strength of character, integrity and reputation, existing commitments to other businesses, potential conflicts of interest with other pursuits, legal restraints, corporate governance background, financial and accounting background and education, executive compensation background, and other factors deemed appropriate in adding value to the composition of the existing Board and its size and structure.

The Nominating and Governance Committee does not have a formal policy with respect to Board nominee diversity. In recommending proposed nominees to the full Board, the Nominating and Governance Committee is charged with building and maintaining a board that has an ideal mix of skills and experience to achieve the Company's business objectives in the current environment. In particular, the Nominating and Governance Committee is focused on relevant subject matter expertise, depth of knowledge in key areas that are important to the Company, and diversity of thought, background, perspective and experience so as to facilitate meaningful discussion and broad thinking on strategies and tactics used by the Company.

In all cases, Directors should have expertise that will be useful to the Company, possess the highest personal and professional integrity and ethics, and be willing and able to devote the required time to properly serve the Company.

The Nominating and Governance Committee may use a variety of means to identify potential nominees, including recommendations from the Chairman, other Directors or others associated with the Company or with the help of executive search firms (which receive a fee for their services).

The Nominating and Governance Committee will consider candidates for Director suggested by shareholders applying the criteria for candidates described above and considering the additional information set forth below.

Shareholders wishing to suggest a candidate for Director should write to our Secretary and include:

- a. as to each person whom the shareholder proposes to nominate for election or re-election as a Director:
 - i. the name, age, business address and residence of such person,
 - ii. the principal occupation or employment of such person,
 - iii. the number of shares of Common Stock which are beneficially owned by such person,
 - iv. information about each of the factors to be considered by the Nominating and Governance Committee listed above,
 - v. a statement detailing any relationship between the candidate and any customer, supplier or competitor of the Company,
 - vi. detailed information about any relationship or understanding between the shareholder proposing the candidate or any other shareholder and the candidate,
 - vii. a statement from the candidate that the candidate is willing to be considered and will serve as a Director if nominated and elected, and

- viii. any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934 and any other applicable laws or rules or regulations of any governmental authority or of any national securities exchange or similar body overseeing any trading market on which shares of the Company are traded, and
- b. as to the shareholder giving the notice:
- i. the name and record address of the shareholder, and
 - ii. the number of shares of Common Stock beneficially owned by the shareholder.

Any shareholder suggested candidates must be submitted in writing and received by the Company no later than December 2, 2011 to be considered for election at the 2012 annual meeting of shareholders.

COMPENSATION COMMITTEE

The members of the Compensation Committee are Mr. Myers (Chairman), Mr. Hug, and Mr. Strunk. All members of the Committee meet the independence requirements of the NASDAQ Global Market.

The Compensation Committee has overall responsibility for overseeing, evaluating and approving executive officer and director compensation plans, policies and programs and reviewing, and discussing with management, the Compensation Discussion and Analysis section of the Company's annual proxy statement and preparing the Compensation Committee Report that is required by SEC rules to be included in the Company's annual proxy statement. The Compensation Committee Report is included herein on page 35. A copy of the Compensation Committee's written charter is available on the Company's website at www.interphase.com.

EXECUTIVE OFFICERS

The current executive officers of the Company, their respective ages, positions held and tenure as officers are listed below:

<u>Name</u>	<u>Age</u>	<u>Position(s) Held with the Company</u>	<u>Executive Officer of the Company Since</u>
Gregory B. Kalush	54	Chairman of the Board, Chief Executive Officer and President	1998
Thomas N. Tipton, Jr.	36	Chief Financial Officer, Assistant Secretary, Vice President of Finance and Treasurer	2005
Marc E. DeVinney	49	Vice President of Engineering	2007
James W. Gragg	59	Vice President of Operations and Fulfillment	2004
Randall E. McComas	61	Vice President of Global Sales and Customer Support	2002
Yoram Solomon	46	Vice President of Corporate Strategy and Business Development	2008

Gregory B. Kalush joined the Company in February 1998 as Chief Financial Officer, Vice President of Finance and Treasurer. Mr. Kalush was appointed the Chief Executive Officer, President and Director of the Company in March 1999 and was elected Chairman of the Board in May 2000. Mr. Kalush is also the sole member of the New Employee and Retention Stock Award Committee of the Board. Prior to joining Interphase, Mr. Kalush was with DSC Communications Corporation from 1995 to 1998. While at DSC, he served as Vice President of Transmission Data Services, Vice President of Operations, International Access Products and Group Vice President of Finance, Transport Systems Group. Prior to DSC, Mr. Kalush was with IBM Corporation from 1978 to 1994. During that time his positions included Chief Financial Officer and Operations Executive for the Skill Dynamics Business Unit, Director of Finance, Planning and Administration for the Southwest Area, and Division Director of Finance and Operations for the Data Systems Division.

Thomas N. Tipton, Jr. joined the Company in January 2000 as Financial Planning and Analysis Manager. In December 2000, Mr. Tipton became Corporate Controller and Director of Finance, a position he held until December 2005. In August 2005, Mr. Tipton began serving as interim Chief Financial Officer, Vice President of Finance and Treasurer until December 2005, when Mr. Tipton was promoted to Chief Financial Officer, Vice President of Finance and Treasurer. Prior to joining Interphase, Mr. Tipton served in various positions in the Assurance and Business Advisory practice of Arthur Andersen LLP.

Marc E. DeVinney joined the Company in August 2007 as Vice President of Engineering. Prior to joining Interphase, Mr. DeVinney spent 25 years with Alcatel, serving in various capacities. While with Alcatel, Mr. DeVinney most recently served as Director, Mobile Solutions Circuit Core from 2005 to 2006 and as Program Manager, CTO Product Engineering from 2001 to 2005.

James W. Gragg joined the Company in September 1998 as Manufacturing/Test Engineering Manager. In 2000, Mr. Gragg became Director of Manufacturing and Operations, a position he held until November 2004 when he became Vice President of Operations and Fulfillment. Prior to joining Interphase, Mr. Gragg held various technical leadership roles including Hardware Design Engineering Manager at Compaq Computer Corporation, Vice President of Engineering for MSD Systems and Test Engineering Manager for Mostek Corporation. Mr. Gragg also had his own engineering consulting company, Emtech, Inc., for over 10 years.

Randall E. McComas joined the Company in February 2002 as Vice President of Global Sales and Marketing, a position he held until May 2005, when he became Vice President of Global Sales and Customer Support. Prior to joining Interphase, Mr. McComas served as General Manager of Business Development, a position he held since 1998, for Scient, an enterprise organizational consulting firm. In that position Mr. McComas was responsible for overseeing all industry business units and delivery units for Scient, including sales and marketing. Prior to 1998, Mr. McComas was Vice President and General Manager of Telecommunications for Scient, managing the global telecom and utilities business units for that company. Mr. McComas also spent 15 years at IBM Corporation, where he held various positions in the telecom and media industries, including Vice President of Telecommunications for IBM's global telecom and media business, and Vice President of Marketing and Strategy, managing IBM's worldwide telecom business, including the wireline and wireless carriers.

Yoram Solomon joined the Company in November 2008 as Vice President of Corporate Strategy and Business Development. Prior to joining Interphase, Mr. Solomon spent the last six years at Texas Instruments (TI) serving in various capacities including, most recently as the Sr. Director of Technology Strategy and Industry Relations for the Chief Technology Officer's office, and Sr. Director of Strategic Marketing, Industry & Standards. Mr. Solomon held additional roles at TI including Director, Strategic Business Development, and General Manager, Consumer Electronics Connectivity Business Unit. Prior to TI, Mr. Solomon served as Vice President and General Manager of PCTEL's Advanced Communications Business Unit from 2000 to 2002, and senior level management positions at Voyager Technologies, Israel's Ministry of Industry and Trade, and Electronic Line, Ltd.

Employment Agreement Summaries

Each executive officer has an employment agreement that defines the terms and conditions of his employment at the Company. In some cases, the employment agreement may be supplemented by certain stock option agreements and/or restricted stock agreements. In all cases, the summaries set forth below are qualified in their entirety by the terms of the employment agreements and such stock-compensation agreements.

Gregory B. Kalush. The Board of Directors approved Mr. Kalush's current amended and restated employment agreement, effective December 30, 2008, pursuant to which the Company employs Mr. Kalush as its Chief Executive Officer and President, at a base salary of at least \$325,000 per year plus an annual bonus opportunity based upon his annual bonus target established by the Compensation Committee. A new two-year term began in March 2011, and Mr. Kalush's current base salary is \$325,000 per year. The employment agreement will continue for successive two-year terms, unless either Mr. Kalush or the Company gives notice to the other more than 30 days prior to the expiration of the then-current term that the agreement will not be renewed.

If the Company elects not to renew Mr. Kalush's employment agreement or terminates Mr. Kalush for other than overt misconduct or death or disability, and subject to Mr. Kalush's execution of a

general release of claims, then Mr. Kalush will be entitled to receive (a) severance payments in the amount of three (3) years base salary, (b) health coverage premiums for up to 18 months paid for Mr. Kalush and his dependents as long as they are qualified and eligible for COBRA coverage, and (c) regarding vested stock options with a strike price greater than the fair market value on the date of termination, an exercise period of equal to the shorter of three (3) years from the date of termination or the original expiration date of the option. If the Company terminates Mr. Kalush's employment agreement by reason of disability, and subject to Mr. Kalush's execution of a general release of claims, then Mr. Kalush will be entitled to receive (i) compensation in the amount of two (2) years base salary, (ii) payment of two (2) years of his annual bonus calculated based on the greater of the prior fiscal year's Executive Bonus Plan payment or 100% of the Executive's Bonus Plan target for the year in which Mr. Kalush's employment terminates, (iii) health coverage premiums for up to 18 months paid for Mr. Kalush and his dependents as long as they are qualified and eligible for COBRA coverage, and (iv) regarding vested stock options with a strike price greater than the fair market value on the date of termination, an exercise period of equal to the shorter of three (3) years from the date of termination or the original expiration date of the option. If Mr. Kalush dies, then Mr. Kalush's estate will be entitled to (A) a \$1.0 million death benefit payable to Mr. Kalush's designated beneficiary under a life insurance policy with Company-paid premiums, and (B) regarding vested stock options with a strike price greater than the fair market value on the date of his death, an exercise period of equal to the shorter of three (3) years from the date of termination or the original expiration date of the option. If Mr. Kalush becomes employed during the period he is eligible to receive post-employment payments, then payments made as a result of such employment shall reduce any remaining severance payments or other amounts or liability owed by the Company to Mr. Kalush. Additionally, Mr. Kalush's employment agreement permits the Company to terminate Mr. Kalush without further compensation for overt misconduct.

Mr. Kalush's employment agreement provides for the non-disclosure of confidential information. Remedies for breach of this provision include damages, injunctive relief and specific performance. The damages for use of any identified Confidential Trade Secret Information (defined therein) in violation of this provision shall be 100% of the gross amount of revenue derived or resulting from unauthorized use of such information. Mr. Kalush's employment agreement also provides for covenants not to compete and not to solicit employees during and for two years after employment. Remedies for breach of these covenants include damages, injunctive relief and/or specific performance. Damages for breach of these covenants shall be 100% of the gross amount of revenue derived or resulting from the breach.

Thomas N. Tipton Jr. The Board of Directors approved Mr. Tipton's current amended and restated employment agreement, effective December 30, 2008, pursuant to which the Company employs Mr. Tipton as its Chief Financial Officer and Vice President of Finance, at a base salary of at least \$185,000 per year plus an annual bonus opportunity based upon his annual bonus target established by the Compensation Committee. His current base salary is \$202,500. The employment agreement automatically renews for successive six month periods, unless either Mr. Tipton or the Company gives written notice to the other 30 days prior to the expiration of the then-current term that the agreement will not be renewed, or Mr. Tipton is terminated for cause.

Marc E. DeVinney. The Board of Directors approved Mr. DeVinney's current amended and restated employment agreement, effective December 30, 2008, pursuant to which the Company employs Mr. DeVinney, at a base salary of at least \$175,000 per year plus an annual bonus opportunity based upon his annual bonus target established by the Compensation Committee. His current base salary is \$182,000. The employment agreement automatically renews for successive six month periods, unless either Mr. DeVinney or the Company gives written notice to the other 30 days prior to the expiration of the then-current term that the agreement will not be renewed, or Mr. DeVinney is terminated for cause.

James W. Gragg. The Board of Directors approved Mr. Gragg's current amended and restated employment agreement, effective December 30, 2008, pursuant to which the Company employs Mr. Gragg, at a base salary of at least \$175,000 per year plus an annual bonus opportunity based upon his annual bonus target established by the Compensation Committee. His current base salary is \$182,000. The employment agreement automatically renews for successive six month periods, unless either Mr. Gragg or the Company gives written notice to the other 30 days prior to the expiration of the then-current term that the agreement will not be renewed, or Mr. Gragg is terminated for cause.

Randall E. McComas. The Board of Directors approved Mr. McComas' current amended and restated employment agreement, effective December 30, 2008, pursuant to which the Company employs Mr. McComas, at a base salary of at least \$235,000 per year plus an annual bonus opportunity based upon his annual bonus target established by the Compensation Committee. His current base salary is \$240,000. The employment agreement automatically renews for successive six month periods, unless either Mr. McComas or the Company gives written notice to the other 30 days prior to the expiration of the then-current term that the agreement will not be renewed, or Mr. McComas is terminated for cause.

The employment agreements for the executive officers described above (other than Mr. Kalush) contain the following provisions: The employment agreement permits the Company to terminate the executive without further compensation for cause or on account of death or disability. If the Company terminates the executive without cause or elects not to renew, the executive will be entitled to receive (i) the balance of base salary due under the employment agreement for the balance of its term, (ii) six (6) months severance pay at his then-current base salary, and (iii) employee health coverage premiums paid for the period during which the executive officer is receiving remaining term payments and severance payments as long as the executive officer is qualified and eligible for COBRA coverage, subject to the executive's execution of a general release of claims. If the executive becomes employed during the period he is eligible to receive post-employment payments, then payments made as a result of such employment shall reduce any remaining severance payments or other amounts or liabilities owed by the Company to the executive. These executive officers' employment agreements also include covenants regarding confidentiality, non-competition and non-solicitation of employees; the non-competition and non-solicitation covenants are during and for twelve months after employment. Remedies for breach of these covenants include injunctive relief and arbitration.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Objectives and Philosophy of Our Compensation Programs

Our executive compensation program is driven by our business environment and is designed to enable us to achieve our strategic priorities and adhere to Company values. The program's objectives are to:

- Attract, motivate, and retain a team of talented leadership who help ensure our future success;
- Align executives' interests with the interests of shareholders;
- Reward success as a management team in supporting overall business objectives and in obtaining key financial metrics in a lean and flexible environment;
- Provide a balance between short-term goals and long-term priorities to achieve immediate objectives while also focusing on increasing shareholder value over the long term; and

- Provide incentives that will stimulate executive behavior such as high performance, integrity, teamwork, and loyalty to achieve defined plan priorities, financial goals, and strategic objectives intended to provide shareholders with a superior rate of return.

Our compensation programs must be competitive with other programs for similarly placed executives at companies within the telecom and general technology industries. Independent compensation consultants are periodically retained for advice and guidance in assessing whether our executive compensation program is competitive. Executive compensation programs impact all employees by setting general levels of compensation and by helping to create an environment of strategic priorities, incentives, and expectations. Because we believe the performance of every employee is important to our success, we are mindful of the effect executive compensation and incentive programs have on all of our employees.

The guiding principles of our compensation programs are:

- Enabling a high-performance organization;
- Competitiveness in the marketplace in which we compete for talent;
- Optimization of the cost to us and value to our executives;
- Global consistency with business-driven flexibility; and
- Conscientious and thoughtful decision-making and execution delivery.

To this end, we measure the success of our compensation programs by:

- Overall business performance and executive engagement;
- Ability to attract and retain key executive talent;
- Costs and business risks that seek to optimize return within acceptable levels of risk; and
- Executive understanding and perceptions that ensure program value equals or exceeds program cost.

All of our compensation and benefits for our executives described below have as a primary purpose the ability to attract, motivate, and retain highly talented individuals who will engage in the behaviors necessary to enable us to succeed in our mission while upholding our values in a highly competitive marketplace. We believe that the performance of our executives, considered in light of general economic and industry conditions, our company, and competitive conditions, should be another key basis for determining overall compensation and should not be based on the short-term performance of our Common Stock, whether favorable or unfavorable. Beyond that, different elements are designed to engender different behaviors emphasizing the short-term performance and long-term health of the Company. In particular, in determining total compensation, we stress a compensation philosophy that is performance driven with competitive base salaries, but high variability in incentives. We believe that our total compensation is competitive with comparable positions at companies in our industry.

Pay Elements of Our Compensation Programs

To promote the objectives of our compensation programs, our compensation programs consist of the following principal elements:

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Base Salary	<ul style="list-style-type: none"> • Core competence in the executive role relative to skills, experience and contributions to the Company 	<ul style="list-style-type: none"> • To provide fixed compensation based on competitive market practice • To attract and retain executives over time
Annual Cash Incentives	<ul style="list-style-type: none"> • Contributions toward the Company’s achievement of specified performance metrics, and business plan priorities 	<ul style="list-style-type: none"> • To provide focus on meeting business and financial targets that lead to our long-term success
Long-Term Incentives	<p><u>Restricted Stock:</u></p> <ul style="list-style-type: none"> • Continued employment with the Company during a specified vesting period <p><u>Stock Options:</u></p> <ul style="list-style-type: none"> • Continued employment with the Company during a specified vesting period <p><u>Performance-based Restricted Stock and Performance-based Stock Options:</u></p> <ul style="list-style-type: none"> • Achievement by executives of key performance metrics for Company success • Continued employment with the Company during a specified vesting period 	<ul style="list-style-type: none"> • To attract and retain the best people for the Company • To provide stock ownership to executives • To increase the executives’ interest in the Company’s welfare • To promote the success of the Company’s business • To align executives’ and shareholder interests • To provide challenging performance objectives and motivate executives to achieve long-term shareholder value
Change in Control and Termination Benefits	<ul style="list-style-type: none"> • Focused effort by our executives in the event of a rumored or actual fundamental corporate change 	<ul style="list-style-type: none"> • To facilitate the Company’s ability to attract executives as the Company competes for talented employees; this protection is commonly offered

Pay Element	What the Pay Element Rewards	Purpose of the Pay Element
Retirement Benefits, Additional Benefits and Perquisites	<ul style="list-style-type: none"> • Tenure by executives • Assurance that benefits package is competitive to industry standards 	<ul style="list-style-type: none"> • To facilitate the Company’s ability to attract executives as the Company competes for talented employees

The use of these programs enables us to reinforce our “pay for performance” philosophy, as well as strengthens our ability to attract and retain highly qualified executives. We believe that this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term shareholder value, and encourages executive recruitment and retention.

How Each Pay Element is Determined

The components of our compensation program are determined as follows:

Base Salary. Base salaries are determined based on competitive market practice and our ability to attract, motivate, and retain executives. Base salaries for our executive officers are reviewed on an annual basis, and adjusted where appropriate. Salary ranges are established for each executive officer based on the marketplace data for that position and a salary is assigned to the executive based on individual performance, prior experience and contribution to the financial goals and strategic objectives of the Company. During the fourth quarter of 2009, the Compensation Committee commissioned an independent compensation firm to conduct a comprehensive analysis of competitive companies. As a result of the firm’s findings, a comparison group of 18 companies (the “comparison group”) was selected from publicly traded U.S. companies classified under the Global Industry Classification Standard (GICS) as Communications Equipment, Computer Storage and Peripherals and Electronic Manufacturing Services. The 18 companies in the comparison group were Airspan Networks, Communications Systems, Dataram, Ditech Networks, Endwave, Entorian Technologies, ISCO International, Lantronix, Livewire Mobile, Network Engines, PC TEL, Performance Technologies, Proxim Wireless, RF Industries, Radisys, Relm Wireless, Socket Communications, and Telknet. Additionally, competitive comparisons were made against the following general industry surveys: 2009 Hewitt Total Compensation Measurement (TCM) survey, 2009/2010 Watson Wyatt Data services survey, 2009 Towers Perrin Executive Compensation survey, and 2009 Radford Executive survey. Based on this competitive comparison and the findings of the independent compensation firm, there was one base salary adjustment made to an executive in January 2010, where the findings showed that a base salary adjustment was warranted. There were no other changes to executive base salaries during 2010. The Compensation Committee commissioned and considered a similar analysis in the fourth quarter of 2010. Based on this analysis, the findings of the independent compensation firm and other factors, the Compensation Committee determined that there would be no adjustments to executive base salaries for 2011.

Annual Cash Incentives. Executive bonuses are intended to link executive compensation with the attainment of defined Company goals. Each fiscal year during the annual planning process, the Compensation Committee, after consulting with management of the Company, establishes business and financial targets for the Company and, in some cases, individual executives. Annual bonus targets are established based upon these business and financial targets. For certain executives, including the named

executive officers Mr. Kalush and Mr. Solomon, the 2010 bonus was based entirely on Company revenue targets. For other executives, including the named executive officers Mr. Tipton, Mr. McComas and Mr. DeVinney, 70% of the 2010 bonus was based on Company revenue targets and 30% was based on specific financial and business targets related to specific product lines for which the executive was responsible. Only the bonus portion based on Company revenue targets could have resulted in bonus payments in excess of 100% payout if the targets were exceeded. The portion of the bonus based on product line targets could not have resulted in bonus payments in excess of 100% payout, regardless of performance. The table below shows the percentage achievement and the resulting payout percentages based on Company revenue targets for the 2010 bonus plan.

For 2010, the Compensation Committee approved Company revenue targets at the 100% achievement levels that were higher than the actual Company revenue achieved in 2009.

<u>Revenue Achievement</u>	<u>Bonus Payout %</u>
0.0 - 89.9	0.0
90.0 - 100.0	35.0 - 100.0
100.1 - 109.0	101.3 - 112.4
110.0 - 119.9	115.0 - 129.9
120.0 - 129.9	140.0 - 159.8
130.0 - 139.9	175.0 - 199.8
140.0 - 149.9	220.0 - 249.7
150.0 +	300.0

The maximum bonus payout to all executive officers was capped at 300% of the total bonus pool. The sliding scale of target performance was used by the Compensation Committee in determining bonuses to be paid to the executive officers; however, the Compensation Committee retained full and complete discretion in making its final bonus determinations for a portion (approximately 26%) of the bonus pool. As shown in the Summary Compensation Table, a partial executive bonus was paid to Mr. Tipton based on the achievement of a product line financial target as well as in the discretion of the Compensation Committee. No other executive bonuses were paid under the 2010 annual executive bonus plan.

Long-Term Incentives. The Compensation Committee approves equity grants under the 2004 Long-Term Stock Incentive Plan to provide additional incentives and align the executives' long-term interests with those of the shareholders of the Company by tying a portion of executive compensation to the long-term performance of the Company's stock price. The Compensation Committee believes equity grants, more than base salary or annual cash incentives, closely align the long-term interests of executives with those of shareholders and assist in the retention of key executives. This is the Company's principal long-term incentive to executives.

The Compensation Committee determines equity to be granted to an executive with respect to restricted stock, performance-based restricted stock, stock options, or performance-based stock options based on the following principal elements, including, but not limited to:

- President and Chief Executive Officer's recommendation;
- Relevant and validated external market data on executive compensation;
- Management role and contribution to the management team;
- Job responsibilities and past performance;
- Future anticipated contributions;

- Corporate performance;
- Existing vested and unvested equity holdings; and
- Compensation Committee discretion.

Determination of equity grant amounts is not made in accordance with a strict formula, but rather is based on objective data synthesized to competitive ranges and to internal policies and practices, including an overall review of both individual and corporate performance and the value of equity grants of comparable executives at comparable companies ascertained by independent executive compensation consultants hired by the Compensation Committee. Equity grants may also be made to new executives upon commencement of employment and, on occasion, to executives in connection with a significant change in job responsibility.

Change in Control and Termination Benefits. We provide change in control and termination benefits to our executives under certain conditions as provided for in their employment agreements. These benefits are designed to facilitate the Company's ability to attract and retain executives as the Company competes for talented employees in the marketplace where such benefits are commonly offered. The benefits ease an executive's transition due to an unexpected employment termination by the Company due to on-going changes in the Company's employment needs. The Change in Control provisions encourage executives to remain focused on the Company's business in the event of a rumored or actual fundamental corporate change.

