

GENESIS MICROCHIP INC /DE  
Form 10-Q  
August 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

---

**FORM 10-Q**

(mark one)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2007

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:  
000-33477

**GENESIS MICROCHIP INC.**  
(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**77-0584301**  
(I.R.S. Employer  
Identification No.)

**2525 AUGUSTINE DRIVE**  
**SANTA CLARA, CALIFORNIA**  
(Address of principal  
executive offices)

**95054**  
(Zip Code)

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 919-8400**

---

Former name, former address and former fiscal year if  
**changed since last report.**

Former address: N/A

Edgar Filing: GENESIS MICROCHIP INC /DE - Form 10-Q

Former Fiscal Year: N/A

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

There were 37,429,242 shares of the registrant's common shares issued and outstanding as of July 31, 2007.

1

---

**GENESIS MICROCHIP INC.**  
**FORM 10-Q**  
**THREE MONTHS ENDED June 30, 2007**

**Index**

<b>Item Number</b>		<b>Page</b>
<b>Part I: Financial Information</b>		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets at June 30, 2007 and March 31, 2007	3
	Condensed Consolidated Statements of Operations for the three months ended June 30, 2007 and June 30, 2006	4
	Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2007 and June 30, 2006	5
	Notes To Condensed Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item 4.	Controls and Procedures	24
<b>Part II: Other Information</b>		
Item 1a.	Risk Factors	25
Item 6.	Exhibits	35
<b>Signatures</b>		<b>38</b>

**PART I: FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS**

**GENESIS MICROCHIP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands, except per share amounts)

ASSETS	June 30, 2007 (unaudited)	March 31, 2007
Current assets:		
Cash and cash equivalents	\$ 126,371	\$ 123,701
Short-term investments	60,067	64,549
Accounts receivable trade, net of allowance for doubtful accounts of nil at June 30 and March 31	22,475	19,455
Inventories	12,