Retirement Benefits, Additional Benefits and Perquisites. We provide standard employee benefit programs to our executives, including a 401(k) plan and other plans such as medical, dental and life insurance benefits, which are generally available to all employees. We are very mindful of the total cost of benefits and the impact they have on all employees. Therefore, with only one exception related to a life insurance premium of approximately \$1,500 per year paid by the Company for the CEO, executives do not receive any benefit or perquisite which is different than the rest of our eligible employees, nor do they receive any benefit at a lower cost than the rest of our eligible employees.

Tax Deductibility Considerations

Under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Company is generally precluded from deducting compensation in excess of \$1 million per year for any of its named executive officers unless the compensation is "performance-based" as defined in Section 162(m) and certain other requirements are satisfied. The Compensation Committee generally intends to maintain the tax deductibility of compensation to the named executive officers, but it also intends to maintain the flexibility of paying amounts or making equity awards that are not deductible if consistent with the Compensation Committee's other objectives and responsibility.

Compensation Committee

When establishing base salaries, cash bonuses and equity grants for each of the executives, the Compensation Committee considers, among other things, the recommendations of the President and Chief Executive Officer, the executive's role and contribution to the management team, responsibilities and performance during the past year and future anticipated contributions, corporate performance, and the amount of total compensation paid to executives in similar positions at comparable companies as provided by an independent compensation firm.

The Compensation Committee generally sets the compensation of the executives at levels that are competitive with similarly situated technology companies. When setting the compensation of each of the executives, the Compensation Committee considers all of the factors set forth above, but does not assign any specific weighting or apply any formula to these factors. The Compensation Committee gives consideration to the recommendations of the President and Chief Executive Officer and may accept or adjust those recommendations. The Compensation Committee makes the sole determination of the compensation of the President and Chief Executive Officer.

Summary Compensation Table

A summary compensation table is provided below and includes individual compensation information on the Chief Executive Officer, Chief Financial Officer and our three other most highly paid executive officers at the end of 2010, whom we refer to in this proxy statement as the “named executive officers.”

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Option Awards (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
Gregory B. Kalush	2010	325,000	-	-	120,000 (4)	8,848	453,848
Chairman of the Board, Chief Executive Officer and President	2009	325,000	50,500	179,666 (9)(10)(11)	- (12)	7,798	562,964
	2008	319,039	-	67,244 (13)	-	7,922	394,205
Thomas N. Tipton Jr.	2010	202,500	10,000	-	36,900 (5)	6,094	255,494
Chief Financial Officer, Treasurer and Vice President of Finance	2009	194,038	16,000	37,916 (9)(10)	- (12)	5,821	253,775
	2008	183,654	-	26,940 (13)	-	5,510	216,104
Yoram Solomon	2010	185,000	-	-	74,100 (6)	4,194	263,294
Vice President of Corporate Strategy and Business Development	2009	185,001	10,500	33,366 (9)(10)	- (12)	4,194	233,061
	2008	21,346	-	46,200	-	-	67,546
Randall E. McComas	2010	240,000	15,000	-	6,860 (7)	7,096	268,956
Vice President of Global Sales and Customer Support	2009	239,519	15,000	37,916 (9)(10)	- (12)	6,300	298,735
	2008	234,615	-	21,552 (13)	-	6,300	262,467
Marc E. DeVinney	2010	182,000	-	-	49,400 (8)	-	231,400
Vice President of Engineering	2009	181,328	12,000	37,916 (9)(10)	- (12)	-	231,244
	2008	174,818	-	21,552 (13)	-	-	196,370

- (1) All stock awards were in the form of restricted stock awards. All shares of restricted stock are valued at the fair market value, which is the closing price of a share of Common Stock on the NASDAQ Global Market, on the date of grant. Unless otherwise stated in the notes below, restricted stock awards vest over a four year period and do not have performance conditions tied to the award. As described under “Summary of Termination and Change in Control Arrangements” below, restricted stock awards also vest upon certain changes in control of the Company.

- (2) All stock options are valued at the grant date fair value, based on the Black-Scholes option pricing model, and expire 10 years from the date of grant. See the Company's financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2010, in Note 9 in the accompanying Notes thereto for further discussion of the assumptions used to calculate the grant date fair value. Stock option awards vest as described in the notes below and also vest upon certain changes in control of the Company as described under "Summary of Termination and Change in Control Arrangements" below.
- (3) "All other compensation" consists of matching payments by the Company pursuant to its 401(k) plan for all named executive officers and, with respect to Mr. Kalush, an additional amount of \$1,498 for premium paid on a life insurance policy. The table does not include the cost to the Company of benefits furnished to named executive officers, including premiums for life and health insurance, are also generally available or provided to all other salaried employees of the Company.
- (4) In July 2010 Mr. Kalush received options to purchase 100,000 shares with an exercise price of \$1.65 and a grant date fair value of \$1.20 per share, or \$120,000. The stock option award vests over a three year period in equal numbers of shares on each anniversary of the grant date.
- (5) In September 2010 Mr. Tipton received options to purchase 30,000 shares with an exercise price of \$1.70 and a grant date fair value of \$1.23 per share or \$36,900. The stock option award vests over a four year period in equal numbers of shares on each anniversary of the grant date.
- (6) Included in the Summary Compensation Table, in September 2010 Mr. Solomon received options to purchase 30,000 shares with an exercise price of \$1.70 per share and a grant date fair value of \$1.23 per share, or \$36,900. This stock option award is subject to certain performance conditions related to non-financial objectives, the achievement of which would result in a February 2012 vesting regarding 7,500 shares, and revenue objectives for years ended December 31, 2012, 2013, and 2014 and scheduled to vest in February 2013, 2014, and 2015, respectively (regarding 7,500 shares each). Within the same stock option award, but not included in the Summary Compensation Table, are options to purchase an additional 70,000 shares related to the achievement of performance conditions over and above the target amounts included in the Summary Compensation Table. Also included in the Summary Compensation Table, in October 2010 Mr. Solomon received options to purchase 30,000 shares with an exercise price of \$1.72 per share and a grant date fair value of \$1.24 per share, or \$37,200. The stock option award vests over a four year period in equal numbers of shares on each anniversary of the grant date.
- (7) In December 2010 Mr. McComas received options to purchase 7,000 shares with an exercise price of \$1.36 per share and a grant date fair value of \$0.98 per share, or \$6,860. This stock option award is subject to certain performance conditions related to revenue objectives for year ended December 31, 2011, the achievement of which would result in a February 2012 vesting.
- (8) Included in the Summary Compensation Table, in September 2010 Mr. DeVinney received options to purchase 20,000 shares with an exercise price of \$1.70 per share and a grant date fair value of \$1.23 per share, or \$24,600. This stock option award is subject to certain performance conditions related to non-financial objectives, the achievement of which would result in an April 2011 vesting regarding 5,000 shares, and revenue objectives for years ended December 31, 2011, 2012, and 2013 and scheduled to vest in February 2012, 2013, and 2014, respectively (regarding 5,000 shares each). Within the same stock option award, but not included in the Summary

Compensation Table, are options to purchase an additional 10,000 shares related to the achievement of performance conditions over and above the target amounts included in the Summary Compensation Table. Also included in the Summary Compensation Table, in October 2010 Mr. DeVinney received options to purchase 20,000 shares with an exercise price of \$1.72 per share and a grant date fair value of \$1.24 per share, or \$24,800. The stock option award vests over a four year period in equal numbers of shares on each anniversary of the grant date.

- (9) Certain grants of restricted stock in January 2009, not included in the Summary Compensation Table, were performance based with a six year vesting period, and were cancelled February 4, 2010 as the performance criteria was not satisfied. Mr. Kalush (33,334 shares or \$60,668), Mr. Tipton (8,334 shares or \$15,168), Mr. McComas (8,334 shares or \$15,168), Mr. DeVinney (8,334 or \$15,168) and Mr. Solomon (8,334 shares or \$15,168) all had grants cancelled, which had a grant date fair value of \$1.82 per share. Additionally, certain grants of restricted stock in January 2009, not included in the Summary Compensation Table, were performance based with a five year vesting period, and were cancelled February 2, 2011 as the performance criteria was not satisfied. Mr. Kalush (33,333 shares or \$60,666), Mr. Tipton (8,333 shares or \$15,166), Mr. McComas (8,333 shares or \$15,166), Mr. DeVinney (8,333 shares or \$15,166) and Mr. Solomon (8,333 shares or \$30,332) all had grants cancelled, which had a grant date fair value of \$1.82 per share.
- (10) Certain grants of restricted stock in January 2009, included in the Summary Compensation Table are subject to the achievement of certain performance conditions related to the Company's financial results for 2011. If the performance conditions are met, the restricted stock will vest over a four year period. Mr. Kalush (33,333 shares or \$60,666), Mr. Tipton (8,333 shares or \$15,166), Mr. McComas (8,333 shares or \$15,166), Mr. DeVinney (8,333 shares or \$15,166) and Mr. Solomon (8,333 shares or \$30,332) all have shares with a grant date fair value of \$1.82 per share that are subject to these performance conditions.
- (11) In July 2009 Mr. Kalush received 5,000 shares of restricted stock with a grant date fair value of \$5.60 per share. The restricted stock award vests over a three year period in equal numbers of shares on each anniversary of the grant date.
- (12) Certain options to purchase shares granted during 2009, not included in the Summary Compensation Table, were performance based with a three year vesting period. The performance conditions were not satisfied and were cancelled February 2, 2011. The exercise price of these stock options was \$2.55. Mr. Kalush (25,000 shares or \$48,750), Mr. Tipton (10,000 shares or \$19,500), Mr. McComas (10,000 shares or \$19,500), Mr. DeVinney (10,000 shares or \$19,500) and Mr. Solomon (7,500 shares or \$14,625) all had shares with a grant date fair value of \$1.95 per share based on the Black-Scholes option pricing model.
- (13) Certain grants of restricted stock in January 2008, not included in the Summary Compensation Table, were performance based with a four year vesting period, and were cancelled February 9, 2009 as the performance criteria was not satisfied. Mr. Kalush (15,000 shares or \$134,700), Mr. Tipton (9,000 shares or \$80,820), Mr. McComas (7,200 shares or \$64,656) and Mr. DeVinney (7,200 or \$64,656) all had grants cancelled, which had a grant date fair value of \$8.98 per share. Included in the Summary Compensation Table, in May 2008 Mr. Kalush received an additional grant of restricted stock (5,834 shares or \$22,344) for his service on the Board consistent with other Board members' equity compensation, which had a grant date fair value of \$3.83 with a three year vesting period in equal numbers of shares on each anniversary of the grant date.

2010 Grants of Plan-Based Awards Table

The following table sets forth information on grants of plan-based awards in 2010 to the named executive officers.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (1)			All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$)	Grant Date Fair Value of Stock and Option Awards (\$) (2)
		Threshold (#)	Target (#)	Maximum (#)			
Gregory B. Kalush	7/22/10	-	-	-	100,000	1.65	120,000
Thomas N. Tipton Jr.	9/14/10	-	-	-	30,000	1.70	36,900
Yorom Solomon	9/14/10	30,000	30,000	100,000	-	1.70	36,900
	10/6/10	-	-	-	30,000	1.72	37,200
Randall E. McComas	12/9/10	7,000	7,000	7,000	-	1.36	6,860
Marc E. DeVinney	9/14/10	20,000	20,000	30,000	-	1.70	24,600
	10/6/10	-	-	-	20,000	1.72	24,800

- (1) Relates to stock options granted, subject to forfeiture, under the 2004 Long-Term Stock Incentive Plan. See notes (6), (7) and (8) to the Summary Compensation Table for more information.
- (2) These amounts reflect the grant date fair value of such award computed in accordance with FASB ASC Topic 718 and do not reflect the actual amounts earned. For additional information, see Note 9 of our financial statements in the Form 10-K for the year ended December 31, 2010.

Narrative to Summary Compensation Table and 2010 Grants of Plan-Based Awards Table

See “Compensation Discussion and Analysis” above as well as the “Executive Officers - Employment Agreement Summaries” above and “Summary of Termination and Change in Control Arrangements” below for a complete description of compensation elements pursuant to which the amounts listed under the Summary Compensation Table and 2010 Grants of Plan-Based Awards Table were paid or awarded and the criteria for such payment, including targets for payments of annual incentives, as well as performance criteria on which such payments were based.

Outstanding Equity Awards at Year-End Table

The following table sets forth information as of December 31, 2010 regarding outstanding equity-based awards, including the potential dollar amounts realizable with respect to each award.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options: Exercisable (#)	Number of Securities Underlying Unexercised Options: Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Gregory B. Kalush	-	-	-	-	-	3,333	5,999 (1)	-	-
	-	-	-	-	-	41,666	74,999 (1)	-	-
	-	-	-	-	-	-	-	33,333	59,999 (1) (2)
	-	-	-	-	-	-	-	33,333	59,999 (1)
	-	-	-	-	-	2,500	4,500 (1)	-	-
	-	-	-	-	-	2,500	4,500 (1)	-	-
	-	-	-	-	-	1,250	2,250 (1)	-	-
	-	100,000	-	1.65	7/22/2020	-	-	-	-
	-	-	25,000 (3)	2.55	12/18/2019	-	-	-	-
	5,000	-	-	8.50	5/5/2014	-	-	-	-
	50,000	-	-	11.45	3/16/2014	-	-	-	-
	50,000	-	-	5.88	6/5/2013	-	-	-	-
	10,000	-	-	5.61	5/7/2013	-	-	-	-
	10,000	-	-	4.60	5/1/2012	-	-	-	-
	50,000	-	-	4.83	1/16/2012	-	-	-	-
	10,000	-	-	7.53	5/2/2011	-	-	-	-
	62,500 (4)	-	-	8.00	3/2/2011	-	-	-	-
Thomas N. Tipton Jr.	-	-	-	-	-	10,416	18,749 (1)	-	-
	-	-	-	-	-	-	-	8,333	14,999 (1) (2)
	-	-	-	-	-	-	-	8,333	14,999 (1)
	-	-	-	-	-	1,500	2,700 (1)	-	-
	-	-	-	-	-	750	1,350 (1)	-	-
	-	30,000	-	1.70	9/14/2020	-	-	-	-
	-	-	10,000 (3)	2.55	12/18/2019	-	-	-	-
	3,500	-	-	5.88	6/5/2013	-	-	-	-
	4,000	-	-	4.12	7/26/2011	-	-	-	-
Yorom Solomon	-	-	-	-	-	8,333	14,999 (1)	-	-
	-	-	-	-	-	-	-	8,333	14,999 (1) (2)
	-	-	-	-	-	-	-	8,333	14,999 (1)
	-	-	-	-	-	10,000	18,000 (1)	-	-
	-	30,000	-	1.72	10/6/2020	-	-	-	-
	-	-	100,000	1.70	9/14/2020	-	-	-	-
	-	-	7,500 (3)	2.55	12/18/2019	-	-	-	-
Randall E. McComas	-	-	-	-	-	10,416	18,749 (1)	-	-
	-	-	-	-	-	-	-	8,333	14,999 (1) (2)
	-	-	-	-	-	-	-	8,333	14,999 (1)
	-	-	-	-	-	1,200	2,160 (1)	-	-
	-	-	-	-	-	625	1,125 (1)	-	-
	-	-	7,000	1.36	12/9/2020	-	-	-	-
	-	-	10,000 (3)	2.55	12/18/2019	-	-	-	-
	50,000	-	-	11.45	3/16/2014	-	-	-	-
	50,000	-	-	5.88	6/5/2013	-	-	-	-
	91,540	-	-	5.05	2/15/2012	-	-	-	-
Marc E. DeVinney	-	-	-	-	-	10,416	18,749 (1)	-	-
	-	-	-	-	-	-	-	8,333	14,999 (1) (2)
	-	-	-	-	-	-	-	8,333	14,999 (1)
	-	-	-	-	-	1,200	2,160 (1)	-	-
	-	-	-	-	-	2,500	4,500 (1)	-	-
	-	20,000	-	1.72	10/6/2020	-	-	-	-
	-	-	30,000	1.70	9/14/2020	-	-	-	-
	-	-	10,000 (3)	2.55	12/18/2019	-	-	-	-

- (1) Shares of restricted stock awarded were valued at the fair market value of Common Stock, which is the closing price of a share of Common Stock on the NASDAQ Global Market, on December 31, 2010 (\$1.80).
- (2) This restricted stock award was conditional based on a performance criterion in 2010; if the criterion was achieved there would be a resulting four year vesting period. The performance criterion was not achieved and therefore the grant was cancelled in February 2011.
- (3) This stock option award was conditional based on a performance criterion in 2010; if the criterion was achieved there would be a resulting three year vesting period. The performance criterion was not achieved and therefore the grant was cancelled in February 2011.
- (4) This stock option award expired unexercised on March 2, 2011.

Option Exercises and Stock Vesting Table

The following table sets forth the dollar amounts realized pursuant to the vesting or exercise of equity-based awards during 2010.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Gregory B. Kalush	16,667	41,606
Thomas N. Tipton Jr.	7,584	16,613
Yorom Solomon	6,667	11,168
Randall E. McComas	3,309	9,320
Marc E. DeVinney	5,184	11,957

Pension Benefits and Non-Qualified Defined Contribution Plans

None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans or non-qualified defined contribution plans sponsored by us. The Compensation Committee, which is composed solely of “outside directors” as defined for purposes of Section 162(m) of the Code, may elect to adopt qualified or non-qualified defined benefit or non-qualified defined contribution plans if the Compensation Committee determines that doing so is in our best interests.

Summary of Termination and Change in Control Arrangements

The following summaries set forth potential payments payable to our named executive officers upon termination of employment or a change in control of the Company under their current employment agreements, certain current stock option agreements and/or restricted stock agreements, and our other compensation programs. The descriptions set forth below are summaries of the terms of the respective

employment agreements or and other agreements and are qualified by reference to the provisions of such agreements.

Gregory B. Kalush. Mr. Kalush's employment agreement provides for the following termination and severance arrangements:

- *Resignation by the Executive:* If Mr. Kalush resigns or elects not to renew his employment agreement, he is entitled to exercise vested stock options for a period of 90 days following his resignation as an employee of the Company. Stock options granted for his service as a director of the Company are independent of his stock options granted for his service as an employee of the Company. Therefore, Mr. Kalush is entitled to exercise vested stock options granted from his service on the Board for a period of ten years from the grant date of such options in a manner consistent with other directors.
- *Termination due to Non-Renewal of Employment Agreement or Termination for other than Overt Misconduct.* The Company or Mr. Kalush can terminate the employment relationship by electing not to renew the employment agreement and giving the other party at least thirty (30) days' written notice prior to the expiration of the then-current term. If Mr. Kalush elects not to renew his employment agreement, it is treated as a resignation and handled as stated above under "Resignation by the Executive." If the Company elects not to renew Mr. Kalush's employment agreement, or terminates Mr. Kalush for other than overt misconduct (or death or disability), then Mr. Kalush will be entitled exclusively to the following termination payments and benefits:
 1. Severance Payments. Subject to Mr. Kalush's execution of a general release of claims and covenant not to sue, Mr. Kalush shall receive severance payments in the amount of three (3) years' base salary, payable in bi-weekly installments at the current base salary rate at the time. Severance payments will be reduced by any compensation Mr. Kalush receives from other employment during the three (3) year severance period. In addition, if Mr. Kalush is eligible for severance payments and has executed a general release of claims, and provided Mr. Kalush and his beneficiaries are eligible for COBRA coverage, the Company will pay the premium cost for COBRA coverage for Mr. Kalush and his eligible beneficiaries for the 18-month period following termination of employment.
 2. Extended Post-employment Exercise Period; Incentive Stock Option Conversion to Non-Qualified Stock Options with Extended Exercise Period. The exercise period of Mr. Kalush's vested stock options that are outstanding on the date of his termination of employment (including because of non-renewal of his employment agreement at the Company's election), but specifically excluding any stock options granted to Mr. Kalush as a director, shall be extended until the earlier of (A) three (3) years from termination or (B) the latest date upon which the stock option would have expired by its original terms under any circumstances, but not later than the 10th anniversary of the original grant date of the stock option; provided that for each of Mr. Kalush's vested stock options, if on the date of termination of employment, the exercise price of the vested stock option is greater than the fair market value of the underlying shares of Common Stock on such date, such vested stock option shall be cancelled (in lieu of the extension of exercise period described above) and the Company will grant to Mr. Kalush a new nonqualified stock option under substantially similar terms and conditions as the cancelled option and with respect to the same number of vested

shares at the same exercise price but exercisable for a term of the earlier of three (3) years from the date of termination or the original expiration date of the option.

- *Termination due to Disability.* In the event Mr. Kalush's employment is terminated due to disability, Mr. Kalush will be entitled to the following:
 1. Severance Payments. Subject to Mr. Kalush's execution of a general release of claims and covenant not to sue, Mr. Kalush will be paid severance payments in the amount of two (2) years' base salary, payable in bi-weekly installments over a twenty-four (24) month period at the current base salary rate at the time of Mr. Kalush's termination due to disability. In addition, if Mr. Kalush is eligible for severance payments and has executed a general release of claims, and provided Mr. Kalush is eligible for COBRA coverage, the Company will pay the premium cost for COBRA coverage for Mr. Kalush and his eligible beneficiaries for the 18-month period following termination of employment.
 2. Bonus Payment. Subject to Mr. Kalush's execution of a general release of claims and covenant not to sue, Mr. Kalush will receive payment of two (2) years of his annual bonus based on the Company's Executive Bonus Plan payable in bi-weekly installments over a twenty-four (24) month period following Mr. Kalush's termination due to disability. The bonus payment will be based on the greater of the prior fiscal year's Executive Bonus Plan payment to him or 100% of Mr. Kalush's Executive Bonus Plan target for the year in which his employment terminates due to disability.
 3. Extended Post-employment Exercise Period; Incentive Stock Option Conversion to Non-Qualified Stock Options with Extended Exercise Period. The exercise period of Mr. Kalush's vested stock options that are outstanding on the date of his termination of employment, but specifically excluding any stock options granted to Mr. Kalush as a director, shall be extended until the earlier of (A) three (3) years from termination or (B) the latest date upon which the stock option would have expired by its original terms under any circumstances, but not later than the 10th anniversary of the original grant date of the stock option; provided that for each of Mr. Kalush's vested stock options, if on the date of termination of employment, the exercise price of the vested stock option is greater than the fair market value of the underlying shares of Common Stock on such date, such vested stock option shall be cancelled (in lieu of the extension of exercise period described above) and the Company will grant to Mr. Kalush a new nonqualified stock option under substantially similar terms and conditions as the cancelled option and with respect to the same number of vested shares at the same exercise price but exercisable for a term of the earlier of three (3) years from the date of termination or the original expiration date of the option.

- *Termination due to Death.* In the event Mr. Kalush’s employment is terminated due to death, Mr. Kalush’s estate will be entitled to the following:
 1. Life Insurance Policy. Mr. Kalush’s estate will be entitled to a \$1.0 million death benefit payable to Mr. Kalush’s designated beneficiary under a life insurance policy with Company-paid premiums.
 2. Extended Post-employment Exercise Period; Incentive Stock Option Conversion to Non-Qualified Stock Options with Extended Exercise Period. The exercise period of Mr. Kalush’s vested stock options that are outstanding on the date of his death, but specifically excluding any stock options granted to Mr. Kalush as a director, shall be extended until the earlier of (A) three (3) years from termination due to death or (B) the latest date upon which the stock option would have expired by its original terms under any circumstances, but not later than the 10th anniversary of the original grant date of the stock option; provided that for each of Mr. Kalush’s vested stock options, if on the date of termination of employment due to death, the exercise price of the vested stock option is greater than the fair market value of the underlying shares of Common Stock on such date, such vested stock option shall be cancelled (in lieu of the extension of exercise period described above) and the Company will grant to Mr. Kalush’s estate a new nonqualified stock option under substantially similar terms and conditions as the cancelled option and with respect to the same number of vested shares at the same exercise price but exercisable for a term of the earlier of three (3) years from the date of termination due to death or the original expiration date of the option.

If Mr. Kalush’s employment is terminated for any reason by the Company (including the Company electing not to renew his agreement), other than because of his overt misconduct, he would also be entitled to reimbursement for any reasonable outplacement consulting fees and expenses up to a maximum of 15% of his then-current base salary.

If a change in control occurs, Mr. Kalush is entitled to receive the following:

- Acquisition of Shares by One Investor or Group. If during the term of Mr. Kalush’s agreement, one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of shares of Common Stock possessing 30% or more of the total voting power of the stock of the Company and such acquisition constitutes a “change in the effective control of a corporation” for purposes of Section 409A of the Code, then Mr. Kalush shall not be entitled to receive any severance or other pay provided for above, but Mr. Kalush shall instead be entitled to receive all of the following:
 1. A lump sum payment in the amount of two (2) years’ base salary at the current base salary amount, payable within thirty (30) days of the acquisition.
 2. A lump sum payment, payable within thirty (30) days of the acquisition, equal to two (2) years’ of Mr. Kalush’s annual bonus based on the Company’s Executive Bonus Plan. The bonus amount will be the greater of the prior fiscal year’s executive bonus payment to him or 100% of Mr. Kalush’s target bonus for the year in which the acquisition occurs.

3. The vesting of all of Mr. Kalush's outstanding stock options shall be accelerated on the date of the acquisition and the exercise period of Mr. Kalush's vested stock options that are outstanding on the date of the acquisition and were granted to him as a result of his employment, but specifically excluding any stock options granted to Mr. Kalush as a director, shall be extended until the earlier of (A) three (3) years from termination or (B) the latest date upon which the stock option would have expired by its original terms under any circumstances, but not later than the 10th anniversary of the original grant date of the stock option; provided that for each of Mr. Kalush's vested stock options, if on the date of termination of employment, the exercise price of the vested stock option is greater than the fair market value of the underlying shares of Common Stock on such date, such vested stock option shall be cancelled (in lieu of the extension of exercise period described above) and the Company will grant to Mr. Kalush a new nonqualified stock option under substantially similar terms and conditions as the cancelled option and with respect to the same number of vested shares at the same exercise price but exercisable for the earlier of three (3) years from the date of termination or the original expiration date of the option.
 4. If at any time during the term of one of Mr. Kalush's Restricted Stock Agreements an acquisition occurs whereby one investor accumulates 20% or more of the outstanding shares of Common Stock, then, effective on the date of such acquisition, all of Mr. Kalush's unvested shares of restricted stock will be released from the forfeiture restrictions and become fully vested.
- **Gross Up Payment.** If Mr. Kalush incurs the excise tax imposed by Section 4999 of the Code on "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code as the result of the receipt of any payments under his agreement, then he is entitled to receive a gross up payment such that the net amount retained by Mr. Kalush is equal to the amount of payments that Mr. Kalush is entitled to receive under his employment agreement.

Thomas N. Tipton, Jr., Yoram Solomon, Randall E. McComas, and Marc E. DeVinney. These executives' employment agreements provide that in the event the Company elects not to renew the executive's agreement and has provided thirty (30) days written notice of its intention not to renew his agreement, or if the executive is terminated during the term of his agreement without cause, he shall be entitled to receive (a) the balance of base salary due under his agreement for the balance of its term, and (b) subject to the executive's execution of a general release of claims and covenant not to sue, (i) severance pay equal to six (6) months of base salary at the time of termination, payable in bi-weekly installments, subject to reduction by any compensation the executive receives from other employment during the severance period, and (ii) if the executive is eligible for COBRA coverage, the individual premium cost for COBRA coverage for the executive for the period during which he is receiving remaining term payments and severance payments.

These executives' employment agreements also provide for confidentiality, non-competition and non-solicitation of employees provisions. Remedies for breach of these provisions include injunctive relief and arbitration.

Thomas N. Tipton, Jr. Certain of Mr. Tipton's Restricted Stock Agreements and Stock Option Agreements provide that if one investor accumulates 20% or more of the outstanding shares of Common Stock, then, effective as of the date of such accumulation by that investor, all of Mr. Tipton's unvested shares of restricted stock will be released from the forfeiture restrictions and become fully vested and all of his stock options will become fully exercisable.

Yoram Solomon, Randall E. McComas, and Marc E. DeVinney. Each of these executive's Restricted Stock Agreements and Stock Option Agreements provide that if (i) one investor accumulates 20% or more of the outstanding shares of Common Stock and if, within 12 months thereafter, the executive's employment with the Company is terminated either by the Company for any reason other than cause or by the executive for Good Reason (as defined therein), or (ii) one investor other than a reporting company under the Securities Exchange Act of 1934 accumulates 50% or more of the outstanding shares of Common Stock, then, in either case, effective as of the date of such accumulation by that investor, all of the executive's unvested shares of restricted stock will be released from the forfeiture restrictions and become fully vested and all of his stock options will become fully exercisable.

Potential Payments Upon Termination or Change in Control

The following table sets forth potential payments payable to our named executive officers upon termination of employment or a change in control. Our Compensation Committee may at its discretion revise, amend or add to these benefits if it deems advisable, to the extent permitted pursuant to such officers' employment agreements. The table below reflects amounts payable to our named executive officers assuming a change in control and/or their employment was terminated on December 31, 2010:

<u>Name</u>	<u>Benefit</u>	<u>Termination Without Cause or for Non-Renewal (\$)</u>	<u>Termination for Cause (\$)</u>	<u>Disability (\$)</u>	<u>Death (\$)</u>	<u>Change in Control (\$) (1)</u>
Gregory B. Kalush	Salary	975,000	-	650,000	-	650,000
Chairman of the Board, Chief Executive Officer and President	Bonus	-	-	400,000	-	400,000
	Outplacement services	48,750	-	48,750	-	48,750
	Insurance Policy (2)	-	-	-	-	-
	Cobra Coverage	24,160	-	-	-	-
	Extended Exercise Period for Stock Options	13,971	-	13,971	13,971	13,971
	Stock Vest Acceleration	-	-	-	-	149,998
	<u>Total Value</u>	<u>1,061,881</u>	<u>-</u>	<u>1,112,721</u>	<u>13,971</u>	<u>1,262,719</u>
Thomas N. Tipton Jr.	Salary	202,500	-	-	-	-
Chief Financial Officer, Treasurer and Vice President of Finance	Cobra Coverage	6,953	-	-	-	-
	Stock Vest Acceleration	-	-	-	-	36,448
	<u>Total Value</u>	<u>209,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,448</u>
Yorom Solomon	Salary	185,000	-	-	-	-
Vice President of Corporate Strategy and Business Development	Cobra Coverage	7,092	-	-	-	-
	Stock Vest Acceleration	-	-	-	-	47,999
	<u>Total Value</u>	<u>192,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,999</u>
Randall E. McComas	Salary	240,000	-	-	-	-
Vice President of Global Sales and Customer Support	Cobra Coverage	7,092	-	-	-	-
	Stock Vest Acceleration	-	-	-	-	35,908
	<u>Total Value</u>	<u>247,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,908</u>
Marc E. DeVinney	Salary	182,000	-	-	-	-
Vice President of Engineering	Cobra Coverage	6,953	-	-	-	-
	Stock Vest Acceleration	-	-	-	-	40,408
	<u>Total Value</u>	<u>188,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,408</u>

- (1) Mr. Kalush will be entitled to a gross up payment if he incurs any excise tax imposed by Section 4999 of the Code on "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code as a result of the receipt of any payments under his employment agreement. He is entitled to receive a gross up payment such that the net amount retained by Mr. Kalush is equal to the amount of payments that Mr. Kalush is entitled to receive under his employment agreement.
- (2) Mr. Kalush's estate is entitled to a one-time \$1,000,000 death benefit payable by the insurance provider under an insurance policy paid for by the Company.

Report of the Compensation Committee

We have reviewed and discussed with management the Company's Compensation Discussion and Analysis.

Based on this review and these discussions, we recommend to the Board of Directors that the Compensation Discussion and Analysis be included in Interphase's Annual Report on Form 10-K and proxy statement on Schedule 14A.

THE COMPENSATION COMMITTEE

Michael J. Myers, Chairman
Paul N. Hug
Christopher B. Strunk

Compensation Committee Interlocks and Insider Participation

During 2010, the Compensation Committee was composed of Mr. Myers (Chairman), Mr. Hug, and Mr. Strunk, and none of those members was, or has ever been, an officer or employee of the company or its subsidiaries. None of the Company's named executive officers served during the year ended December 31, 2010 as a director or member of the compensation committee (or other committee serving an equivalent function) of any other entity whose executive officers served on our Board of Directors or Compensation Committee.

CERTAIN RELATED TRANSACTIONS

During 2010, the Company was not a party to any transactions that would require disclosure pursuant to Item 404 of Regulation S-K.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who own more than ten percent of the Common Stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and furnish the Company with a copy. Based solely on the Company's review of the copies of such forms it has received, the Company believes that all of its officers, directors, and greater than ten percent shareholders complied with all filing requirements applicable to them during the reporting period ended December 31, 2010, except for Mr. Kalush, Mr. Solomon and Mr. DeVinney, who each made one late filing of a Form 4 disclosing one transaction.

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2011

The Audit Committee has selected Grant Thornton as our independent registered public accountants for the year ending December 31, 2011 and recommends that shareholders vote for ratification of such selection. Although ratification by shareholders is not required by law, the Company has determined that it is desirable to request ratification of this selection by the shareholders. If the shareholders do not ratify the selection of Grant Thornton, the Audit Committee may reconsider its selection. Notwithstanding its selection or voting results, the Audit Committee, in its discretion, may appoint new independent registered public accountants at any time during the year if the Audit Committee believes that such a change would be in the best interests of Interphase and its shareholders.

Grant Thornton has audited our consolidated financial statements annually since it was first appointed in 2004. We expect that representatives of Grant Thornton will be present at the annual meeting to respond to appropriate questions and to make a statement if they so desire.

Pre-Approval Policies and Procedures

In accordance with the Audit Committee’s charter and policy and applicable law, the Audit Committee must pre-approve all services to be provided by Grant Thornton, including audit services, audit-related services and other services. In determining whether to pre-approve such services, the Audit Committee must consider whether the provision of such services is consistent with the independence of Grant Thornton. Generally, the full Audit Committee provides pre-approval for a particular defined task or scope of work subject to a specific budget. In other cases, the chairman of the Audit Committee may pre-approve such services between committee meetings subject to his discretion; but the chairman must then communicate such pre-approvals to the full Audit Committee at the next regularly scheduled meeting. All services provided by Grant Thornton to the Company in 2010 and 2009 were rendered in accordance with engagements that the Audit Committee approved in advance.

Fees Billed by Grant Thornton LLP during 2010 and 2009

The following table sets forth the fees we were billed for audit and other services provided by Grant Thornton LLP in 2010 and 2009. All of the services described below were approved in conformity with the Audit Committee’s pre-approval policies and procedures described above.

	2010	2009
Audit Fees	\$ 147,800	\$ 159,000
Tax Fees	-	46,694
Audit-Related Fees	-	-
All Other Fees	6,625	-
Total	\$ 154,425	\$ 205,694

The Grant Thornton “Audit Fees” for the year ended December 31, 2010 and 2009 consisted of fees (and expenses) billed for professional services rendered for the annual audit of the consolidated financial statements of the Company, including quarterly reviews and the statutory audit of a foreign subsidiary.

The Grant Thornton “Tax Fees” for the year ended December 31, 2009 were for fees (and expenses) billed for the preparation of the Company’s 2008 tax returns and for fees (and expenses) billed for consultations regarding the Company’s international taxes.

The Grant Thornton “All Other Fees” for the year ended December 31, 2010 consisted of fees billed for a web-based accounting research tool.

Vote Required

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the matter is necessary to ratify the selection of Grant Thornton as our independent registered public accountants for the year ending December 31, 2011. Abstentions and broker non-votes will have the effect of a vote “against” the ratification of Grant Thornton as our independent registered public accountants.

OUR BOARD OF DIRECTORS, ON BEHALF OF THE AUDIT COMMITTEE, UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THE RATIFICATION OF APPOINTMENT OF GRANT THORNTON LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2011.

SHAREHOLDER PROPOSALS

A shareholder who wishes to have a proposal considered for inclusion in the Company’s proxy statement for the Company’s 2012 annual meeting of shareholders must submit the proposal in writing to the Company’s Secretary, at the Company’s principal executive offices no later than December 2, 2011.

If the 2012 annual meeting of shareholders is moved to a date more than 30 days before or after the anniversary of the 2011 annual meeting of shareholders, then the deadline for inclusion of a proposal in the Company’s proxy statement will instead be a reasonable time before the Company begins to print and mail its proxy materials.

A shareholder who wishes to make a proposal at the 2012 annual meeting of shareholders without including the proposal in the Company’s proxy statement must give written notice of that proposal to the Company’s Secretary, at the Company’s principal executive offices, by February 3, 2012. If a shareholder fails to timely give the notice, then the persons named as proxies in the proxy cards solicited by the Board for that meeting will be entitled to vote the proxies held by them regarding that proposal, if properly raised at the meeting, in their discretion.

SHAREHOLDER COMMUNICATIONS

Shareholders wishing to communicate with the Board, the non-management directors, or an individual Board member concerning the Company may do so by writing to the Board, to the non-management directors, or to the particular Board member, and mailing the correspondence to: Attn: Secretary, Interphase Corporation, Parkway Centre I, 2901 North Dallas Parkway, Suite 200, Plano, Texas 75093. The envelope should indicate that it contains a shareholder communication, and the correspondence must disclose the name of the shareholder submitting the communication and identify the number of shares of Common Stock owned by him (or her) beneficially or of record. In general, all shareholder communications delivered to the secretary for forwarding to the Board or specified Board members will be forwarded in accordance with the shareholder’s instructions. However, the Secretary reserves the right to not forward any abusive, threatening or otherwise inappropriate materials.

MISCELLANEOUS

The Annual Report to Shareholders of the Company for 2010, which includes financial statements, accompanying this Proxy Statement, does not form any part of the material for the solicitation of proxies.

A copy of the Company's 2010 Form 10-K has been included with these proxy materials. Exhibits to the Form 10-K are available upon written request and upon payment of a reasonable charge to cover the Company's cost in providing such exhibits. Written requests should be sent to Investor Relations, Interphase Corporation, Parkway Centre I, 2901 North Dallas Parkway, Suite 200, Plano, Texas, 75093.

By Order of the Board of Directors,

S. THOMAS THAWLEY
Vice Chairman and Secretary

Plano, Texas
April 1, 2011

**AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS OF
INTERPHASE CORPORATION**

Effective December 10, 2007

CHARTER

1. Overall purpose and objectives

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The audit committee will also review: the effectiveness of the company's internal financial control and risk management system; the independent audit process including appointing and assessing the performance of the external auditor; the company's process for monitoring compliance with laws and regulations affecting financial reporting; and its code of business conduct.

In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external auditors. To perform his or her role effectively, each committee member will develop and maintain his or her skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

2. Authority

The board authorizes the audit committee, within the scope of its responsibilities, to:

- 2.1 Perform activities within the scope of its charter.
- 2.2 Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- 2.3 Ensure the attendance of company officers at meetings as appropriate.
- 2.4 Have unrestricted access to members of management, employees, third parties and relevant information.
- 2.5 Establish procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters.
- 2.6 Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters.
- 2.7 Be directly responsible for the appointment, compensation, retention, and oversight of the work of, the external auditor.
- 2.8 Approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and the framework for pre-approval of such services.
- 2.9 Approve the public release of quarterly and annual financial results.
- 2.10 Approve all "related-party" transactions.

3. Organization

Membership

- 3.1 The board of directors will select the audit committee members and the chairman of the audit committee.
- 3.2 The audit committee will comprise at least three members and all members shall be independent non-executive directors of the company.
- 3.3 A quorum of any meeting will be two thirds of the members.
- 3.4 Each member shall have skills and experience appropriate to the company's business.
- 3.5 Each member shall be financially literate; at least one member shall be designated as a financial expert.
- 3.6 Members will be appointed for a one year term of office.
- 3.7 The chairman of the audit committee will function as its secretary.

Meetings

- 3.8 Only committee members are entitled to attend meetings. The audit committee may invite such other persons (e.g., the chief executive officer, chief financial officer, corporate controller, external audit engagement partner) to its meetings, as it deems necessary.
- 3.9 The external auditors should be invited to make presentations to the audit committee as appropriate.
- 3.10 Meetings shall be held not less than five times a year, including once each quarter to review financial results.
- 3.11 Special meetings may be convened as required. The chairman will convene a meeting if requested by the external auditors.
- 3.12 The chairman shall circulate the agenda and supporting documentation to the audit committee members a reasonable period in advance of each meeting. The chairman shall also create an agenda for the ensuing year and circulate it to the committee during the fourth quarter so that a finalized topical agenda is published before the first day of the ensuing year.
- 3.13 The chairman of the committee shall circulate the minutes of meetings to members of the board and members of the committee.
- 3.14 Members of the audit committee should attend every meeting of the committee.
- 3.15 The committee will meet with outside legal counsel at least annually without management present.
- 3.16 The committee will meet with the external auditors at least quarterly without management present.
- 3.17 The committee will meet individually and privately with the chief executive officer, chief financial officer and corporate controller at least annually.

4. Roles and responsibilities

The Audit Committee will:

Internal control

- 4.1 Evaluate whether management is setting the appropriate ‘control culture’ by communicating the importance of internal control and management of risk.
- 4.2 Understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 4.3 Understand the controls and processes implemented by management to ensure that the financial statements derived from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.4 Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the external auditors have been implemented by management.
- 4.5 Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.
- 4.6 Inquire of management and the independent auditors about significant risks or exposures facing the company; assess the steps management has taken or proposes to take to minimize such risks to the company; and periodically review compliance with such steps.
- 4.7 Review with management the company’s anti-fraud program, as well as the annual fraud risk assessment, including the mitigating controls management has put in place to minimize such risks to the company.
- 4.8 Review with management the policies and procedures with respect to officers’ expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the independent auditors. Review a comparison of actual compensation to compensation approved by the compensation committee, including stock based compensation.
- 4.9 Review the company’s code of conduct at least annually to ensure that it is adequate and up-to-date.
- 4.10 Review the procedures for the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization at least annually. Additionally, at each meeting, review any complaints that might have been received, current status, and resolution if one has been reached.

Financial reporting

- 4.11 Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- 4.12 Review with management and the independent auditor significant accounting and reporting issues, including the effect of any regulatory and accounting initiatives, as well as off-balance-sheet structures, if any, and understand their impact on financial reports.
- 4.13 Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements

prior to their release.

- 4.14 Review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information, balanced and transparent (particularly regarding GAAP vs non-GAAP data).
- 4.15 Inquire of the chief executive officer and chief financial officer regarding the "quality of earnings" of the company from a subjective as well as an objective standpoint.
- 4.16 Meet with management and the external auditors to review the financial statements, the key accounting policies and judgements, and the results of the audit.
- 4.17 Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practices are discussed with the external auditor.
- 4.18 Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the company and its operations and lacks bias.

Compliance with laws and regulations

- 4.19 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or noncompliance.
- 4.20 Obtain regular updates from management and company's legal counsel regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.
- 4.21 Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.
- 4.22 Review the findings of any examinations by regulatory agencies.

Working with auditors

External audit

- 4.23 Review the professional qualification of the auditors (including background and experience of partner and auditing personnel).
- 4.24 Consider the independence of the external auditor and any potential conflicts of interest.
- 4.25 Review on an annual basis the performance of the external auditors and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors.
- 4.26 Review the external auditors' proposed audit scope and approach for the current year in the light of the company's present circumstances and changes in regulatory and other requirements.
- 4.27 Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- 4.28 Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- 4.29 Discuss with the external auditor the appropriateness of the accounting policies applied in the

company's financial reports and whether they are considered as aggressive, balanced or conservative.

- 4.30 Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately. Ensure the auditors have access to the chairman of the audit committee when required.
- 4.31 Review policies for the provision of non-audit services by the external auditor and the framework for pre-approval of non-audit services.
- 4.32 Consider, with management, the rationale for employing audit firms other than the principal independent auditors.
- 4.33 Ensure the company has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.
- 4.34 Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

Reporting responsibilities

- 4.35 Regularly update the board about committee activities and make appropriate recommendations.
- 4.36 Ensure the board is aware of matters that may significantly impact the financial condition or affairs of the business.
- 4.37 Oversee the preparation of an annual report of the committee as required by the rules of the SEC and the annual affirmation required by the appropriate listing exchange, if necessary. Include in the annual proxy statement for the company a report of the committee in accordance with the proxy rules promulgated by the SEC.

Evaluating performance

- 4.38 Evaluate the committee's own performance, both of individual members and collectively, on a regular basis.
- 4.39 Assess the achievement of the duties specified in the charter and report the findings to the board.

Review of the committee charter

- 4.40 Review the audit committee charter annually, reassess the adequacy of the charter considering changes that are necessary as a result of new laws or regulations and recommend any proposed changes to the board of directors.
- 4.41 Ensure that the charter is approved or reapproved by the board.

Other

- 4.42 The committee will perform such other functions as assigned by law, the company's charter or bylaws, or the board of directors.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

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

For the transition period from

to

Commission File Number 0-13071

INTERPHASE CORPORATION

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

75-1549797

(I.R.S. Employer Identification No.)

2901 North Dallas Parkway, Suite 200, Plano, Texas 75093

(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (214) 654-5000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.10 par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2010, was approximately \$9,500,000. As of March 16, 2011, shares of common stock outstanding totaled 6,773,296.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2011, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

PART I

Item 1. Business.

Introduction

Interphase Corporation and subsidiaries (“Interphase” or the “Company”) delivers solutions for LTE and WiMAX, interworking gateways, packet processing, network connectivity, and security for key applications for the communications and enterprise markets. Founded in 1974, Interphase provides expert engineering design and electronics manufacturing services in addition to its commercial-off-the-shelf (COTS) portfolio of products. Interphase is headquartered in Plano, Texas, with sales offices in the United States and Europe. Clients include Alcatel-Lucent, Emerson Network Power, Fujitsu Ltd., Genband, Hewlett Packard, ip.access, Nokia Siemens Networks, Samsung, and Sun Microsystems.

The Company maintains a Web site on the Internet with the address of www.interphase.com. Copies of this Annual Report on Form 10-K and copies of the Company’s Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments thereto are or will be available free of charge as soon as reasonably practical after they are filed with Securities and Exchange Commission (“SEC”) at such Web site. The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The general public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC.

Forward-Looking Statements

This report contains forward-looking statements about the business, financial condition and prospects of the Company. These statements are made under the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. The actual results of the Company could differ materially from those indicated by the forward-looking statements because of various risks and uncertainties, including (without limitation) effects of the ongoing issues in global credit and financial markets, our reliance on a limited number of customers, failure to see spending improvements in the telecommunications and computer networking industries, significant changes in product demand, the development and introduction of new products and services, changes in competition, various inventory risks due to changes in market conditions and other risks and uncertainties indicated in Item 1A of this report and in the Company’s other filings and reports with the Securities and Exchange Commission. All of the foregoing risks and uncertainties are beyond the ability of the Company to control, and in many cases, the Company cannot predict the risks and uncertainties that could cause its actual results to differ materially from those indicated by the forward-looking statements. When used in this report, the words “believes,” “plans,” “expects,” “will,” “intends,” and “anticipates” and similar expressions as they relate to the Company or its management are intended to identify forward-looking statements.

Key Terms and Definitions

Because Interphase is a technology company many terms used by the Company may be unfamiliar to those outside the industry. The following are some key terms that may be useful in helping the reader understand the products, technologies, and markets relevant for the Company;

AdvancedTCA[®] or ATCA (Advanced Telecommunications Computing Architecture) – The largest specification effort in the history of the PCI Industrial Computer Manufacturers Group (PICMG), with more than 100 companies participating. Commonly known in the industry as AdvancedTCA, the official specification designation is PICMG 3.x. AdvancedTCA is targeted to requirements for the next generation of "carrier grade" communications equipment. This series of specifications incorporates the latest trends in high-speed interconnect technologies, next-generation processors, and improved reliability, availability and serviceability. This architecture affords greater bandwidth, processing and board density, cooling abilities, and memory, while enabling delivery of highly reliable, scalable and manageable telecommunications products to meet the growing needs of next-generation applications for converged communications networks. AdvancedTCA is a registered trademark of PICMG.

AdvancedMC[™] or AMC (Advanced Mezzanine Card) – Specifications that define the mezzanine card form factor for use with ATCA or MicroTCA platforms. AdvancedMC enhances ATCA flexibility by extending its high-bandwidth, multi-protocol interface to individual hot-swappable modules, which are optimized for packet-based telecom applications. Together, ATCA blades equipped with AdvancedMC modules give telecom equipment manufacturers (or TEMs) a versatile platform for quickly building modular telecom systems that could be designed, manufactured, scaled, upgraded and serviced at a much lower cost. AdvancedMC is a trademark of PICMG.

Base Station – A fixed station used in the wireless network for communications between the mobile client (most commonly handsets) and the telecommunications infrastructure. Each cell in a cellular network requires a base station.

Baseband - A transmission medium through which digital signals are sent without frequency shifting. In general, only one communication channel is available at any given time. Ethernet is an example of a baseband network.

Broadband – A transmission facility (communications link) that has bandwidth (capacity) greater than a traditional voice-grade line.

Building Blocks – The basic board-level products used in a system. These products are combined with other hardware and software building blocks to build a network element, system and/or application.

CompactPCI (cPCI) – An industrial-grade variation of the PCI bus standard that utilizes the Versa Module Eurocard (VME) form factor. CompactPCI was widely adopted by telecom equipment suppliers because of its high-density connectors, support for front or rear I/O access and hot-swap capabilities important for "Five 9s" (i.e., 99.999%) reliability. Often referred to as cPCI, it is a standardized architecture for printed circuit boards (governed by PICMG) used in the embedded systems industry, particularly in carrier communications and industrial computing market segments.

CompactPCI Packet Switching Backplane (cPSB) – The generation of the CompactPCI standard that enables an Ethernet-based interconnection fabric across a system backplane in lieu of the H.110 PCI bus. This backplane technology served as the foundation for the AdvancedTCA standard architecture from PICMG.

eNodeB – The base station in the LTE radio access network. In contrast with UMTS base stations, eNodeB uses OFDMA/SC-FDMA as air transport technology. An eNodeB contains one or more radio frequency transmitters and receivers used to communicate directly with mobile devices, which move freely around it.

Embedded Computing Systems – Computer systems designed to perform specific and dedicated functions, often with real-time computing constraints. It is embedded as part of a complete device often including hardware and software. By contrast, a general-purpose computer, such as a personal computer, is designed to be flexible and to meet a wide range of end-user needs. Embedded systems control many devices in common use today.

Femtocell – A small cellular base station typically designed for use in residential or small business environments. Originally known as an Access Point Base Station, it connects to the service provider's network via broadband (such as DSL or cable); current designs typically support two to four active mobile phones in a residential setting. A femtocell allows service providers to extend service indoors, especially where access would otherwise be limited or unavailable. The femtocell incorporates the functionality of a typical base station, but extends it to allow a simpler, self-contained deployment.

Gateway Appliances – Network elements that provide translation functions between multiple protocols used for transfer of data and to control information across networks.

Gigabit Ethernet (GigE) – A family of frame-based computer networking technologies for local area networks (LANs). Ethernet operates over twisted wire, coaxial cable and fiber optic cables at speeds starting at 10 Mbps. The original 10 Mbps specification was extended to a speed of 100 Mbps transmission bandwidth with Fast Ethernet and to 1 Gbps with Gigabit Ethernet. GigE is now the most popular variant being deployed. Ethernet itself has evolved to the next 10 Gbps transmission bandwidth capability. As network bandwidth usage continues to rapidly expand world-wide, 10 Gbps is becoming a commonplace offering in enterprise and service provider networks.

Interworking – The ability to seamlessly communicate between devices supporting dissimilar protocols, such as frame relay and Asynchronous Transfer Mode (ATM), by translating between the protocols, not through encapsulation.

Internal TDM (I-TDM) – An aggregated voice-over-packet protocol that is optimized for voice LANs and packet backplanes (i.e., connecting telephony equipment within the same chassis, room or building). I-TDM is a PICMG standard optimized to transport and switch 64 Kbps low-latency communications traffic over Gigabit Ethernet-based packet backplanes.

Internet Protocol (IP) – The standard method or protocol by which data is sent from one computer to another on the Internet.

Long Term Evolution (LTE or 3GPP LTE) – The project within the 3rd Generation Partnership Project (3GPP) to improve the Universal Mobile Telecommunications System (UMTS) mobile phone standard to cope with future technology evolutions. Goals include improving spectral efficiency, lowering costs, improving services, making use of new spectrum and reframed spectrum opportunities, and better integration with other open standards. A characteristic of so-called “4G” networks such as LTE is that they are fundamentally based upon TCP/IP, the core protocol of the Internet, with higher-level services such as voice, video, and messaging, built on top of this.

Media Converter – A device used to connect two dissimilar media types. Media converters can connect different LAN media, modifying duplex and speed settings. Switching media converters can connect legacy 10BaseT segments to more recent 100Base-X or 100Base-FX fast Ethernet infrastructure.

Microcell – A cell in a mobile communications network served by a low-power cellular base station that covers a limited area, such as a mall, hotel or transportation hub.

OC-3/STM-1 – The American and the European standards (respectively) for optical connections at 155.52 Mbps. This line speed is very common in telecommunications access networks.

Packet Processing – Real-time wire-speed analysis and processing of packets in an IP network.

PCI Industrial Computer Manufacturers Group (PICMG) – A consortium of companies that collaboratively develop open specifications for high-performance telecommunications and industrial computing applications. It is a technical-standards governing body responsible for specifying technical requirements of specific systems architectures, including PCI, CompactPCI, cPSB, and AdvancedTCA. Standardized architectures are intended to provide a common set of rules and parameters for creating a system. The resulting benefit of such specifications is interoperability among multiple vendors for complementary systems, thereby providing alternatives to market monopolies created by proprietary system architectures.

PCI Mezzanine Card (PMC) – A low-profile mezzanine card that is electronically equivalent to the Peripheral Component Interconnect (PCI) specification. PMC cards are used as a quick and cost-effective method to add modular I/O to other card formats such as VME and CompactPCI, thus expanding the processing or I/O density of a single system slot.

Picocell – A mobile communications base station system that provides smaller and more localized coverage (e.g., indoor areas) than a microcell.

Restriction of Hazardous Substances Directive (RoHS) – The directive of the restriction of the use of certain hazardous substances in electrical and electronic equipment was adopted in February 2003 by the European Union. The RoHS directive took effect on July 1, 2006, and restricts the use of hazardous materials in the manufacture of various types of electronic and electrical equipment. RoHS is often referred to as the lead-free directive, but it restricts, in addition to lead, the use of mercury, cadmium, hexavalent chromium, polybrominated biphenyls and polybrominated diphenyl ether. The maximum permitted concentrations are .1% or 1000 parts per million (ppm) by weight of homogeneous material.

SS7 (Signaling System 7) – The protocols used in the public switch telephone network (PSTN) for setting up calls and providing modern transaction services such as caller ID, automatic recall and call forwarding.

When you dial “1” in front of a number, SS7 routes the call to your long distance carrier, and it also routes local calls based on the first three digits of the phone number.

T1/E1 – A digital transmission link with a capacity of 1.544 Mbps (1,544,000 bits per second) or 2.048 Mbps for the European E1 standard. T1 links normally handle 24 voice conversations, but with digital encoding can handle many more voice channels. T1 lines are also used to connect networks across remote distances.

T3/E3/J3 – A digital transmission link equivalent to 28 T1 lines. Providing a capacity of 45 Mbps, a T3 link is capable of handling 672 voice conversations. E3 is the European equivalent and J3 is the Japanese equivalent to T3.

Time-division multiplexing (TDM) – A type of digital or analog multiplexing in which two or more signals, or bit streams, are transferred apparently simultaneously as sub-channels in one communication channel, but physically are taking turns on the channel.

Telecommunications Equipment Manufacturer (TEM) – A company that manufactures telecom equipment for sale to telecommunications carriers.

Worldwide Interoperability of Microwave Access (WiMAX) – A standard formed in June 2001 to promote conformance and interoperability of the IEEE 802.16 standard. The WiMAX Forum describes WiMAX as "a standards-based technology enabling the delivery of last mile wireless broadband access as an alternative to cable and DSL."

Mission

The Company’s mission is to provide innovative, high-performance solutions to the converging voice, data, and video communication segments of the telecommunications market and to create high-value solutions addressing the enterprise computing, and government markets. Interphase accomplishes this by providing robust building blocks, highly integrated subsystems and innovative gateway appliances, along with engineering design and manufacturing services, to help speed the Company’s customers’ market entry, cut their time to market, and reduce their cost of solution deployment.

Recent Developments

In most major economies across the world, the deployment of new telecommunications equipment and services retreated in 2010. However, Asia, especially China, has been a notable exception where there was a solid pattern of equipment deployment throughout the year. Interphase benefited from China’s 3G network rollout, but only to a very limited degree. The main reason is that the Company’s traditional customers (Western TEMs) were awarded only a small portion of Chinese carriers’ equipment capital spending. Such market dynamics are a clear reflection of an historic transformation as a result of the following “mega-trends:”

- Shift from “*developed country*” to “*emerging country*” subscriber demand with a much lower price point for equipment and services

- Significant competition from *Asian (Chinese) suppliers*, especially for Asian demand (which tends to be price sensitive rather than performance sensitive)
- Shift from circuit-switched network to packet-based IP network

With these trends in mind, and the uncertain global economic picture as a backdrop, Interphase accelerated the diversification of its product portfolio and market expansion. The Company focused on increasing the breadth of its line of products, strengthening its portfolio of new solutions and diversifying into attractive adjacent markets. Key actions taken include the following:

1. The Company rapidly developed a new baseband product for use in LTE and WiMAX networks. This solution targets high-performance mobile broadband networks through 4th generation (4G) microcell, picocell and enterprise femtocell radio access, offering customers significant “time to market”, “time to revenue” and cost reduction advantages. Our iSPAN 36701 Wireless Basestation Module was demonstrated at the Mobile World Congress 2011 in Barcelona this past February, and generated keen interest from a variety of customers and partners. The product supports all of the critical functions of a wireless base station (excluding the radio head), and it is designed for use in 4G networks, including the LTE (“Long Term Evolution”) eNodeB and next generation WiMAX base stations. In 2011, we expect that we will be asked to customize this product to our customers’ specific needs for a variety of wireless broadband applications. Interphase also offers our customers professional integration services to help them modify any of these solutions to meet their stringent requirements, regardless of the application.
2. The Company intends to expand its market reach and revenue of its interworking products, which include the iSPAN 3650 AMC and the 92XX Gateway family, as well as the newly introduced iSPAN 3632 product. All of these products provide the necessary protocol interworking between the TDM networks and IP-based networks, at various levels of channelization, and typically offer our customers a significant cost reduction from alternative approaches to accomplish the interworking function.
3. The Company is expanding its offering of packet processing products, providing solutions that bring innovative products and increased processing density to customers in these markets. The expansion includes the introduction of iSPAN 36MC2 and 36MC3 Packet Processor cards, which are the newest addition to the Company’s portfolio of high-performance packet processor products based on a multi-core processor architecture from Cavium Networks.
4. The Company is also broadly expanding its current services capabilities by formally offering engineering design services and electronics manufacturing services to the market.
 - Engineering Design Services: During 2010 our services revenue was \$770,000, driven by a few key contracts. In 2011, we will increase our efforts in this business, with the goal of growing our reach into new and exciting markets.
 - Electronics Manufacturing Services: This service is offered to clients in need of outsourcing high-quality, high-mix, and low-to-medium-volume product manufacturing. Among Interphase’s many strengths, the quality of our products, our process discipline and our manufacturing capabilities have consistently been

identified by our customers as “world class.” We intend to differentiate ourselves on the basis of customer responsiveness, high quality, and low total cost of engagement. Since we have honed our processes of design for manufacture, and because we can supplement these services with the with engineering design services described above, we believe we can improve our customers’ ability to meet their outsourcing needs by using Interphase as a qualified “one-stop shop” supplier. This services offering can also make our manufacturing capability more financially efficient while exposing our Company to additional markets, similar to engineering design services described above.

5. Lastly, we have been investing in two new market areas: cloud computing and embedded computer vision. Our expectation is that sales of our desktop virtualization product line aimed at cloud computing will be a revenue and profit producer in 2011, quickly followed by our embedded computer vision product, which will produce additional revenue and profit in 2012. These products will introduce Interphase into markets that have already demonstrated significant growth opportunity and welcome innovative new market entrants.

General

With the expanded focus described above, along with the Company’s current high-performance and high-quality product portfolio, ease of integration, highly-capable development team, and strong customer support and professional services for customization and integration services, Interphase has established itself as a “trusted partner” to its global customer base. The Company’s proven capability to provide cost-effective and high-value solutions enables its customers to deliver advanced infrastructure solutions in faster timeframes. The following are the key components of the Company’s advantages and offerings:

The Interphase Advantage

Versatile product set

- Products built with proven modular building blocks
- High-performance products by design
- Customization services for specific application needs

Outstanding performance, quality and reliability

- Designed to meet scalability and reliability requirements for systems solutions

Dedicated development and deployment support

- Committed to customers’ success
- Act as an extension of customers’ engineering and support organizations

Telecom and Enterprise I/O Products

Interphase offers solutions primarily in the following four categories, supporting various form factors such as AMC, PCI-X, PCIe, cPCI, and PMC as well as related software applications:

Network Connectivity

- T1/E1 communication controllers that primarily support SS7 signaling
- OC-3/STM-1 ATM network interface cards (NICs)
- Ethernet NICs

Interworking

- OC-3/STM-1 interworking modules
- Gateway appliances (broadband access gateway and media converter)

Multi-core Packet Processors

- GigE packet processors
- 10 GigE packet processors

Wireless Baseband Modules

- LTE eNodeB module
- WiMAX base station module

Services

Interphase offers solutions in two basic categories:

Engineering Design Services

- Specifications gathering
- Program management
- Detailed design (high performance/cost optimized)
- Rapid prototyping

Electronics Manufacturing

- Supply Chain
- Branding and control
- Production assembly
- Integration
- Testing and delivery

Marketing and Customers

The Company's broadband telecommunications products are sold to TEMs for inclusion into telecommunications and networking infrastructure solutions designed for use in wireless carrier networks. Enterprise products are delivered to server manufacturers for integration into server platforms for delivery of high-performance application platforms for enterprise networking.

During 2010, sales to Alcatel-Lucent and Nokia Siemens Networks were \$5.1 million or 28% and \$2.9 million or 16%, respectively, of the Company's consolidated revenues. During 2009, sales to Alcatel-Lucent, Emerson and Nokia Siemens Networks were \$6.7 million or 26%, \$5.0 million or 20% and \$4.8 million or 19%, respectively, of the Company's consolidated revenues. During 2008, sales to Nokia Siemens Networks, Alcatel-Lucent and Emerson were \$6.0 million or 23%, \$5.6 million or 21% and \$3.1 million or 12% of the Company's consolidated revenues, respectively. No other customers accounted for more than 10% of the Company's consolidated revenues in the periods presented.

The Company markets its products through its direct sales force, manufacturers' representatives and value-added distributors. In addition to the Company's headquarters in Plano, Texas, the Company has sales offices located in or near Newark, New Jersey; Amsterdam, Holland; and Helsinki, Finland. The Company's direct sales force sells products directly to key customers and supports manufacturers' representatives and the distribution channel. See Note 14 of the accompanying Notes to the Consolidated Financial Statements for information regarding the Company's geographic assets and revenues.

Manufacturing and Supplies

Manufacturing operations are conducted at the Company's manufacturing facility located in Carrollton, Texas. The Company's products consist primarily of various integrated circuits, other electronic components and firmware assembled onto internally designed printed circuit boards.

The Company uses sole-sourced components on some of its products, as well as standard off-the-shelf items. Historically, the Company has not experienced any significant problems in maintaining an adequate supply of these parts sufficient to satisfy customer demand. The Company believes that it has good relationships with its vendors.

The Company generally does not manufacture products to stock finished goods inventory. Instead, substantially all of the Company's production is dedicated to specific customer purchase orders. As a result, the Company has limited requirements to maintain significant finished goods inventories.

Intellectual Property and Patents

While the Company believes that its success is ultimately dependent upon the innovative skills of its personnel and its ability to anticipate and adapt to technology changes, its ability to compete successfully will depend, in part, upon its ability to protect proprietary technology contained in its products. The Company is building a patent portfolio related to new product lines currently under development, but it does not hold any patents relative to its current product lines already deployed or released. Instead, as it relates to product lines already deployed or released, the Company relies upon a combination of trade secrets, copyright and trademark laws and contractual restrictions to establish and protect proprietary rights in its products. The development of alternative, proprietary and other technologies by third parties could adversely affect the competitiveness of the Company's products. Furthermore, the laws of some countries do not provide the same degree of protection of the Company's proprietary information as do the laws of the United States. Finally, the Company's adherence to industry-wide technical standards and specifications may limit the Company's opportunities to provide proprietary product features suitable for intellectual rights protection.

The Company is also subject to the risk of litigation alleging infringement of third-party intellectual property rights. Infringement claims could require the Company to expend significant time and money in litigation, paying damages, developing non-infringing technology or acquiring licenses to the technology which is the subject of asserted infringement.

The Company has entered into several nonexclusive software licensing agreements that allow the Company to incorporate third-party software into its product line thereby increasing its functionality, performance and interoperability.

Employees

At December 31, 2010, the Company had 83 regular full-time employees, of which 29 were engaged in manufacturing and quality assurance, 19 in research and development, 17 in sales, sales support, customer service and marketing and 18 in general management and administration.

The Company's success to date has been significantly dependent on the contributions of a number of its key technical and management employees. The loss of the services of one or more of these key employees could have a material adverse effect on the Company. In addition, the Company believes that its future success will depend, in large part, upon its ability to attract and retain highly skilled and motivated technical, managerial, sales and marketing personnel. Competition for such personnel is significant.

None of the Company's employees are covered by a collective bargaining agreement, and there have been no work stoppages. The Company considers its relationship with its employees to be good.

Competition

The Company's primary competition currently includes embedded computing vendors specifically dedicated to telecommunication and enterprise I/O market segments. In the case of specific product offerings, Interphase may also face competition from TEMs' in-house design teams. Increased competition and commoditization of network interface technologies could result in price reductions, reduced margins and loss of market share. Our products and services compete on the basis of the following key characteristics: performance, functionality, reliability, pricing, quality, customer support skills, ease of integration, time-to-market delivery capabilities, flexibility and compliance with industry standards. Most of the Company's major TEM customers have chosen to outsource the design, manufacture and software integration of certain communications controllers and protocol processing, and the recent market conditions and reduction in resources have forced some network equipment providers to utilize additional off-the-shelf products for their product design. As we expand into new market areas like cloud computing and desktop virtualization, our competition will change and in some cases may intensify.

Item 1A. Risk Factors.

The continued issues in global credit and financial markets could materially and adversely affect our business and results of operations.

The global credit and financial markets have been experiencing significant disruptions for several years now, including diminished liquidity and credit availability. There can be no assurance that there will not be further deterioration in credit and financial markets. These economic uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. The continued tightening of credit in financial markets may lead consumers and businesses to postpone spending, which may cause our customers to decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers, distributors, or customers could result in product delays, increased accounts receivable defaults and inventory challenges. We are unable to predict the likely duration and severity of the current and potential future disruptions in the credit and financial markets and adverse global economic conditions. There can be no assurance that if the current uncertain economic conditions continue, it will not have a material adverse effect on our operating results, financial condition and cash flows.

The marketing and sale of our products involve lengthy sales cycles. This and other factors make business forecasting extremely difficult and can lead to significant fluctuations in period-to-period results.

We have experienced fluctuations in our period-to-period revenue and operating results in the past and may experience fluctuations in the future. Our sales, on both an annual and a quarterly basis, can fluctuate as a result of a variety of factors, many of which are beyond our control. We may have difficulty predicting the volume and timing of orders for products, and delays in closing orders can cause our operating results to fall short of anticipated levels for any period. Delays by our OEM customers in producing products that incorporate our products could also cause operating results to fall short of anticipated levels. Other factors that may particularly contribute to fluctuations in our revenue and operating results include success in achieving design wins, the market acceptance of the OEM products that incorporate our products, the rate of adoption of new products, competition from new technologies and other companies, and the variability of the life cycles of our customers' products.

Because fluctuations can happen, we believe that comparisons of the results of our operations for preceding quarters are not necessarily predictive of future quarters and that investors should not rely on the results for any one quarter as an indication of how Interphase will perform in the future. Investors should also understand that, if the revenue or operating results for any quarter are less than the level expected by securities analysts or the market in general, the market price of our common stock could immediately and significantly decline.

The telecommunications signaling and networking business is characterized by rapid technological change and frequent introduction of new products.

The market for our products is characterized by rapid technological change and frequent introduction of products based on new technologies. As these products are introduced, the industry standards change. Additionally, the overall telecommunications and networking industry is volatile, as the effects of new technologies, new standards, new products and short life cycles contribute to changes in the industry and

the performance of industry participants. Future revenue will depend upon our ability to anticipate technological change and to develop and introduce enhanced products of our own on a timely basis that comply with new industry standards. New product introductions, or the delays thereof, could contribute to quarterly fluctuations in operating results as orders for new products commence and orders for existing products decline. Moreover, significant delays can occur between a product introduction and commencement of volume production. A typical time period from design-win of one of our products to actual production is 18 to 30 months. This timing has varied significantly during times of mergers, economic instability, and technology changes affecting platform architectures. Our inability to develop and manufacture new products in a timely manner, the existence of reliability, quality or availability problems in our products or their component parts, or the failure to achieve market acceptance for our products could have a material adverse effect on our operating results, financial condition and cash flows.

Litigation against us could require significant time of our management, be costly to defend against and/or negatively impact our operating results.

As noted under Item 3. “Legal Proceedings” below, Twenty-five former employees (“Plaintiffs”) of Interphase SAS, a subsidiary of Interphase Corporation, have brought suit in France against Interphase SAS alleging various causes of action and rights to damages relating to claims of wrongful dismissal of employment, specific French employment indemnities, general economic losses, and contractual claims relating specifically to their employment relationship and contracts entered into between the individual and Interphase SAS. The various claims and assertions arise from and relate to the Plaintiffs’ release from employment as part of the restructuring actions taken during the third quarter of 2010. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plan. The statement of claim is for an aggregate payment of approximately \$3.9 million related to these claims. The Company believes that the Plaintiffs’ claims are without merit and plans to vigorously defend itself in this lawsuit. Although the Company does not believe that the Plaintiffs’ claims have merit, litigation (particularly outside of the United States) is inherently unpredictable, and it is possible that the Company would be required to pay an additional amount to the Plaintiffs. If the required amount was significant, the payment could have a material adverse effect on the Company’s financial condition. Further, if this litigation were to continue for an extended time, the Company’s defense of the Plaintiffs’ claims, even if successful, could require the Company to pay significant costs (including fees of counsel) and require time and energy of the Company’s management that could otherwise be spent on the Company’s business, all of which could negatively affect the Company’s financial condition and operations.

We operate in an intensely competitive marketplace and many of our competitors have greater resources than we do.

The telecommunications, signaling and networking business is extremely competitive, and we face competition from a number of established and emerging companies, both public and private. Our principal competitors have established brand name recognition and market positions and have substantially greater financial resources to deploy on promotion, advertising, research and product development. In addition, as we broaden our product and service offerings, we may face competition from new competitors. Companies in related markets could offer products with functionality similar or superior to our product offerings. Increased competition could result in significant pricing pressures. These pricing pressures could result in significantly lower average selling prices for our products and services. We may not be able to offset the effects of any price reductions with an increase in sales

volumes, cost reductions or otherwise. We expect that competition will increase as a result of industry consolidations and alliances, as well as the potential emergence of new competitors. There can be no assurance that we will be able to compete successfully with existing or new competitors or that competitive pressures will not have a material adverse effect on our operating results, financial condition and cash flows.

The loss of one or more key customers or reduced spending by customers could significantly impact our operating results, financial condition and cash flows.

While we enjoy very good relationships with our customers, there can be no assurance that our principal customers will continue to purchase products from us at the current levels. Orders from our customers are affected by factors such as new product introductions, product life cycles, inventory levels, manufacturing strategies, contract awards, competitive conditions and general economic conditions. Customers typically do not enter into long-term volume purchase contracts with us, and customers have certain rights to extend or delay the shipment of their orders. The loss of one or more of our major customers, or the reduction, delay or cancellation of orders or a delay in shipment of products to such customers could have a material adverse effect on our operating results, financial condition and cash flows.

Schedule delays, cancellations of programs and changes in customer markets can delay or prevent a design-win from reaching the production phase, which could negatively impact our operating results, financial condition and cash flows.

A design-win occurs when a customer or prospective customer notifies us that our product has been selected to be integrated with their product. Ordinarily, there are a number of steps between the design-win and when customers initiate production shipments. Design-wins reach production volumes at varying rates, typically beginning approximately 18 to 30 months after the design-win occurs. A variety of risks such as schedule delays, customer consolidations, cancellations of programs and changes in customer markets can delay or prevent the design-win from reaching the production phase. The customer's failure to bring its product (into which our product is designed) to the production phase could have an adverse effect on our operating results, financial condition and cash flows.

Design defects, errors or problems in our products or services could harm our reputation, revenue and profitability.

If we deliver products or services with errors, defects or problems, our credibility and the market acceptance and sales of our products and services could be harmed. Further, if our products or services contain errors, defects or problems, then we may be required to expend significant capital and resources to alleviate such problems. Defects could also lead to liability as a result of product liability lawsuits against us or our customers, tort or warranty claims, increased insurance costs or increased service and warranty costs, any of which could harm our business. We have agreed to indemnify our customers in some circumstances against liability from defects in our products. While no such litigation currently exists, product liability litigation arising from errors, defects or problems, even if it resulted in an outcome favorable to us, would be time consuming and costly to defend. Existing or future laws or unfavorable judicial decisions could negate any limitation-of-liability provisions that are included in our license agreements. A product liability claim, whether or not successful, could seriously harm our business, financial condition and results of operations.

We maintain insurance coverage for product liability claims. Although we believe this coverage is adequate, there can be no assurance that coverage under insurance policies will be adequate to cover specific product liability claims made against us. In addition, product liability insurance could become more expensive and difficult to maintain and may not be available in the future on commercially reasonable terms or at all. The amount and scope of any insurance coverage may be inadequate if a product liability claim is successfully asserted against us.

If our third party suppliers fail to produce quality products or parts in a timely manner, we may not be able to meet our customers' demands.

Certain components used in our products are currently available from one or only a limited number of sources. There can be no assurance that future supplies will be adequate for our needs or will be available with acceptable prices and terms. Inability in the future to obtain sufficient limited-source components, or to develop alternative sources, could result in delays in product introduction or shipments, and increased component prices could negatively affect gross margins, either of which could have a material adverse effect on operating results, financial condition and cash flows.

We are dependent on one manufacturing facility and if there is an interruption in production we may not be able to deliver products on a timely basis.

We manufacture our products at our Carrollton, Texas facility, and have established alternative manufacturing capabilities through a third party in the event of a disaster in the current facility. Even though we have been successful in establishing an alternative third-party contract manufacturer, there can be no assurance that we would be able to retain its services at the same costs that we currently enjoy. In the event of an interruption in production, we may not be able to deliver products on a timely basis, which could have a material adverse effect on our revenue and operating results. Although we currently have business interruption insurance and a disaster recovery plan to mitigate the effect of an interruption, no assurances can be given that such insurance or recovery plan will adequately cover lost business as a result of such an interruption.

If we fail to accurately forecast demand for our products, we would be exposed to risk associated with inventory.

We must identify the right product mix and maintain sufficient inventory on hand to meet customer orders. Failure to do so could adversely affect our sales and earnings. However, if circumstances change, there could be a material impact on the net realizable value of our inventory, which could adversely affect our results.

We may be unable to effectively protect our proprietary technology, which would negatively affect our ability to compete. Also, if our products are alleged to violate the proprietary rights of others, our ability to compete would be negatively impacted.

Our success depends partly upon certain proprietary technologies developed within our products. To date, we have relied principally upon trademark, copyright and trade secret laws to protect our proprietary technologies. We generally enter into confidentiality or license agreements with our customers,

distributors and potential customers, which limit access to and distribution of the source code to our software and other proprietary information. Our employees are subject to our strict employment policy regarding confidentiality. There can be no assurance that the steps taken by us in this regard will be adequate to prevent misappropriation of our technologies or to provide an effective remedy in the event of a misappropriation by others.

Although we believe that our products do not infringe on the proprietary rights of third parties, there can be no assurance that infringement claims will not be asserted, possibly resulting in costly litigation in which we may not ultimately prevail. Adverse determinations in such litigation could result in the loss of proprietary rights, subject us to significant liabilities, require that we seek licenses from third parties or prevent us from manufacturing or selling our products, any of which could have a material adverse effect on our operating results, financial condition and cash flows.

It may be necessary to obtain technology licenses from others due to the large number of patents in the telecommunications and computer networking industry and the rapid rate of issuance of new patents and new standards or to obtain important new technology. There can be no assurance that these third party technology licenses will be available on commercially reasonable terms. The loss of or inability to obtain any of these technology licenses could result in delays or reductions in product shipments. Such delays or reductions in product shipments could have a material adverse effect on our operating results, financial condition and cash flows.

We depend on key personnel to manage our business effectively.

Our success depends on the continued contributions of our personnel and on our ability to attract and retain skilled employees. Changes in personnel could adversely affect our operating results, financial condition and cash flows.

We have substantial international activities, which expose us to additional business risks including political, economic and currency risks.

In 2010, we derived approximately 64% of our revenues from sales outside of North America. Economic and political conditions in some of these markets as well as different legal, tax, accounting and other regulatory requirements may adversely affect our operating results, financial condition and cash flows. We are exposed to adverse movements in foreign currency exchange rates because we conduct business on a global basis and in some cases in foreign currencies. Our operations in France have been measured in the local currency and converted into U.S. Dollars based on published exchange rates for the periods reported and were therefore subject to risk of exchange rate fluctuations (See Item 7A – Foreign Currency Risk).

We may require additional working capital to fund operations and expand our business.

We believe our current financial resources will be sufficient to meet our present working capital and capital expenditure requirements for the next twelve months. However, we may need to raise additional capital before this period ends to further:

- fund research and development of new products beyond what is expected in 2011;

- expand product and service offerings beyond what is contemplated in 2011 if unforeseen opportunities arise;
- take advantage of potential acquisition opportunities in the current economic environment;
- invest in businesses and technologies that complement our current operations; or
- respond to unforeseen competitive pressures.

Our future liquidity and capital requirements will depend upon numerous factors, including the success of the existing and new product and service offerings and potentially competing technological and market developments. However, any projections of future cash flows are subject to substantial uncertainty. From time to time, we expect to evaluate the acquisition of, or investment in, businesses and technologies that complement our current operations. If current cash, marketable securities, lines of credit and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities, issue debt securities or increase our working capital line of credit. The sale of additional equity securities could result in additional dilution to shareholders. There can be no assurance that financing will be available in amounts or on terms acceptable, if at all. If adequate funds are not available on acceptable terms, our ability to develop or enhance products and services, take advantage of future opportunities or respond to competitive pressures would be limited. This limitation could negatively impact our results of operations, financial condition and cash flows.

We have incurred significant losses.

We posted net losses of approximately \$8.4 million, \$5.6 million, and \$3.0 million for the years ended December 31, 2010, 2009 and 2008 respectively. In order to achieve profitability consistently, we will need to generate higher revenues while containing costs and operating expenses. We cannot be certain that our revenues will grow or that we will generate sufficient revenues to achieve and maintain profitability on a long-term, sustained basis. If we fail to achieve and maintain profitability, then the market price of our common stock will likely be negatively impacted.

We may experience significant period-to-period quarterly and annual fluctuations in our revenue and operating results, which may result in volatility in our stock price.

The trading price of our common stock is subject to wide fluctuations in response to quarter-to-quarter fluctuations in operating results, general conditions in the telecommunications and networking industry and other events or factors. In addition, stock markets have experienced extreme price and trading volume volatility in recent years. This volatility has had a substantial effect on the market price of the securities of many high-technology companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock. Our common stock has historically had relatively small trading volumes. As a result, small transactions in our common stock can have a disproportionately large impact on the price of our common stock.

If our stock does not continue to be traded on an established exchange, an active trading market may not exist and the trading price of our stock may decline.

Our common stock is listed on the NASDAQ Global Market. The NASDAQ Global Market's continued listing standards for our common stock require, among other things, that (i) the closing bid price for our

common stock not fall below \$1.00; (ii) we have at least 400 beneficial holders and/or holders of record of our common stock; (iii) our stockholders' equity not fall below \$10 million; (iv) we have more than 750,000 shares held by the public (excluding officers, directors, and beneficial holders of 10% or more) with a market value of at least \$5.0 million; and (v) we have at least two registered and active dealers meeting the requirements set forth in the standards. A failure to meet these continued listing requirements is generally required to exist for a period of 10 to 30 consecutive business days (depending upon the type of failure) before a deficiency will be determined to exist. If our common stock was threatened with delisting from the NASDAQ Global Market, we may, depending on the circumstances, seek to extend the period for regaining compliance with NASDAQ listing requirements or we may pursue other strategic alternatives to meet the continuing listing standards.

In addition, we may choose to voluntarily delist from NASDAQ, or "go dark," in the event we believe we may be subject to a delisting proceeding or for any other reason our Board of Directors determines it to be in the best interest of our stockholders.

If our common stock is delisted by, or we voluntarily delist from, the NASDAQ Global Market, our common stock may be eligible to trade on the NASDAQ Capital Market, the OTC Bulletin Board, or the Pink OTC Markets. In such an event, it could become more difficult to dispose of, or obtain accurate quotations for the price of, our common stock, and there also would likely be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further.

The cost of compliance or failure to comply with the Sarbanes-Oxley Act of 2002 may adversely affect our business.

As a smaller reporting company, we are not subject to the provisions of the Sarbanes-Oxley Act of 2002 that require an attestation report from our registered independent public accounting firm regarding management's assessment of our internal controls over financial reporting. If we cease to qualify as a smaller reporting company or as a non-accelerated filer, we would become subject to this requirement, which could cause us to incur substantial additional costs and may adversely affect our financial results. The failure of our registered independent public accounting firm to concur with management's assessment of the effectiveness of our internal controls over financial reporting may result in investors losing confidence in the reliability of our financial statements, which may result in a decrease in the trading price of our common stock, prevent us from providing the required financial information in a timely manner which could materially and adversely impact our business, our financial condition and the trading price of our common stock, prevent us from otherwise complying with the standards applicable to us as a public company and subject us to additional regulatory consequences.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's executive offices are located in a 22,000-square-foot leased facility located in Plano, Texas. The executive offices serve as the primary location for the Company's administrative, development and marketing functions. The Company's manufacturing and operations center is located in

a 24,000-square-foot leased facility in Carrollton, Texas. The executive offices lease extends through February 2014, and the manufacturing and operations center lease extends through March 2014. The Company believes that its facilities and equipment are in good operating condition and are adequate for its operations. The Company owns most of the equipment used in its operations. Such equipment consists primarily of engineering equipment, manufacturing and test equipment, computer equipment and fixtures.

Item 3. Legal Proceedings.

Twenty-five former employees (“Plaintiffs”) of Interphase SAS, a subsidiary of Interphase Corporation, have brought suit in France against Interphase SAS alleging various causes of action and rights to damages relating to claims of wrongful dismissal of employment, specific French employment indemnities, general economic losses, and contractual claims relating specifically to their employment relationship and contracts entered into between the individual and Interphase SAS. The various claims and assertions arise from and relate to the Plaintiffs’ release from employment as part of the restructuring actions taken during the third quarter of 2010. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plan. The statement of claim is for an aggregate payment of approximately \$3.9 million related to these claims. The Company believes that the Plaintiffs’ claims are without merit and plans to vigorously defend itself in this lawsuit.

Item 4. Reserved.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Since January 1984, shares of the Company's common stock have been traded on the NASDAQ Global Market, or its predecessors, under the symbol INPH. The following table summarizes its high and low closing price for each quarter during 2009 and 2010 as reported by the NASDAQ Global Market.

<u>2009</u>	<u>High</u>	<u>Low</u>
First Quarter	3.20	1.44
Second Quarter	6.07	3.15
Third Quarter	5.60	3.94
Fourth Quarter	4.50	2.21
<u>2010</u>	<u>High</u>	<u>Low</u>
First Quarter	3.12	2.28
Second Quarter	2.73	1.55
Third Quarter	1.79	1.46
Fourth Quarter	1.87	1.20

The Company had approximately 1,500 beneficial owners of its common stock, of which 76 were of record, as of March 16, 2011.

The Company has not paid dividends on its common stock since its inception. The Board of Directors does not anticipate payment of any dividends in the foreseeable future and intends to continue its present policy of retaining earnings for reinvestment in the operations of the Company.

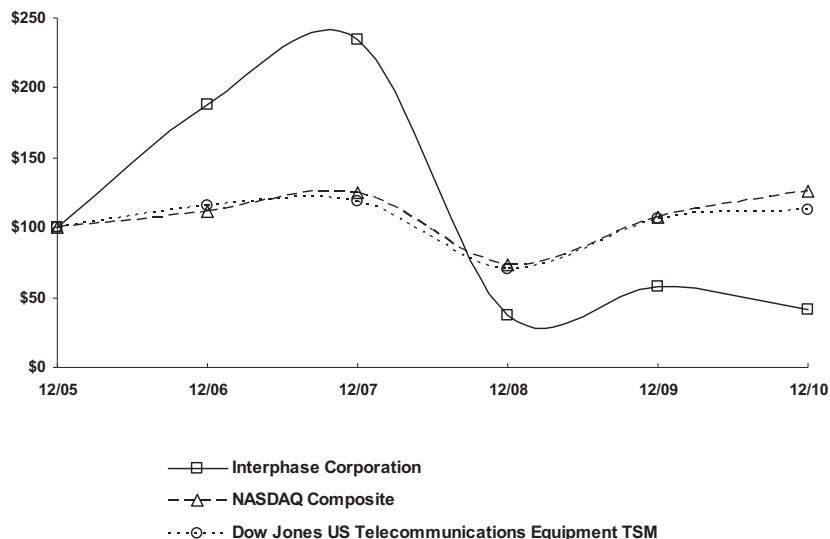
Stock Performance Graph

The following chart compares the cumulative total shareholder return of Interphase common stock during the years ended December 31, 2010, 2009, 2008, 2007 and 2006 with the cumulative total return of the NASDAQ composite index and the Dow Jones US Telecommunications Equipment TSM Index. The Company relied upon information provided by another firm with respect to the stock performance graph. The Company did not attempt to validate the information supplied to it other than review it for reasonableness. The comparison assumes \$100 was invested on December 31, 2005 in the Common Stock of the Company and in each of the foregoing indices and assumes reinvestment of dividends.

	Cumulative Return					
	12/05	12/06	12/07	12/08	12/09	12/10
Interphase Corporation	100	188	235	38	58	41
NASDAQ Composite	100	112	125	74	107	126
Dow Jones US Telecommunications Equipment TSM Index	100	116	119	70	106	112

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Interphase Corporation, the NASDAQ Composite Index and the Dow Jones US Telecommunications Equipment TSM Index



*\$100 invested on 12/31/05 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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Item 6. Selected Consolidated Financial Data.

The selected consolidated financial data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" have been derived from the consolidated balance sheets and the related statements of operations at or for the years ended December 31, 2010, 2009, 2008, 2007 and 2006, and the notes thereto appearing elsewhere herein, as applicable. In accordance with Accounting Standards Codification ("ASC") 10-45-68B, "Participating Securities and the Two-Class Method," which became effective January 1, 2009, prior period share data and corresponding EPS figures have been adjusted retrospectively.

It is important that you also read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, including the notes thereto, for the years ended December 31, 2010, 2009, and 2008.

Statement of Operations Data:
(In thousands, except per share data)

	Year ended December 31,				
	2010	2009	2008	2007	2006
Revenues	\$ 18,207	\$ 25,585	\$ 26,231	\$ 30,780	\$ 33,403
Gross margin	9,187	12,289	14,031	17,591	18,126
Research and development	6,572	7,970	9,198	10,216	8,226
Sales and marketing	4,512	5,753	5,237	5,614	5,405
General and administrative	3,843	4,275	4,100	4,692	3,926
Restructuring charge	3,339	1,236	403	-	-
(Loss) income from operations	(9,079)	(6,945)	(4,907)	(2,931)	569
Other income, net	23	289	618	1,128	1,112
(Loss) income before income tax	(9,056)	(6,656)	(4,289)	(1,803)	1,681
Income tax benefit	(637)	(1,102)	(1,263)	(609)	(405)
Net (loss) income	\$ (8,419)	\$ (5,554)	\$ (3,026)	\$ (1,194)	\$ 2,086
Net (loss) income per share					
Basic EPS	\$ (1.23)	\$ (0.81)	\$ (0.46)	\$ (0.19)	\$ 0.34
Diluted EPS	\$ (1.23)	\$ (0.81)	\$ (0.46)	\$ (0.19)	\$ 0.33
Weighted average common shares	6,839	6,899	6,550	6,240	6,059
Weighted average common and dilutive shares	6,839	6,899	6,550	6,240	6,333

Balance Sheet Data:
(In thousands)

	December 31,				
	2010	2009	2008	2007	2006
Working capital	\$ 13,117	\$ 21,257	\$ 25,301	\$ 27,030	\$ 26,604
Total assets	19,314	28,647	31,248	36,180	34,062
Total liabilities	8,304	9,385	6,962	8,918	8,262
Shareholders' equity	\$ 11,010	\$ 19,262	\$ 24,286	\$ 27,262	\$ 25,800

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company’s consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make significant 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 could differ from those estimates. Management believes the following are some of the more critical judgment areas in the application of the Company’s accounting policies that affect the Company’s financial condition and results of operations. Management has discussed the application of these critical accounting policies with the Board of Directors and its Audit Committee.

Revenue Recognition: Revenues consist of product and service revenues and are recognized in accordance with ASC Topic 605, “Revenue Recognition.” Product revenues are recognized upon shipment, provided fees are fixed and determinable, a customer purchase order is obtained (when applicable), and collection is probable. Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact to revenues. Service revenue is recognized as the services are performed. Deferred revenue consists primarily of service revenue not yet performed.

Our fixed price contracts relate primarily to long-term engineering design services projects. The revenues for such projects that require significant customization and integration are recognized using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of effort incurred to date on a contract relative to the estimated total expected contract effort. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within our control. Changes in these estimates could result in a material impact on revenues and net earnings (loss). If we are unable to develop reasonably dependable costs or revenue estimates, the completed contract method is applied under which all revenues and related costs are deferred until the contract is completed.

Warranty Reserve: The Company offers to its customers a limited warranty that its products will be free from defect in the materials and workmanship for a specified period. The Company has established a warranty reserve, as a component of accrued liabilities, for any potential claims. The Company estimates its warranty reserve based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. Changes in claim rates and differences between actual and expected warranty costs could impact the warranty reserve estimates.

Accounts Receivable and Allowance for Doubtful Accounts: The Company records accounts receivable at their net realizable value and management is required to estimate the collectability of the Company's trade receivables. A considerable amount of judgment is required in assessing the realization of these receivables, including the current creditworthiness of each customer and related aging of the past due balances. Management evaluates all accounts periodically and a reserve is established based on the best facts available to management. This reserve is also partially determined by using percentages applied to certain aged receivable categories based on historical results and is reevaluated and adjusted as additional information is received. After all attempts to collect a receivable have failed, the receivable is written off against the allowance for doubtful accounts.

Allowance for Returns: The Company estimates its allowance for returns based upon expected return rates. The estimates of expected return rates are generally a factor of historical returns. Changes in return rates could impact allowance for return estimates.

Inventories: Inventories are valued at the lower of cost or market and include material, labor and manufacturing overhead. Cost is determined on a first-in, first-out basis. Valuing inventories at the lower of cost or market involves an inherent level of risk and uncertainty due to technology trends in the industry and customer demand for our products. In assessing the ultimate realization of inventories, management is required to make judgments as to future demand requirements and compare that with the current or committed inventory levels. Reserve requirements generally increase as projected demand decreases due to market conditions, technological and product life cycle changes as well as longer than previously expected usage periods. The Company has experienced significant changes in required reserves in the past due to changes in strategic direction, such as discontinuances of product lines as well as declining market conditions. It is possible that significant changes in this estimate may occur in the future as market conditions change.

Stock-Based Compensation: The Company accounts for stock-based compensation under the provisions of ASC Topic 718, "Compensation – Stock Compensation." Management estimates are necessary in determining compensation expense for both restricted stock and stock options with performance based vesting criteria. Compensation expense for this type of stock-based award is recognized over the period from the date the performance condition is determined to be probable of occurring through the date the applicable condition is expected to be met. If the performance condition is not considered probable of being achieved, no expense is recognized until such time as the performance condition is considered probable of being met, if ever. Management evaluates whether performance conditions are probable of occurring on a quarterly basis.

Income Taxes: The Company determines its deferred taxes using the liability method. Deferred tax assets and liabilities are based on the estimated future tax effects of differences between the financial statement basis and the tax basis of assets and liabilities given the provisions of enacted tax law. The

Company's consolidated financial statements include deferred income taxes arising from the recognition of revenues and expenses in different periods for income tax and financial reporting purposes.

The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable. The Company considers recent historical losses, future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Management continuously assesses the realizability of deferred tax assets.

The Company recognizes the impact of uncertain tax positions taken or expected to be taken on an income tax return in the financial statements at the amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained.

The Company is periodically engaged in various tax audits by federal, state and foreign governmental authorities incidental to its business activities. The Company records reserves for its estimated probable losses of these proceedings, if applicable.

CONSOLIDATED STATEMENT OF OPERATIONS AS A PERCENTAGE OF REVENUE

	Year ended December 31,		
	2010	2009	2008
Revenues	100.0%	100.0%	100.0%
Cost of sales	49.5%	52.0%	46.5%
Gross margin	50.5%	48.0%	53.5%
Research and development	36.1%	31.1%	35.1%
Sales and marketing	24.8%	22.5%	20.0%
General and administrative	21.1%	16.7%	15.6%
Restructuring charge	18.3%	4.8%	1.5%
Loss from operations	(49.9)%	(27.1)%	(18.7)%
Interest income, net	0.6%	1.2%	2.0%
Other (loss) income, net	(0.4)%	(0.1)%	0.4%
Loss before income tax	(49.7)%	(26.0)%	(16.3)%
Income tax benefit	(3.5)%	(4.3)%	(4.8)%
Net loss	(46.2)%	(21.7)%	(11.5)%

OVERVIEW

Over the past several years, the telecom market has endured major shifts that have globally impacted the traditional leaders within the industry. Many of these telecom equipment manufacturers continued to experience a shift in their customer demand and continued to lose market share to Asian equipment providers located within the Asian markets throughout 2010. Several of these market leaders who experienced a decline in revenues over the past few years are customers of Interphase, and as such, their

demand for Interphase products and services continued to decline during 2010. This was reflected in our financial results for 2010.

Interphase has responded to this global impact to the telecom market, and in 2010, we launched a multi-tiered strategy to diversify our product and service offerings into a number of new business areas, both within and outside of the telecommunications market in which we have traditionally operated over the past decade. Some of these new market opportunities include electronic manufacturing services, cloud computing, LTE baseband products and embedded computer vision. Our goal in the above-mentioned strategy is to diversify our product and service offerings and enter robust new market segments that will allow us to generate growth in a variety of ways.

We have continued to diligently manage our expenses and investments and look for efficiencies throughout our Company in an effort to negate the impacts from our decline in revenue during 2010. As a result, we implemented a Company-wide restructuring plan in the second half of the year, which is expected to result in savings of approximately \$5.5 million in annualized operating costs. These efforts were taken in order to bring our expenses in line with our recent revenue run rate. We believe that the diversification work as well as the cost reduction measures will allow us to expand our revenue base as well as our ability to compete effectively in new markets in the future.

RESULTS OF OPERATIONS

Revenues: Total revenues for the years ended December 31, 2010, 2009 and 2008 were \$18.2 million, \$25.6 million and \$26.2 million, respectively. Revenues decreased by 29% in 2010 compared to 2009. This decrease was primarily attributable to our broadband telecom revenues, which decreased by approximately 34% to \$15.1 million in 2010 compared to \$22.7 million in 2009, primarily as the result of reduced deployments of new telecommunications equipment by our customers, which began in the second half of 2009 and continued throughout 2010. Additionally, professional services revenues decreased to approximately \$770,000 in 2010 compared to approximately \$1.3 million in 2009. Partially offsetting these decreases was an increase in our enterprise product line revenues to approximately \$1.6 million in 2010 compared to approximately \$806,000 in 2009. All other revenues, comprised primarily of support and repair services increased slightly to approximately \$780,000 in 2010 compared to approximately \$753,000 in 2009.

Revenues decreased slightly in 2009 compared to 2008. This decrease was primarily driven by two factors. During 2008 we received a one-time cancellation fee of \$973,000, which was included in other revenue for unique customer requirements for product development work that was discontinued. There was no similar fee earned in 2009. In addition, our broadband telecom revenues decreased by approximately 2% to \$22.7 million in 2009 compared to \$23.2 million in 2008, primarily as the result of reduced deployments of new telecommunications equipment by our customers. Partially offsetting these decreases was an increase in our professional services revenues to approximately \$1.3 million in 2009 compared to approximately \$501,000 in 2008. All other revenues, excluding the one-time cancellation fee described above, comprised primarily of enterprise products, storage products and support services, remained flat at \$1.5 million in 2009 and 2008.

Gross Margin: Gross margin as a percentage of revenue for the years ended December 31, 2010, 2009 and 2008 was 50%, 48% and 53%, respectively. The increase in gross margin percentage in 2010 compared to 2009 was primarily due to two factors. There was a positive impact in gross margin in 2010

due to a shift in product mix toward higher margin products within our broadband telecom product portfolio compared to 2009. In addition, gross margin in 2010 was positively impacted by a decrease of \$300,000 in excess and obsolete inventory charges during 2010 compared to 2009. We believe that pricing pressures in the industry and our anticipated future product mix may reduce our gross margin percentage in future periods.

The decrease in gross margin percentage in 2009 compared to 2008 was primarily due to three factors. There was a positive impact on the 2008 gross margin percentage due to the \$973,000 project cancellation fee recorded in the first quarter of 2008 that had no cost of sales associated with it, while there was no similar charge in 2009. In addition, gross margin in 2009 was negatively impacted by an increase of \$300,000 in excess and obsolete inventory charges during 2009 compared to 2008. Finally, gross margin in 2009 was negatively impacted further by product mix, as we experienced an increase in purchases of our lower margin products within our broadband telecom product portfolio.

Research and Development: Our investment in the development of new products through research and development was \$6.6 million, \$8.0 million and \$9.2 million in 2010, 2009 and 2008, respectively. As a percentage of revenue, research and development expenses were 36%, 31% and 35% for 2010, 2009 and 2008, respectively. Research and development expenses decreased in 2010 compared to 2009 by approximately \$1.4 million. The decrease was primarily due to the impact of the 2009 and the 2010 restructuring plans. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plans. Additionally, but to a lesser degree, because much of our research and development resources were located in France, those costs were subject to exchange rate fluctuations with the Euro and the Dollar. The Dollar was stronger against the Euro in 2010 compared to 2009. This exchange rate fluctuation resulted in a decrease to research and development expense of approximately \$145,000. We anticipate that spending on research and development will continue to decrease in the near future as a result of the restructuring plans we undertook in the third quarter of 2010 and the fourth quarter of 2009. The increase in research and development expense as a percentage of total revenue is due to revenue decreasing at a higher rate than research and development expense. We will continue to monitor the level of our investments in research and development concurrently with actual revenue results.

Research and development expenses decreased in 2009 compared to 2008 by approximately \$1.2 million. The decrease was primarily due to three factors. First, we reduced our project related headcount expense by approximately \$550,000 in 2009 compared to 2008. In addition, we experienced reduced headcount and facility expense of approximately \$355,000 year over year as a result of the restructuring plan we undertook in the first quarter of 2008 (See Note 7 in the Notes to the Consolidated Financial Statements for more information). Finally, the Dollar was stronger against the Euro in 2009 compared to 2008. This exchange rate fluctuation resulted in a decrease to research and development expense of approximately \$300,000. The decrease in research and development expense as a percentage of total revenue is due to research and development expense decreasing at a higher rate than revenue.

Sales and Marketing: Sales and marketing expenses were \$4.5 million, \$5.8 million and \$5.2 million in 2010, 2009 and 2008, respectively. As a percentage of revenue, sales and marketing expenses were 25%, 22% and 20% for 2010, 2009 and 2008, respectively. Sales and marketing expenses decreased by approximately \$1.2 million in 2010 compared to 2009. Approximately, 60% of the decrease in sales and marketing expense was a result of the 2010 and 2009 restructuring plans. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plans. The remaining

portion of the decrease in sales and marketing expense was the result of a decrease in commission and variable compensation to employees in 2010 compared to 2009. The increase in sales and marketing expense as a percentage of total revenue was due to revenue decreasing at a higher rate than sales and marketing expense. We will continue to monitor the level of our investments in sales and marketing concurrently with actual revenue results.

Sales and marketing expenses increased by approximately \$515,000 in 2009 compared to 2008. The increase in sales and marketing expense was primarily driven by two factors. In late 2008, we made strategic headcount investments in the areas of business development and marketing, which increased sales and marketing expense for 2009 by approximately \$380,000. Also, during 2009, we saw an increased utilization of outside sales representation and consulting services which resulted in additional expense of approximately \$250,000 in 2009 compared to 2008. These increases were partially offset by the impact of the Dollar's strength against the Euro in 2009 compared to 2008. This exchange rate fluctuation resulted in a decrease to sales and marketing expense of approximately \$100,000. The increase in sales and marketing expenses as a percentage of total revenue was due to revenue decreasing while sales and marketing expenses increased.

General and Administrative: General and administrative expenses were \$3.8 million, \$4.3 million and \$4.1 million in 2010, 2009 and 2008, respectively. As a percentage of revenue, general and administrative expenses were 21%, 17% and 16% in the years ended December 31, 2010, 2009 and 2008, respectively. General and administrative expenses decreased by approximately \$430,000 in 2010 compared to 2009. The decrease was primarily due to three factors. First, general and administrative expense related to outside providers of accounting, consulting and legal services decreased by approximately \$245,000 in 2010 compared to 2009. In addition, executive variable compensation decreased by approximately \$120,000 in 2010 compared to 2009. Finally, general and administrative expense decreased by approximately \$80,000 as a result of the 2010 restructuring plan. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plan. The increase in general and administrative expense as a percentage of total revenue was due to revenue decreasing at a higher rate than general and administrative expense.

General and administrative expenses increased slightly in 2009 compared to 2008. The increase in general and administrative expenses as a percentage of total revenues was due to revenue decreasing while general and administrative expenses increased slightly.

Restructuring Charge: On September 30, 2010, we initiated a restructuring plan intended to result in savings of approximately \$5.5 million in annualized operating costs. The goal of the 2010 restructuring plan was to mitigate gross margin erosion by reducing manufacturing and procurement costs, streamline research and development expense and focus remaining resources on key strategic growth areas, and reduce selling and administrative expenses through product rationalization and consolidation of support functions. Under the 2010 restructuring plan, we reduced our worldwide work force by 39 regular full-time positions, including the closure of our European engineering and support center located in Chaville, France. As a result of the 2010 restructuring plan, we recorded a restructuring charge of approximately \$3.3 million classified as an operating expense in the third quarter of 2010 related to future cash expenditures to cover employee severance and benefits and other related costs. (See Note 7 of the accompanying Notes to the Consolidated Financial Statements for more information.)

On December 11, 2009, we adopted a plan to restructure our worldwide operations. The primary goal of the 2009 restructuring program was to align our spending with revenue trends and to enable additional investments in strategic growth areas. Under the 2009 restructuring plan, we reduced our workforce by 12 positions. As a result of the 2009 restructuring plan, we recorded a restructuring charge of approximately \$1.2 million classified as an operating expense in the fourth quarter of 2009, of which approximately \$1.1 million resulted in cash expenditures to cover employee severance and benefits. The remaining \$173,000 included in the restructuring charge related to certain non-cash impairment charges. (See Note 7 of the accompanying Notes to the Consolidated Financial Statements for more information.)

On March 27, 2008, we adopted a plan to restructure our United States based business operations to balance our spending with revenue trends. The primary goal of the 2008 restructuring plan was to improve our ability to invest in future business opportunities that are designed to provide us with increased growth potential and greater revenue diversification in future years and better align our skills with our future direction. Under the 2008 restructuring plan, we reduced our workforce by 14 employees and we recorded a restructuring charge of \$403,000, classified as an operating expense. (See Note 7 of the accompanying Notes to the Consolidated Financial Statements for more information.)

Interest Income, Net: Interest income, net of interest expense, was \$102,000, \$301,000 and \$526,000 in 2010, 2009 and 2008, respectively. The decrease in interest income, net of interest expense, in 2010 compared to 2009 was primarily due to lower investment balances and lower rates of return on our investments. The decrease in interest income, net of interest expense, in 2009 compared to 2008 was primarily due to lower investment rates of return.

Other (Loss) Income, Net: Other loss, net was \$79,000 and \$12,000 in 2010 and 2009, respectively. Other income, net was \$92,000 in 2008. Other loss, net in 2010 primarily relates to the change in market value of a foreign exchange derivative financial instrument which resulted in a loss of approximately \$62,000. Other loss, net in 2009 was primarily related to exchange losses on invoices from foreign suppliers. Other income, net in 2008 is primarily due to the change in market value of our foreign exchange derivative financial instruments which resulted in a gain of approximately \$130,000. We did not hold any foreign exchange contracts during 2009. See Note 4 of the accompanying Notes to the Consolidated Financial Statements for more information regarding our derivative financial instruments.

Income Taxes: The effective income tax rates for the periods presented differ from the U.S. statutory rate, as we continue to provide a full valuation allowance for our net deferred tax assets at December 31, 2010, 2009 and 2008. The effective income tax benefit rate was 7%, 17% and 29% for 2010, 2009 and 2008, respectively. These income tax benefits were primarily due to a 30% research and development tax credit earned by our operations in France. The benefits from the research and development tax credit were partially offset by tax expense related to income generated in France. The decrease in the effective income tax benefit rates were primarily due to a year-over-year reduction in the Company's research and development tax credit earned during each year. We will no longer generate tax credits from French research and development, because we closed our French operation at the end of 2010.

Net Loss: We reported a net loss of approximately \$8.4 million, \$5.6 million and \$3.0 million for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flows

Cash and cash equivalents decreased by \$3.3 million for the year ended December 31, 2010. Cash and cash equivalents increased by \$732,000 and \$999,000 for the year ended December 31, 2009 and 2008, respectively.

Operating Activities: Trends in cash flows from operating activities for 2010, 2009 and 2008, are generally similar to the trends in our earnings, except for provision for uncollectible accounts and returns, provision for excess and obsolete inventories, depreciation and amortization, amortization of restricted stock and write-off of impaired capitalized software. Cash used in operating activities totaled \$6.7 million compared to a net loss of \$8.4 million for the year ended December 31, 2010. Cash used in operating activities totaled \$949,000 for the year ended December 31, 2009, compared to a net loss of \$5.6 million. Cash used in operating activities totaled \$805,000 for the year ended December 31, 2008, compared to a net loss of \$3.0 million. Provisions for uncollectible accounts and returns decreased during 2010 due to revenue reductions and improved collection efforts throughout the year. Provisions for uncollectible accounts and returns increased during 2009 as we experienced a shift in our customers' risk profiles and payment trends. Provision for excess and obsolete inventories decreased by \$300,000 for 2010 compared to 2009. Provision for excess and obsolete inventories increased by \$300,000 for 2009 compared to 2008. Depreciation and amortization decreased by approximately \$110,000 and \$33,000 in 2010 and 2009, respectively. Amortization of restricted stock decreased approximately \$76,000 for 2010 compared to 2009 primarily due to the cumulative effect of restricted stock cancellations in 2010. See Note 9 in Notes to the Consolidated Financial Statements for more information on restricted stock. During 2010, there were write-offs of capitalized fixed assets of \$29,000 primarily related to the restructuring actions taken during the third quarter of 2010. During 2009, there were write-offs of capitalized software of \$173,000 primarily related to the restructuring actions taken during the fourth quarter of 2009. During 2008, there were write-offs of software licenses of \$185,000 that were procured for products that were subsequently discontinued.

Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Such changes in assets and liabilities generally tend to even out over time and result in trends in cash flows from operating activities generally reflecting earnings trends.

Investing Activities: Net cash provided by investing activities totaled \$3.6 million, \$1.6 million and \$2.0 million in 2010, 2009 and 2008, respectively. Cash provided by or used in investing activities in each of the three years presented related principally to additions to property and equipment, capitalized software purchases and our investments in marketable securities. Additions to property and equipment during 2010 primarily related to software and equipment purchases for our engineering and manufacturing functions. Additions to property and equipment during 2009 primarily related to enhancements to our enterprise performance management system and software purchases for our engineering function. Additions to property and equipment during 2008 primarily related to additional functionality and enhancements to our enterprise performance management system and purchases for the engineering and manufacturing functions. Purchases of marketable securities decreased by approximately \$3.4 million for 2010 compared to 2009. Purchases of marketable securities increased by approximately \$300,000 for 2009 compared to 2008. Proceeds from the sale of marketable securities decreased by approximately \$1.6

million for 2010 compared to 2009. Proceeds from the sale of marketable securities decreased by approximately \$300,000 for 2009 compared to 2008.

Financing Activities: There was no net cash provided by or used in financing activities for the year ended December 31, 2010. Net cash provided by financing activities totaled \$4,000 and \$2,000 for the years ended December 31, 2009 and 2008, respectively. Cash provided by financing activities for 2009 and 2008 is comprised of proceeds from the exercise of stock options. Stock option exercises remained consistent in 2009 compared to 2008.

Commitments

At December 31, 2010, we had no material commitments to purchase capital assets; however, planned capital expenditures for 2011 are estimated at \$310,000, a significant portion of which relates to enhancements to our manufacturing equipment and product development and engineering tools. Our significant long-term obligations are operating leases on facilities and future debt payments. We have not paid any dividends since our inception and do not anticipate paying any dividends in 2011.

The following table summarizes our future contractual obligations and payment commitments as of December 31, 2010 (in thousands):

Contractual Obligation	Payments due by period				
	Total	<1 year	1 - 3 years	3 - 5 years	> 5 years
Long-term debt obligation (1,2)	\$ 3,689	\$ 63	\$ 3,626	\$ -	\$ -
Operating lease obligations (3,4)	\$ 2,017	\$ 694	\$ 1,208	\$ 115	\$ -
Total	\$ 5,706	\$ 757	\$ 4,834	\$ 115	\$ -

- (1) At December 31, 2010, we had borrowings of \$3.5 million under a \$5.0 million revolving credit facility with a bank. The revolving credit facility matures on December 19, 2013 and is secured throughout the term of the credit facility by marketable securities.
- (2) We incur interest expense on the borrowings from the revolving credit facility at a rate of LIBOR plus 1.0% to 1.5% applicable margin rate based on certain factors included in our credit agreement. At December 31, 2010, our interest rate on the borrowings from the revolving credit facility was 1.8%. We used the 1.8% rate to estimate interest expense for 2011 through December 2013. The interest expense estimate is \$63,000 annually for the years 2011 through December 2013.
- (3) We lease our facilities under non-cancelable operating leases with the longest terms extending to March 2014.
- (4) Our operating lease at our headquarters location includes a \$280,000 letter of credit issued to our landlord which can only be used in the case of non-payment of such lease. The letter of credit, if accessed, would be funded by our existing revolving credit facility.

Off-Balance Sheet Arrangements

In an attempt to mitigate foreign currency risk, we have entered into, from time to time, foreign exchange contracts to purchase a fixed amount of Euros on a fixed date in the future at a fixed rate determined at the contract date. At December 31, 2010 and 2009, we had no foreign exchange contracts outstanding.

Other

Management believes that cash generated from operations and borrowing availability under the revolving credit facility, together with cash on hand, will be sufficient to meet our liquidity needs for working capital, capital expenditures and debt service. To the extent that our actual operating results or other developments differ from our expectations, our liquidity could be adversely affected.

We periodically evaluate our liquidity requirements, alternative uses of capital, capital needs and available resources in view of, among other things, our capital expenditure requirements and estimated future operating cash flows. As a result of this process, we have in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, issue additional securities, repurchase shares of our common stock or take a combination of such steps to manage our liquidity and capital resources. In the normal course of business, we may review opportunities for acquisitions, joint ventures or other business combinations. In the event of any such transaction, we may consider using available cash, issuing additional equity securities or increasing the indebtedness of the Company or its subsidiaries.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force,” to amend certain guidance in FASB ASC 605-25, “Revenue Recognition – Multiple-Element Arrangements.” The amended guidance in ASC 605-25 modifies the separation criteria by eliminating the criterion that requires objective and reliable evidence of fair value for the undelivered items and eliminates the use of the residual method of allocation. Instead, the amended guidance requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables based on their relative selling price. The amended guidance in ASC 605-25 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early application and retrospective application permitted. We elected early application of ASC 605-25 and it was effective for us on January 1, 2010. Our adoption of this standard did not have any impact on our consolidated financial statements.

In October 2009, the FASB issued ASU 2009-14, “Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force,” that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product’s essential

functionality, and undelivered components that relate to software that is essential to the tangible product's functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). We expect to adopt and prospectively apply the provisions of this standard beginning January 1, 2011. Our adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk.

Foreign Currency Risk

We are exposed to adverse movements in foreign currency exchange rates because we conduct business on a global basis and, in some cases, in foreign currencies. The Company's operations in France were transacted in the local currency and converted into U.S. Dollars based on published exchange rates for the periods reported and were therefore subject to risk of exchange rate fluctuations. The Euro to U.S. Dollar translation accounted for charges of approximately \$1.7 million, \$2.4 million and \$2.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. This risk will be significantly reduced in the future due to the closure of our French operations at the end of 2010.

In an attempt to mitigate the risk described above, we have entered into, from time to time, foreign exchange contracts to purchase a fixed amount of Euros on a fixed date in the future at a fixed rate determined at the contract date. These derivative financial instruments do not meet the criteria to qualify as hedges under ASC Topic 815, "Derivatives and Hedging," and therefore any change in the market value of these contracts resulting in a gain or loss is recognized as other (loss) income, net in the period of the change. For the year ended December 31, 2010, we recognized a loss of approximately \$62,000 related to a foreign exchange contract. We held no foreign exchange contracts at any point during the year ended December 31, 2009, and thus there was no related gain or loss. For the year ended December 31, 2008, we recognized a gain of \$130,000 related to these foreign exchange contracts. At December 31, 2010 and 2009, there were no foreign exchange contracts outstanding.

Market Price Risk

We had no equity hedge contracts outstanding as of December 31, 2010, 2009 or 2008.

Interest Rate Risk

Our investments are subject to interest rate risk. Interest rate risk is the risk that our financial condition and results of operations could be adversely affected due to movements in interest rates. We invest our cash in a variety of interest-earning financial instruments, including bank time deposits, money market funds, and variable rate and fixed rate obligations of corporations and national governmental entities and agencies. Due to the demand nature of our money market funds and the short-term nature of our time deposits and debt securities portfolio, these assets are particularly sensitive to changes in interest rates. We manage this risk through investments with shorter-term maturities and varying maturity dates.

A hypothetical 50 basis point increase in interest rates would result in an approximate decrease of less than 1% in the fair value of our available-for-sale securities at December 31, 2010. This potential change

is based on sensitivity analyses performed on our marketable securities at December 31, 2010. Actual results may differ materially. The same hypothetical 50 basis point increase in interest rates would have resulted in an approximate decrease of less than 1% in the fair value of our available-for-sale securities at December 31, 2009.

We maintain a \$5.0 million revolving bank credit facility maturing December 19, 2013 with an applicable interest rate on any outstanding balances under the credit facility based on London Interbank Offered Rate (LIBOR) plus 1.0% to 1.5% applicable margin rate based on certain factors included in our credit agreement. The interest rate on the borrowings under the revolving credit facility was 1.8% and 1.3% at December 31, 2010 and 2009, respectively. The unused portion of the credit facility is subject to an unused facility fee ranging from .25% to .75% depending on total deposits with the creditor. A hypothetical 100 basis point increase in LIBOR would increase annual interest expense on this credit facility by approximately \$35,000. All borrowings under this facility are secured by marketable securities.

Item 8. Financial Statements and Supplementary Data.

See Item 15 (a) below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this annual report. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding disclosure and that information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Changes in Internal Controls

The Company maintains a system of internal controls that is designed to provide reasonable assurance that its books and records accurately reflect, in all material respects, the transactions of the Company and that its established policies and procedures are adhered to. From time to time the Company may experience changes to its internal controls due, for example, to employee turnover, re-balancing of workloads, extended absences and promotions of employees. However, there were no changes in our internal controls over financial reporting during the fourth quarter of the year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other associates, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, known as COSO, in "Internal Control – Integrated Framework." Based on the results of its evaluation, the Company's management has concluded that the internal control over financial reporting was effective as of December 31, 2010. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. As we are a smaller reporting company, management's report is not subject to attestation by our registered public accounting firm pursuant to Section 404(c) of the Sarbanes-Oxley Act of 2002 that permits us to provide only management's report in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

See information regarding the directors and nominees for director under the heading “Election of Directors” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

Executive Officers

See information regarding the executive officers under the heading “Executive Officers” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

Code of Ethics

The Company has adopted a Code of Business Conduct, which applies to all of the members of the board of directors and employees, including its Chairman and Chief Executive Officer, its Chief Financial Officer and its Corporate Controller. The Code of Ethics is available on the Company’s website at www.interphase.com. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Ethics by posting such information on its website, at the address specified above, and, to the extent required by the listing standards of the NASDAQ Global Market, by filing a Current Report on Form 8-K with the Securities and Exchange Commission disclosing such information.

Item 11. Executive Compensation.

See information regarding executive compensation under the heading “Executive Compensation” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See information regarding security ownership of certain beneficial owners and management under the headings “Principal Shareholders” and “Executive Compensation” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

Plan Category	Number of securities in thousands to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities in thousands remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity Compensation plans approved by security holders	1,470	\$5.00	1,236
Equity Compensation plans not approved by security holders	-	-	-
Total	1,470	\$5.00	1,236

See Note 9 of the accompanying notes to the consolidated financial statements for information regarding the Company’s shareholder-approved stock incentive plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

See information regarding certain relationships, related transactions and director independence under the headings “Election of Directors,” “Audit Committee,” “Nominating and Governance Committee,” “Executive Compensation,” and “Certain Related Transactions” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See information regarding principal accountant fees and services under the heading “Ratification of Appointment of Independent Registered Public Accounting Firm for the Year Ending December 31, 2011” in the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2011, which is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements.

Reference is made to the listing on page F-1 of all financial statements filed as a part of this report.

(2) Financial Statement Schedules

All schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or notes thereto.

(3) Exhibits.

Reference is made to the Index to Exhibits on page E-1 for a list of all exhibits filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERPHASE CORPORATION

Date: March 21, 2011

By: /s/ Gregory B. Kalush
Gregory B. Kalush
Chairman of the Board,
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 21, 2011.

<u>Name</u>	<u>Title</u>
<u>/s/ Gregory B. Kalush</u> Gregory B. Kalush	Chairman of the Board, Chief Executive Officer and President (Principal executive officer)
<u>/s/ Thomas N. Tipton, Jr.</u> Thomas N. Tipton, Jr.	Chief Financial Officer, Vice President of Finance and Treasurer (Principal financial and accounting officer)
<u>/s/ Paul N. Hug</u> Paul N. Hug	Director
<u>/s/ Michael J. Myers</u> Michael J. Myers	Director
<u>/s/ Kenneth V. Spenser</u> Kenneth V. Spenser	Director
<u>/s/ Christopher B. Strunk</u> Christopher B. Strunk	Director
<u>/s/ S. Thomas Thawley</u> S. Thomas Thawley	Vice Chairman, Director and Secretary

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Consolidated Statements of Shareholders' Equity - Years Ended December 31, 2010, 2009 and 2008	F-5
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* All schedules are omitted because they are not applicable or the required information is presented in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Interphase Corporation

We have audited the accompanying consolidated balance sheets of Interphase Corporation (a Texas corporation) and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. 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 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interphase Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Dallas, Texas
March 21, 2011

INTERPHASE CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	December 31,	
	2010	2009
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,772	\$ 8,115
Marketable securities	6,005	9,724
Trade accounts receivable, less allowances of \$70 and \$76, respectively	4,633	5,106
Inventories	1,645	1,699
Prepaid expenses and other current assets	623	2,202
Total current assets	<u>17,678</u>	<u>26,846</u>
Machinery and equipment	6,840	6,993
Leasehold improvements	327	430
Furniture and fixtures	398	587
	<u>7,565</u>	<u>8,010</u>
Less-accumulated depreciation and amortization	(7,151)	(7,318)
Total property and equipment, net	<u>414</u>	<u>692</u>
Capitalized software, net	485	912
Other assets	737	197
Total assets	<u>\$ 19,314</u>	<u>\$ 28,647</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities		
Accounts payable	\$ 1,388	\$ 1,257
Deferred revenue	39	161
Accrued liabilities	2,486	2,667
Accrued compensation	648	1,504
Total current liabilities	<u>4,561</u>	<u>5,589</u>
Deferred lease obligations	243	296
Long term debt	3,500	3,500
Total liabilities	<u>8,304</u>	<u>9,385</u>
Commitments and contingencies		
Shareholders' Equity		
Common stock, \$.10 par value; 100,000,000 shares authorized; 6,815,600 and 6,911,494 shares issued and outstanding, respectively	682	691
Additional paid in capital	43,355	43,022
Retained deficit	(32,203)	(23,784)
Cumulative other comprehensive loss	(824)	(667)
Total shareholders' equity	<u>11,010</u>	<u>19,262</u>
Total liabilities and shareholders' equity	<u>\$ 19,314</u>	<u>\$ 28,647</u>

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

INTERPHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	2010	2009	2008
Revenues	\$ 18,207	\$ 25,585	\$ 26,231
Cost of sales	9,020	13,296	12,200
Gross margin	9,187	12,289	14,031
Research and development	6,572	7,970	9,198
Sales and marketing	4,512	5,753	5,237
General and administrative	3,843	4,275	4,100
Restructuring charge	3,339	1,236	403
Total operating expenses	18,266	19,234	18,938
Loss from operations	(9,079)	(6,945)	(4,907)
Interest income, net	102	301	526
Other (loss) income, net	(79)	(12)	92
Loss before income tax	(9,056)	(6,656)	(4,289)
Income tax benefit	(637)	(1,102)	(1,263)
Net loss	\$ (8,419)	\$ (5,554)	\$ (3,026)
Net loss per share:			
Basic EPS	\$ (1.23)	\$ (0.81)	\$ (0.46)
Diluted EPS	\$ (1.23)	\$ (0.81)	\$ (0.46)
Weighted average common shares	6,839	6,899	6,550
Weighted average common and dilutive shares	6,839	6,899	6,550

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

INTERPHASE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid in Capital	Retained Deficit	Cumulative Other Comprehensive Loss		Total	Comprehensive Income (loss)
	Shares	Amount			Loss	Total		
Balance at December 31, 2007	6,500	\$ 650	\$ 42,267	\$ (15,204)	\$ (451)	\$ 27,262		
Option exercises	1	-	2	-	-	2		
Stock issued under restricted stock plan, net forfeitures	72	7	(6)	-	-	1		
Amortization of restricted stock plan compensation	-	-	389	-	-	389		
Comprehensive income:								
Foreign currency translation	-	-	-	-	(256)	(256)	(256)	
Unrealized holding period loss	-	-	-	-	(86)	(86)	(86)	
Net loss	-	-	-	(3,026)	-	(3,026)	(3,026)	
Total comprehensive loss	-	-	-	-	-	-	\$ (3,368)	
Balance at December 31, 2008	6,573	\$ 657	\$ 42,652	\$ (18,230)	\$ (793)	\$ 24,286		
Option exercises	1	-	4	-	-	4		
Stock issued under restricted stock plan, net forfeitures	337	34	(34)	-	-	-		
Amortization of restricted stock and stock option plan compensation	-	-	400	-	-	400		
Comprehensive income:								
Foreign currency translation	-	-	-	-	64	64	64	
Unrealized holding period gain	-	-	-	-	62	62	62	
Net loss	-	-	-	(5,554)	-	(5,554)	(5,554)	
Total comprehensive loss	-	-	-	-	-	-	\$ (5,428)	
Balance at December 31, 2009	6,911	\$ 691	\$ 43,022	\$ (23,784)	\$ (667)	\$ 19,262		
Option exercises	-	-	-	-	-	-		
Stock forfeited under restricted stock plan	(95)	(9)	9	-	-	-		
Amortization of restricted stock and stock option plan compensation	-	-	324	-	-	324		
Comprehensive income:								
Foreign currency translation	-	-	-	-	(125)	(125)	(125)	
Unrealized holding period loss	-	-	-	-	(32)	(32)	(32)	
Net loss	-	-	-	(8,419)	-	(8,419)	(8,419)	
Total comprehensive loss	-	-	-	-	-	-	\$ (8,576)	
Balance at December 31, 2010	6,816	\$ 682	\$ 43,355	\$ (32,203)	\$ (824)	\$ 11,010		

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

INTERPHASE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net loss	\$ (8,419)	\$ (5,554)	\$ (3,026)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Provision for uncollectible accounts and returns	12	27	(14)
Provision for excess and obsolete inventories	200	500	200
Depreciation and amortization	725	835	868
Amortization of restricted stock	324	400	389
Write-off of impaired capitalized software, property and equipment	29	173	185
Change in assets and liabilities:			
Trade accounts receivable	461	(375)	2,806
Inventories	(146)	130	357
Prepaid expenses and other current assets	1,458	577	(1,480)
Other assets	(552)	10	671
Accounts payable, deferred revenue and accrued liabilities	(6)	1,728	(1,286)
Accrued compensation	(762)	305	(424)
Deferred lease obligations	(53)	295	(51)
Net adjustments	1,690	4,605	2,221
Net cash used in operating activities	(6,729)	(949)	(805)
Cash flows from investing activities:			
Purchase of property and equipment	(47)	(182)	(236)
Purchase of capitalized software	(30)	(136)	(336)
Proceeds from the sale of marketable securities	6,640	8,269	8,585
Purchases of marketable securities	(2,950)	(6,372)	(6,049)
Net cash provided by investing activities	3,613	1,579	1,964
Cash flows from financing activities:			
Borrowings under credit facility	7,500	14,000	3,500
Payments on debt	(7,500)	(14,000)	(3,500)
Proceeds from the exercise of stock options	-	4	2
Net cash provided by financing activities	-	4	2
Effect of exchange rate changes on cash and cash equivalents	(227)	98	(162)
Net (decrease) increase in cash and cash equivalents	(3,343)	732	999
Cash and cash equivalents at beginning of year	8,115	7,383	6,384
Cash and cash equivalents at end of year	\$ 4,772	\$ 8,115	\$ 7,383
Supplemental Disclosure of Cash Flow Information:			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ 32	\$ 7	\$ 236

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

INTERPHASE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Business: Interphase Corporation and subsidiaries (“Interphase” or the “Company”) delivers solutions for LTE and WiMAX, interworking gateways, packet processing, network connectivity, and security for key applications for the communications and enterprise markets. Founded in 1974, Interphase provides expert engineering design and electronics manufacturing services in addition to its commercial-off-the-shelf (COTS) portfolio of products. Interphase is headquartered in Plano, Texas, with sales offices in the United States and Europe. Clients include Alcatel-Lucent, Emerson Network Power, Fujitsu Ltd., Genband, Hewlett Packard, ip.access, Nokia Siemens Networks, Samsung, and Sun Microsystems. See Note 14 for information regarding the Company’s revenues related to North America and foreign regions.

Principles of Consolidation and Basis of Presentation: The accompanying consolidated financial statements include the accounts of Interphase Corporation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Fair Value of Financial Instruments: Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. The Company follows ASC 820 in its valuation of its marketable securities. ASC 820 defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 classifies the levels used to measure fair value into the following hierarchy:

1. Level 1 – Valuations based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to obtain at the measurement date. This level provides the most reliable evidence of fair value.
2. Level 2 – Valuations based on one or more quoted prices in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs that are observable other than quoted prices for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
3. Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and Cash Equivalents: The Company considers cash and temporary investments with original maturities of less than three months, as well as interest bearing money market accounts, to be cash equivalents. The Company maintains cash balances at various financial institutions.

The Company maintains its cash and cash equivalents with financial institutions with high credit ratings. The Company maintains deposits in federally insured financial institutions in excess of the federally insured (FDIC) limits. However, as a result of provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, all funds in a “noninterest-bearing transaction account” are insured in full by the Federal Deposit Insurance Corporation from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the

general FDIC deposit insurance coverage of up to \$250,000 available to depositors. As of December 31, 2010, the Company had cash equivalents, in an interest bearing account, which are not protected by the FDIC insurance coverage of approximately \$1.7 million. However, management believes that the Company is not exposed to significant credit risk due to the financial position of the institution in which the account is held.

The financial institution holding the Company's noninterest-bearing cash accounts is insured by the FDIC. At December 31, 2010, the Company's noninterest-bearing cash accounts did not exceed federally insured limits. From time to time, the Company has had cash in financial institutions in excess of federally insured limits or in interest bearing accounts.

Marketable Securities: The Company's investments in marketable securities primarily consist of investments in debt securities, which are classified as available for sale and presented as current assets on the balance sheet. Earnings from debt securities are calculated on a yield to maturity basis and recorded in the results of operations. Unrealized gains or losses for the periods presented were included in other comprehensive loss. Realized gains and losses are computed based on the specific identification method and were not material for the periods presented. Marketable securities are used to secure the Company's credit facility.

As of December 31, 2010, the fair market value of marketable securities was \$6.0 million, of which \$3.8 million matures in one year or less, and \$2.2 million matures in five years or less. As of December 31, 2009, the fair market value of marketable securities was \$9.7 million, of which \$5.0 million matures in one year or less, and \$4.7 million matures in five years or less. The Company recorded an unrealized loss with respect to certain available-for-sale securities in 2010 of \$32,000. The Company recorded an unrealized gain with respect to certain available-for-sale securities in 2009 of \$62,000.

Financial assets, measured at fair value, by level within the fair value hierarchy were as follows (in thousands):

		December 31, 2010			December 31, 2009		
	Fair Value Hierarchy	Cost	Unrealized Gain	Estimated Fair Value	Cost	Unrealized Gain	Estimated Fair Value
Agencies	Level 2	\$ 304	\$ 1	\$ 305	\$ 3,350	\$ 29	\$ 3,379
Asset Backed	Level 2	1,675	8	1,683	2,065	17	2,082
Corporate Bonds	Level 2	1,411	6	1,417	976	1	977
Municipal Bonds and US Treasuries	Level 2	2,590	10	2,600	3,276	10	3,286
Total		\$ 5,981	\$ 25	\$ 6,005	\$ 9,667	\$ 57	\$ 9,724

Accounts Receivable and Allowance for Doubtful Accounts: The Company records accounts receivable at their net realizable value which requires management to estimate the collectability of the Company's trade receivables. A considerable amount of judgment is required in assessing the realization of these receivables, including the current creditworthiness of each customer and related aging of the past due balances. Management evaluates all accounts periodically and a reserve is established based on the best facts available to management. This reserve is also partially determined

by using percentages applied to certain aged receivable categories based on historical results and is reevaluated and adjusted as additional information is received. After all attempts to collect a receivable have failed, the receivable is written off against the allowance for doubtful accounts.

The activity in this account was as follows (in thousands):

Year Ended December 31:	Balance at Beginning of Period	Charged to Expense	(Write-offs) Net of Recoveries	Balance at End of Period
2010	\$ 41	\$ -	\$ (18)	\$ 23
2009	113	(16)	(56)	41
2008	77	45	(9)	113

Allowance for Returns: The Company maintains an allowance for returns based upon expected return rates. The estimates of expected return rates are generally a factor of historical returns experience. Changes in return rates could impact allowance for return estimates. As of December 31, 2010, 2009 and 2008, the allowance for returns was \$47,000, \$35,000 and \$46,000, respectively, and presented as a reduction to accounts receivable.

Derivative Financial Instruments and Hedging: All derivative instruments are recorded as assets or liabilities, as applicable, on the balance sheet at fair value. Changes in the fair value of derivatives are either recorded in income or other comprehensive income, as appropriate. The gain or loss on derivatives that have not been designated as hedging instruments is included in current income in the period that changes in fair value occur.

Inventories: Inventories are valued at the lower of cost or market and include material, labor and manufacturing overhead. Cost is determined on a first-in, first-out basis (in thousands):

	Years ended December 31,	
	2010	2009
Raw Materials	\$ 1,236	\$ 1,399
Work-in-Process	384	218
Finished Goods	25	82
Total	<u>\$ 1,645</u>	<u>\$ 1,699</u>

Valuing inventory at the lower of cost or market involves an inherent level of risk and uncertainty due to technology trends in the industry and customer demand for the Company's products. Future events may cause significant fluctuations in the Company's operating results. Inventories are written down when needed to ensure the Company carries inventory at the lower of cost or market. Writedowns in 2010, 2009 and 2008 were \$200,000, \$500,000 and \$200,000, respectively.

Property and Equipment: Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of depreciable assets using the straight-line method. When property and equipment are sold or otherwise retired, the cost and accumulated depreciation applicable to such assets are eliminated from the accounts, and any resulting gain or loss is reflected in current operations. Related depreciation expense was as follows (in thousands):

Year ended December 31:	Depreciation Expense
2010	\$ 278
2009	\$ 367
2008	\$ 427

The depreciable lives of property and equipment are as follows:

Machinery and equipment	3-5 years
Leasehold improvements	Term of the respective leases
Furniture and fixtures	3-10 years

Capitalized Software: Capitalized software represents various software licenses purchased by the Company and utilized in connection with the Company’s products as well as the general operations of the Company. Capitalized software is amortized over three to five years utilizing the straight-line method. Related amortization expense and accumulated amortization were as follows (in thousands):

Year ended December 31:	Amortization Expense	Accumulated Amortization
2010	\$ 447	\$ 2,945
2009	\$ 468	\$ 2,517
2008	\$ 441	\$ 2,382

Long-Lived Assets: Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. All impairments are recognized in operating results when a permanent reduction in value occurs. There was determined to be no future use with certain furniture and fixtures and computer equipment which resulted in writedowns of these long-lived assets of approximately \$29,000 during 2010. There was determined to be no future use with certain software licenses which resulted in writedowns of capitalized software of \$175,000 and \$185,000 during 2009 and 2008, respectively. During 2010 and 2009, the writedowns were recorded in operating expense as part of the restructuring charge. During 2008, the writedowns were recorded as operating expense in research and development.

Revenue Recognition: Revenues consist of product and service revenues and are recognized in accordance with ASC Topic 605, “Revenue Recognition.” Product revenues are recognized upon shipment, provided fees are fixed and determinable, a customer purchase order is obtained (when applicable), and collection is probable. Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact to revenues. Service revenue is recognized as the services are performed. Deferred revenue consists primarily of service revenue not yet performed.

Our fixed price contracts relate primarily to long-term engineering design services projects. The revenues for such projects that require significant customization and integration are recognized using

the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on the percentage of effort incurred to date on a contract relative to the estimated total expected contract effort. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within our control. Changes in these estimates could result in a material impact on revenues and net earnings (loss). If we are unable to develop reasonably dependable costs or revenue estimates, the completed contract method is applied under which all revenues and related costs are deferred until the contract is completed. The Company had unbilled revenues of approximately \$305,000 and \$309,000 included in other current assets on the Company's balance sheet at December 31, 2010 and 2009, respectively.

Warranty Reserve: The Company offers to its customers a limited warranty that its products will be free from defect in the materials and workmanship for a specified period. The Company has established a warranty reserve of \$80,000 and \$75,000 at December 31, 2010 and 2009, respectively, as a component of accrued liabilities, for any potential claims. The Company estimates its warranty reserve based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims.

Concentration of Credit Risks: Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The majority of the Company's sales have been to original equipment manufacturers that produce computer systems or telecommunication networks (see Note 12 for additional information). The Company conducts credit evaluations of its customers' financial condition and limits the amount of trade credit extended when necessary.

Research and Development: Research and development costs are charged to expense as incurred.

Interest Income, Net: Interest income from investment in securities and cash balances was approximately \$141,000, \$308,000 and \$714,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Interest expense related to the Company's credit facility was approximately \$39,000, \$7,000 and \$188,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Advertising Expense: Advertising costs are charged to expense as incurred. Advertising expense was approximately \$9,000, \$21,000 and \$17,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Foreign Currency Translation: Assets and liabilities of the Company's French subsidiary, whose functional currency is other than the U.S. Dollar, are translated at year-end rates of exchange, and revenues and expenses are translated at average exchange rates prevailing during the year. Realized foreign currency transaction gains and losses are recognized in the Consolidated Statements of Operations as incurred.

Unrealized gains or losses are accumulated in shareholders' equity as a component of other comprehensive income.

Income Taxes: The Company determines its deferred taxes using the liability method. Deferred tax assets and liabilities are based on the estimated future tax effects of differences between the financial

statement basis and tax basis of assets and liabilities given the provisions of enacted tax law. The Company's consolidated financial statements include deferred income taxes arising from the recognition of revenues and expenses in different periods for income tax and financial reporting purposes.

The Company records a valuation allowance to reduce its deferred income tax assets to the amount that is believed to be realizable. The Company considers recent historical losses, future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. Management is continuously assessing the realizability of deferred tax assets.

The Company recognizes the impact of uncertain tax positions taken or expected to be taken on an income tax return in the financial statements at the amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained.

Other Comprehensive Loss: Other comprehensive losses are presented on the Consolidated Statement of Shareholder's Equity and are comprised of unrealized gains and losses excluded from the Consolidated Statements of Operations. These unrealized gains and losses consist of holding period gains and losses related to marketable securities, net of income taxes, and foreign currency translation, which are not adjusted for income taxes since they relate to indefinite investments in a non-U.S. subsidiary.

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 and disclosures. Actual results could differ from those estimates. Areas involving estimates include the allowance for doubtful accounts and returns, warranties, inventory impairment charges, accrued liabilities, income tax accounts and revenues.

2. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following (in thousands):

	December 31,	
	2010	2009
Research and development tax credit in France	\$ -	\$ 1,583
Prepaid other	623	619
Total prepaid expenses and other current assets	<u>\$ 623</u>	<u>\$ 2,202</u>

3. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	December 31,	
	2010	2009
Provision for restructuring	\$ 1,189	\$ 979
French corporate tax	322	500
Reserve for uncertain tax position	391	491
Inventory receipts	94	106
Legal	151	6
Accrued other	339	585
Total accrued liabilities	<u>\$ 2,486</u>	<u>\$ 2,667</u>

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to adverse movements in foreign currency exchange rates because it conducts business on a global basis and, in some cases, in foreign currencies. The Company's operations in France were transacted in the local currency and converted into U.S. Dollars based on published exchange rates for the periods reported and were therefore subject to risk of exchange rate fluctuations.

In an attempt to mitigate the risk described above, we have entered into, from time to time, foreign exchange contracts to purchase a fixed amount of Euros on a fixed date in the future at a fixed rate determined at the contract date. These derivative financial instruments do not meet the criteria to qualify as hedges. Changes in the market value of these contracts result in gains or losses recognized in other (loss) income, net in the period of the change. For the year ended December 31, 2010, we recognized a loss of approximately \$62,000 related to a foreign exchange contract. We held no foreign exchange contracts at any point during the year ended December 31, 2009, and thus there was no related gain or loss. For the year ended December 31, 2008, we recognized a gain of \$130,000 related to these foreign exchange contracts. At December 31, 2010 and 2009, there were no foreign exchange contracts outstanding.

5. CREDIT FACILITY

The Company maintains a \$5.0 million revolving bank credit facility maturing December 19, 2013. The applicable interest rate on outstanding balances is LIBOR plus 1.0% to 1.5% based on certain factors included in the credit agreement. At December 31, 2010 and December 31, 2009, the Company's interest rate on the \$3.5 million outstanding balance was 1.8% and 1.3%, respectively. The unused portion of the credit facility is subject to an unused facility fee ranging from .25% to .75% depending on total deposits with the creditor. All borrowings under this facility are secured by marketable securities. The outstanding balance of \$3.5 million as of December 31, 2010 is classified as long-term debt on the Company's balance sheet.

6. INCOME TAXES

The provision for income taxes applicable to operations for each period presented was as follows (in thousands):

	Year ended December 31,		
	2010	2009	2008
United States tax provision (benefit)	\$ -	\$ -	\$ (2)
Foreign tax benefit	(637)	(1,102)	(1,261)
Income tax benefit	<u>\$ (637)</u>	<u>\$ (1,102)</u>	<u>\$ (1,263)</u>

The tax effect of temporary differences that give rise to significant components of the deferred tax assets as of December 31, 2010 and 2009, are presented as follows (in thousands):

	Year ended December 31,	
	2010	2009
Current deferred tax assets:		
Inventories	\$ 654	\$ 623
Accounts receivable	8	14
Deferred revenue	25	56
Other accruals	284	193
Total current deferred tax assets	<u>\$ 971</u>	<u>\$ 886</u>
Noncurrent deferred tax assets:		
Depreciation	\$ 161	\$ (46)
Amortization	24	82
Other	196	111
Net operating loss carryforwards	14,445	11,151
Total noncurrent deferred tax assets	<u>\$ 14,826</u>	<u>\$ 11,298</u>
Valuation allowance for deferred tax assets	(15,797)	(12,184)
Deferred tax assets, net of valuation allowance	<u>\$ -</u>	<u>\$ -</u>

A valuation allowance is established when it is “more likely than not” that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence is considered, including current and past performance, the market environment in which the company operates, the utilization of past tax credits, length of carry back and carry forward periods, existing contracts or sales backlog and other factors.

Concluding that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Cumulative losses weigh heavily in the overall assessment. The Company continues to maintain a valuation allowance on all of the net deferred tax assets at December 31, 2010 because management believes, after considering all available objective evidence, that the realization of the assets is not reasonably assured. Until an appropriate level of profitability is

sustained, the Company expects to record a full valuation allowance on future tax benefits, except for those that may be generated in foreign jurisdictions.

The differences between the actual income tax benefit and the amount computed by applying the statutory federal tax rate to the loss before income tax shown in the Consolidated Statements of Operations are as follows (in thousands):

	Year ended December 31,		
	2010	2009	2008
Income taxes at statutory rate	\$ (3,079)	\$ (2,263)	\$ (1,458)
Benefit for French research and development tax credit	(1,125)	(1,582)	(1,699)
State provision (benefit)	-	-	(7)
French permanent items	118	119	83
Foreign income inclusion	-	240	-
Adjustment to deferred tax assets	(169)	379	(17)
Other	5	6	9
Change in valuation allowance	3,613	1,999	1,827
Benefit for income taxes	<u>\$ (637)</u>	<u>\$ (1,102)</u>	<u>\$ (1,262)</u>

At December 31, 2010, the Company had approximately \$42.4 million of federal net operating loss carryforwards, the earliest of which does not expire until 2022. The federal net operating loss includes \$3.6 million related to non-qualified stock option deductions. The Company also had state net operating losses of \$4.6 million. The valuation allowance recorded on the portion of net operating losses related to stock options will reverse as a credit to shareholders' equity once management believes that these losses are more likely than not to be realized. At December 31, 2010, the Company's French subsidiary has a net research and development tax credit, generated in 2010, of approximately \$435,000, classified as a non-current asset on the Company's balance sheet. At December 31, 2009, the Company's French subsidiary had a net research and development tax credit, generated during 2009, of approximately \$1.0 million, classified as a current asset on the Company's balance sheet. During 2010, research and development tax credits generated for the year ended December 31, 2009, were refunded to the Company. The Company expects to receive the refund for the research and development tax credit generated for the year ended December 31, 2010 in 2014.

The earnings of the Company's foreign subsidiary are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to foreign tax credits) and withholding taxes payable to foreign countries.

At December 31, 2010 and 2009, the Company had an uncertain U.S. tax position of approximately \$80,000 related to foreign operations. Due to the net operating loss position in the U.S., the Company would not incur tax, interest or penalty currently or in the near future. As such, no expense was recorded on the income statement and there is no impact on the Company's effective tax rate. The Company does not anticipate any event in the next twelve months that would cause a change to this position. The Company will recognize any penalties and interest when necessary as tax expense. The U.S. federal returns for the years ending December 31, 2007 and after are open for IRS examination. The Company's operations during the year ended December 31, 2002 generated a loss, and the 2002

net operating loss (NOL) is still being used by the Company. The IRS may audit up to the NOL amount generated during the year ended December 31, 2002 until the statute of limitations expiration on open tax years.

The Company is also subject to income tax in France. At December 31, 2010, the Company had an uncertain tax position of approximately \$720,000, of which \$661,000 is related to a potential liability, \$28,000 is related to possible interest, and \$31,000 is related to a potential penalty. At December 31, 2009, the Company had an uncertain tax position of approximately \$771,000, of which \$737,000 is related to a potential liability, \$11,000 is related to possible interest, and \$23,000 is related to a potential penalty. The uncertain tax position in France is expected to have a favorable impact in the amount of \$661,000, resulting in a favorable impact on the effective tax rate. The Company does not anticipate any event in the next twelve months that would cause a change to this position. The French income tax returns for the years ended December 31, 2007 and subsequent remain open for examination.

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows (in thousands):

	Unrecognized Tax Benefit
Balance as of January 1, 2009	\$ 503
Additions based on tax positions - current year	272
Additions based on tax positions - previous years	33
Reductions as a result of lapse of statute limitations	(56)
Effect of exchange rate changes	19
Balance as of December 31, 2009	<u>\$ 771</u>
Additions based on tax positions - current year	\$ 46
Additions based on tax positions - previous years	43
Reductions as a result of lapse of statute limitations	(82)
Effect of exchange rate changes	(58)
Balance as of December 31, 2010	<u>\$ 720</u>

7. RESTRUCTURING CHARGE

On September 30, 2010, we initiated a restructuring plan to mitigate gross margin erosion by reducing manufacturing and procurement costs, streamline research and development expense and focus remaining resources on key strategic growth areas, and reduce selling and administrative expenses through product rationalization and consolidation of support functions. Under the 2010 restructuring plan, we reduced our worldwide work force by 39 employees, including the closure of our European engineering and support center located in Chaville, France. As a result of the 2010 restructuring plan, we recorded a restructuring charge of approximately \$3.3 million classified as an operating expense in the third quarter of 2010 related to future cash expenditures to cover employee severance and benefits and other related costs. The following table summarizes the timing of payments under the restructuring plan (in thousands):

Description	Restructuring charge	Cash payments, net of currency translation adjustments during quarter ended September 30, 2010	Reclassification of restructuring charge, net of currency translation adjustments	Cash payments, net of currency translation adjustments, during quarter ended December 31, 2010	Remaining liability as of December 31, 2010
Severance & Fringe Benefits Other Related Costs	\$ 3,181	\$ -	\$ (111)	\$ 2,057	\$ 1,013
	158	-	111	93	176
Total	\$ 3,339	\$ -	\$ -	\$ 2,150	\$ 1,189

On December 11, 2009, the Company adopted a plan to restructure its worldwide operations. The primary goal of the restructuring program was to align the Company's current spending with recent revenue trends and to enable additional investments in strategic growth areas for the Company. Under the restructuring plan, the Company reduced its workforce by 12 positions. As a result of the restructuring plan, the Company recorded a restructuring charge of \$1.2 million classified as an operating expense in the fourth quarter of 2009 of which approximately \$1.1 million resulted in cash expenditures to cover employee severance and benefits. These amounts were paid out under the restructuring plan by the end of 2010. The remaining \$173,000 included in the restructuring charge related to certain non-cash software impairment charges.

On March 27, 2008, the Company adopted a plan to restructure its United States based business operations to balance its current spending with recent revenue trends. The primary goal of the restructuring program was to improve the ability of the Company to invest in future business opportunities that are designed to provide the Company with increased growth potential and greater revenue diversification in the coming years and better align the Company's skills with its future direction. Under the restructuring plan, the Company reduced its workforce by 14 employees. As a result of the restructuring program, we recorded a restructuring charge of \$403,000, classified as an operating expense, in 2008. Approximately \$365,000 of the charge related to severance and fringe benefits and approximately \$38,000 of the charge related to lease obligations. These amounts were paid out under the restructuring plan by the end of 2008.

8. EARNINGS PER SHARE

Basic earnings per share are computed by dividing reported earnings available to common shareholders by weighted average common shares outstanding. Diluted earnings per share give effect to dilutive potential common shares. Effective January 1, 2009, the Company adopted ASC 10-45-68B, "Participating Securities and the Two-Class Method," related to ASC Topic 260, "Earnings per share." ASC 260-10-45-68B states that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and therefore are to be included in the basic and diluted earnings per share calculation. The Company's adoption of ASC 260-10-45-68B required the weighted average of our unvested restricted stock awards to be included in the Company's calculation of basic and diluted earnings per share. Accordingly, prior period calculations have been adjusted retrospectively.

Earnings per share are calculated as follows (in thousands, except per share data):

	Years ended December 31,		
	2010	2009	2008
<u>Basic loss per share:</u>			
Net loss	\$ (8,419)	\$ (5,554)	\$ (3,026)
Weighted average common shares outstanding	6,839	6,899	6,550
Basic loss per share	\$ (1.23)	\$ (0.81)	\$ (0.46)
<u>Diluted loss per share:</u>			
Net loss	\$ (8,419)	\$ (5,554)	\$ (3,026)
Weighted average common shares outstanding	6,839	6,899	6,550
Dilutive stock options and restricted stock	-	-	-
Weighted average common shares outstanding – assuming dilution	6,839	6,899	6,550
Diluted loss per share	\$ (1.23)	\$ (0.81)	\$ (0.46)
Outstanding stock options that were not included in the diluted calculation because their effect would be anti-dilutive	1,371	1,494	1,655

9. COMMON STOCK

2004 Long-Term Stock Incentive Plan: The Interphase Corporation Amended and Restated Stock Option Plan and the Interphase Corporation Directors Stock Option Plan have been collectively amended and restated as the “Interphase Corporation 2004 Long-Term Stock Incentive Plan,” effective May 5, 2004. Options granted under the separate plans prior to the effective date of the amended and restated plan shall be subject to the terms and conditions of the separate plans in effect with respect to such options prior to the effective date, and awards granted after the effective date shall be subject to the terms and conditions of the 2004 Long-Term Stock Incentive Plan. Awards granted under this plan may be (a) incentive stock options, (b) non-qualified stock options, (c) bonus stock awards, (d) stock appreciation rights, (e) performance share awards and performance unit awards, (f) phantom stock awards, and (g) any other type of award established by the Compensation Committee which is consistent with the Plan’s purposes, as designated at the time of grant. The total amount of Common Stock with respect to which awards may be granted under the Plan is 5,250,000 shares.

Amended and Restated Stock Option Plan: The exercise price of incentive stock options must be at least equal to the fair market value of the Company’s common stock on the date of the grant, while the exercise price of nonqualified stock options may be less than fair market value on the date of grant, as determined by the Board of Directors. The Board of Directors may provide for the exercise of options in installments and upon such terms, conditions and restrictions as it may determine. Options generally vest ratably over a three-year or four-year period from the date of grant. The term of option grants may be up to ten years. Options are canceled upon the lapse of three months, in most cases, following termination of employment except in the event of death or disability, as defined.

France Stock Option Sub-Plan: This plan was adopted in 2000 for the benefit of the Company’s employees located in France. This plan authorizes the issuance of options to purchase common stock of the Company at prices at least equal to the fair market value of the common stock on the date of the grant. Unless otherwise decided at the sole discretion of the Board, the options vest (i) 75% after the expiration of a two-year period from the date of grant and (ii) 25% after the expiration of a three-year period from the date of grant. Except for the events provided under the French tax code, the shares

cannot be sold or otherwise disposed of for a period of four years from the date of grant. The term of option grants may be up to ten years. Options are canceled upon the lapse of three months following termination of employment except in the event of death or disability, as defined.

Amended and Restated Director Stock Option Plan: Stock option grants pursuant to the directors' plan will vest in one year and have a term of ten years. The exercise prices related to these options are equal to the market value of the Company's stock on the date of grant.

Stock Options: During 2010, the Company issued 272,200 stock options that vest between a three to four year period and expire ten years from date of grant. The weighted average exercise price of these stock options is \$1.74. Additionally, during 2010, the Company issued 171,000 stock options which are subject to the achievement of certain performance conditions. If the performance condition is met, the stock options vest between a one to four year period and expire ten years from date of grant. The weighted average exercise price of these stock options is \$1.66. Based on the performance conditions not being deemed probable at December 31, 2010, no compensation expense related to these options has been recorded. During 2009, the Company issued 100,000 stock options which are subject to the achievement of certain performance conditions. If the performance condition is met, the stock options vest over a three year period and expire ten years from date of grant. The weighted average exercise price of these stock options is \$2.55. The performance conditions were not deemed probable at December 31, 2010 and 2009, no compensation expense related to these options has been recorded. The performance conditions for these stock options were not satisfied and were cancelled February 2, 2011. Compensation expense related to stock options was approximately \$39,000 for the year ended December 31, 2010. The Company did not recognize any compensation expense related to stock options in 2009 or 2008.

The following table summarizes the combined stock option activity under all of the plans (in thousands, except option prices):

	Number of Options	Weighted Average Option Price	Aggregate Intrinsic Value
Balance, December 31, 2007	<u>1,699</u>	<u>9.67</u>	<u>\$ 4,366</u>
Granted	-	N/A	
Exercised	(1)	4.12	
Canceled	<u>(64)</u>	<u>10.17</u>	
Balance, December 31, 2008	<u>1,634</u>	<u>9.65</u>	-
Granted	100	2.55	
Exercised	(1)	4.12	
Canceled	<u>(283)</u>	<u>14.81</u>	
Balance, December 31, 2009	<u>1,450</u>	<u>8.16</u>	-
Granted	443	1.71	
Exercised	-	N/A	
Canceled	<u>(423)</u>	<u>12.42</u>	
Balance, December 31, 2010	<u>1,470</u>	<u>5.00</u>	-
Exercisable at December 31, 2010	<u>955</u>	<u>\$ 6.69</u>	<u>\$ -</u>

The total intrinsic value of stock options exercised during 2008 was approximately \$4,000.

The following table summarizes information about options granted under the plans that were outstanding at December 31, 2010 (in thousands, except option prices):

Range of Exercise Prices	<u>Options Outstanding</u>			<u>Options Exercisable</u>		
	Number Outstanding at 12/31/10	Weighted-Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable at 12/31/10	Weighted Average Exercise Price	
\$1.36 - \$4.18	605	8.18	\$ 2.19	90	\$ 4.11	
\$4.19 - \$8.35	695	1.29	5.99	695	5.99	
\$8.36 - \$11.45	170	3.04	10.96	170	10.96	
Total	1,470	4.33	\$ 5.00	955	\$ 6.69	

Option Valuation: The Black-Scholes model was not developed for use in valuing employee stock options, but was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, it requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation. Because changes in the subjective assumptions can materially affect the fair value estimate, and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option-pricing model may not provide a reliable estimate of the fair value of employee stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with weighted-average assumptions based on the grant date. There were no options granted in 2008.

	2010	2009	2008
Weighted average risk free interest rates	2.84%	3.55%	N/A
Weighted Average life (in years)	10	10	N/A
Volatility	63.37%	67.72%	N/A
Expected dividend yield	-	-	N/A
Weighted average grant-date fair value per share of options granted	\$1.24	\$1.95	N/A

Restricted Stock: The Interphase Corporation 2004 Long-Term Stock Incentive Plan provides for grants of bonus stock awards (“restricted stock”) to its directors and certain employees at no cost to the recipient. Holders of restricted stock are entitled to cash dividends, if any, and to vote their respective shares. Restrictions limit the sale or transfer of these shares during a predefined vesting period, currently ranging from one to four years, and in some cases vesting is subject to the achievement of certain performance conditions. There were no shares of restricted stock issued during 2010. During 2009, the Company issued 390,500 restricted stock shares granted at market prices ranging from \$1.82 to \$2.10. Upon issuance of restricted stock under the plan, unearned compensation equivalent to the market value at the date of grant is recorded as a reduction to shareholders’ equity and subsequently amortized to expense over the respective restriction periods. Compensation expense related to

restricted stock was approximately \$285,000, \$400,000 and \$389,000 for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, there is approximately \$566,000 of total unamortized compensation cost related to unvested restricted stock remaining to be recognized. The expense is expected to be recognized over a weighted-average period of 3.2 years. As of December 31, 2009, there was approximately \$1.1 million of total unamortized compensation cost. The following summarizes the restricted stock activity for 2010 and 2009:

	Restricted Stock Shares	Weighted Average Grant Date Value
Nonvested restricted stock at December 31, 2008	232,249	\$ 7.24
Granted	390,500	1.87
Vested	(85,191)	6.51
Cancelled/Forfeited	(53,300)	8.99
Nonvested restricted stock at December 31, 2009	<u>484,258</u>	<u>\$ 2.84</u>
Granted	-	N/A
Vested	(69,809)	5.26
Cancelled/Forfeited	(95,894)	2.15
Nonvested restricted stock at December 31, 2010	<u>318,555</u>	<u>\$ 2.52</u>

10. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2010, 2009 and 2008, the Company had no related party transactions.

11. EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution plan for those employees who meet the plan's length of service requirements. Under the defined contribution plan, employees may make voluntary contributions to the plan, subject to certain limitations, and the Company matches 50% up to 6% of the employee's contributions up to a maximum of \$7,350 per employee for the year ended December 31, 2010. The total expense under this plan was \$339,000, \$400,000 and \$408,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The Company offers no post-retirement or post-employment benefits.

12. OTHER FINANCIAL INFORMATION

Major Customers: During 2010, sales to Alcatel-Lucent and Nokia Siemens Networks were \$5.1 million or 28% and \$2.9 million or 16%, respectively, of the Company's consolidated revenues. During 2009, sales to Alcatel-Lucent, Emerson and Nokia Siemens Networks were \$6.7 million or 26%, \$5.0 million or 20% and \$4.8 million or 19%, respectively of the Company's consolidated revenues. During 2008, sales to Nokia Siemens Networks, Alcatel-Lucent and Emerson were \$6.0 million or 23%, \$5.6 million or 21% and \$3.1 million or 12% of the Company's consolidated revenues, respectively. No other customers accounted for more than 10% of the Company's consolidated revenues in the periods presented.

Included in accounts receivable at December 31, 2010, was approximately \$1.3 million, \$660,000 and \$585,000, due from Alcatel-Lucent, Samsung and Nokia Siemens Networks, respectively. Included in accounts receivable at December 31, 2009, was approximately \$1.5 million, \$1.0 million, \$750,000, and \$600,000, due from Nokia Siemens Networks, Alcatel-Lucent, PointRed Telecom and Emerson, respectively. No other customers accounted for more than 10% of the Company's accounts receivable at the balance sheet dates presented.

Commitments: The Company leases its facilities under noncancelable operating leases with the longest terms extending to March 2014. Rent expense related to these leases is recorded on a straight-line basis. As of December 31, 2010, operating lease commitments having noncancelable terms of more than one year are as follows (in thousands):

<u>Year ending December 31:</u>	
2011	\$ 694
2012	\$ 599
2013	\$ 609
2014	\$ 115
Thereafter	\$ -

Total rent expense for operating leases was as follows (in thousands):

<u>Year ending December 31:</u>	
2010	\$ 794
2009	\$ 826
2008	\$ 840

Contingencies: Twenty-five former employees (“Plaintiffs”) of Interphase SAS, a subsidiary of Interphase Corporation, have brought suit in France against Interphase SAS alleging various causes of action and rights to damages relating to claims of wrongful dismissal of employment, specific French employment indemnities, general economic losses, and contractual claims relating specifically to their employment relationship and contracts entered into between the individual and Interphase SAS. The various claims and assertions arise from and relate to the Plaintiffs’ release from employment as part of the restructuring actions taken during the third quarter of 2010. See Note 7 in the Notes to the Consolidated Financial Statements for more information regarding the restructuring plan. The statement of claim is for an aggregate payment of approximately \$3.9 million related to these claims. The Company believes that the Plaintiffs’ claims are without merit and plans to vigorously defend itself in this lawsuit.

13. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued ASU 2009-13, “Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force,” to amend certain guidance in FASB ASC 605-25, “Revenue Recognition – Multiple-Element Arrangements.” The amended guidance in ASC 605-25 modifies the separation criteria by eliminating the criterion that requires objective and reliable evidence of fair value for the undelivered items and eliminates the use of the residual method of allocation. Instead, the amended guidance requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables based on their relative selling price. The amended guidance in ASC 605-25 is effective prospectively for revenue arrangements entered into or materially

modified in fiscal years beginning on or after June 15, 2010, with early application and retrospective application permitted. We elected early application of ASC 605-25 and it was effective for us on January 1, 2010. Our adoption of this standard did not have any impact on our consolidated financial statements.

In October 2009, the FASB issued ASU 2009-14, “Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force,” that reduces the types of transactions that fall within the current scope of software revenue recognition guidance. Existing software revenue recognition guidance requires that its provisions be applied to an entire arrangement when the sale of any products or services containing or utilizing software when the software is considered more than incidental to the product or service. As a result of the amendments included in ASU No. 2009-14, many tangible products and services that rely on software will be accounted for under the multiple-element arrangements revenue recognition guidance rather than under the software revenue recognition guidance. Under the ASU, the following components would be excluded from the scope of software revenue recognition guidance: the tangible element of the product, software products bundled with tangible products where the software components and non-software components function together to deliver the product’s essential functionality, and undelivered components that relate to software that is essential to the tangible product’s functionality. The ASU also provides guidance on how to allocate transaction consideration when an arrangement contains both deliverables within the scope of software revenue guidance (software deliverables) and deliverables not within the scope of that guidance (non-software deliverables). We expect to adopt and prospectively apply the provisions of this standard beginning January 1, 2011. Our adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

14. SEGMENT DATA

The Company is principally engaged in delivering solutions for LTE and WiMAX, interworking gateways, packet processing, network connectivity, and security for key applications for the Communications, Aerospace-Defense, and Enterprise markets. Except for revenue performance, which is monitored by product line, the chief operating decision-makers review financial information presented on a consolidated basis for purposes of making operating decisions and assessing financial performance. Accordingly, the Company considers itself to be in a single industry segment.

Geographic long lived assets, determined by physical location, and revenue, determined by location of the customer, related to North America and foreign regions as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 is as follows (in thousands):

Long Lived Assets	2010	2009
North America	\$ 771	\$ 1,294
Europe	128	310
Total	<u>\$ 899</u>	<u>\$ 1,604</u>

Revenues	2010	2009	2008
North America	\$ 6,559	\$ 7,490	\$ 8,598
Pacific Rim	6,458	10,812	11,204
Europe	5,190	7,283	6,429
Total	<u>\$ 18,207</u>	<u>\$ 25,585</u>	<u>\$ 26,231</u>

Additional information regarding revenue by product-line is as follows (in thousands):

Product Revenue	2010	2009	2008
Broadband telecom	\$ 15,104	\$ 22,742	\$ 23,218
Enterprise	1,553	806	867
Other	780	753	1,645
Professional services	770	1,284	501
Total	<u>\$ 18,207</u>	<u>\$ 25,585</u>	<u>\$ 26,231</u>

15. QUARTERLY FINANCIAL DATA (Unaudited)

Quarterly results of operations for 2010 (unaudited)
(In thousands, except per share amounts)

	Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 3,759	\$ 3,858	\$ 4,770	\$ 5,820
Gross margin	1,859	1,781	2,331	3,216
(Loss) income before income tax	(2,530)	(2,222)	(4,666)	362
Net (loss) income	(2,363)	(2,211)	(4,292)	447
Net (loss) income per share:				
Basic EPS	\$ (0.34)	\$ (0.32)	\$ (0.63)	\$ 0.07
Diluted EPS	\$ (0.34)	\$ (0.32)	\$ (0.63)	\$ 0.06

Quarterly results of operations for 2009 (unaudited)
(In thousands, except per share amounts)

	Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 8,421	\$ 8,120	\$ 4,368	\$ 4,676
Gross margin	5,017	4,456	1,099	1,717
Income (loss) before income tax	427	(121)	(2,726)	(4,236)
Net income (loss)	707	74	(2,381)	(3,954)
Net income (loss) per share:				
Basic EPS	\$ 0.11	\$ 0.01	\$ (0.34)	\$ (0.57)
Diluted EPS	\$ 0.11	\$ 0.01	\$ (0.34)	\$ (0.57)

Due to changes in the weighted average common shares outstanding per quarter, the sum of basic and diluted earnings per common share per quarter may not equal the basic and diluted earnings (loss) per common share for the applicable year.

INDEX TO EXHIBITS

Exhibits

- 3 (a) Certificate of Incorporation of the registrant and all amendments as of March 21, 2011. (15)
- 3 (b) Amended and Restated Bylaws of the registrant adopted on July 27, 2007. (3)
- 10 (a) Lease on Facility at Parkway Center, Phase I, Plano, Texas. (5)
- 10 (b) Second Amendment to lease on Facility at Parkway Center, Phase I, Plano, Texas. (6)
- 10 (c) Lease on Facility at 2105 Luna Road, Carrollton, Texas. (7)
- 10 (d) Note and Credit Agreement between Interphase Corporation and Texas Capital Bank. (8)
- 10 (e) First Amendment to Loan Agreement between Interphase Corporation and Texas Capital Bank. (9)
- 10 (f) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Gregory B. Kalush, dated December 30, 2008. *(10)
- 10 (g) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Thomas N. Tipton, Jr. dated December 30, 2008. *(10)
- 10 (h) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Randall E. McComas, dated December 30, 2008. *(10)
- 10 (i) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Deborah A. Shute, dated December 30, 2008. *(10)
- 10 (j) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with James W. Gragg, dated December 30, 2008. *(10)
- 10 (k) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Marc E. DeVinney, dated December 30, 2008. *(10)
- 10 (l) Amended and Restated Employment, Confidentiality, and Non-Competition Agreement with Yoram Solomon, dated December 30, 2008. *(10)
- 10 (m) Employment, Confidentiality, and Non-Competition Agreement with Yoram Solomon, dated November 17, 2008* (11)
- 10 (n) Employment, Confidentiality, and Non-Competition Agreement with H. Keith Seawright, dated April 6, 2010* (12)
- 10 (o) Interphase Corporation 2004 Long-Term Stock Incentive Plan *(13)
- 21 (a) Subsidiaries of the Registrant. (14)
- 23 (a) Consent of Independent Registered Public Accounting Firm. (15)
- 31 (a) Rule 13a-14(a)/15d-14(a) Certification. (15)
- 31 (b) Rule 13a-14(a)/15d-14(a) Certification. (15)
- 32 (a) Section 1350 Certification. (15)
- 32 (b) Section 1350 Certification. (15)

-
- (1) Filed as an exhibit to Registration Statement No. 2-86523 on Form S-1 and incorporated herein by reference.
 - (2) Filed as an exhibit to Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference.
 - (3) Filed as an exhibit to Report on Form 8-K on July 31, 2007, and incorporated herein by reference.
 - (4) Filed as an exhibit to Form 8-K on January 9, 2001, and incorporated herein by reference.
 - (5) Filed as an exhibit to Report on Form 10-Q for the quarter ended September 30, 2002, and incorporated herein by reference.

- (6) Filed as an exhibit to Annual Report on Form 10-K for the year ended December 31, 2008, and incorporated herein by reference
- (7) Filed as an exhibit to Form 8-K on December 10, 2008, and incorporated herein by reference
- (8) Filed as an exhibit to Form 8-K on December 24, 2008, and incorporated herein by reference.
- (9) Filed as an exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, and incorporated herein by reference
- (10) Filed as an exhibit to Form 8-K on December 31, 2008, and incorporated herein by reference.
- (11) Filed as an exhibit to Form 8-K on November 17, 2008, and incorporated herein by reference
- (12) Filed as an exhibit to Current Report on Form 8-K on April 7, 2010, and incorporated herein by reference.
- (13) Filed as an exhibit to Schedule 14a on March 31, 2004 and incorporated herein by reference.
- (14) Filed as an exhibit to Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.
- (15) Filed herewith

* Management contract or compensatory plan or arrangement.

Management and Corporate Information

Annual Meeting

The annual meeting of shareholders will be held at 9 a.m. CDT on May 4, 2011 at the:

Embassy Suites Hotel
7600 John Q. Hammons Dr.
Frisco, Texas 75034

General Counsel

Gardere Wynne Sewell LLP
Dallas, Texas

Independent Public Accountants

Grant Thornton LLP
Dallas, Texas

Transfer Agent

Computershare Trust Co., Inc
Golden, Colorado

Officers and Executive Management

Gregory B. Kalush
Chairman of the Board,
Chief Executive Officer and President

Thomas N. Tipton, Jr.
Chief Financial Officer,
Vice President of Finance and Treasurer

Marc E. DeVinney
Vice President of Engineering

James W. Gragg
Vice President of Operations and Fulfillment

Randall E. McComas
Vice President of Global Sales and Customer Support

Yoram Solomon
Vice President of Corporate Strategy and Business
Development

Directors

Gregory B. Kalush³
Chairman of the Board,
Chief Executive Officer and President

Paul N. Hug^{1, 2, 4}
Director
Owner, Paul Hug & Co., CPAs

Michael J. Myers^{1, 2, 4}
Director

Kenneth V. Spenser^{2, 4}
Director
Chief Executive Officer
Entivity Holdings

Christopher B. Strunk^{1, 4}
Director

S. Thomas Thawley⁴
Vice Chairman
Director and Secretary

¹ Member of the Compensation Committee

² Member of the Audit Committee

³ Member of the New Employee and Retention Stock
Award Committee

⁴ Member of the Nominating and Governance
Committee

Stock Information

The Company's common stock is traded on the NASDAQ Global Market under the symbol INPH. The following table sets forth the high and low prices for the periods indicated:

2009	High	Low
First Quarter	3.20	1.44
Second Quarter	6.07	3.15
Third Quarter	5.60	3.94
Fourth Quarter	4.50	2.21
2010	High	Low
First Quarter	3.12	2.28
Second Quarter	2.73	1.55
Third Quarter	1.79	1.46
Fourth Quarter	1.87	1.20

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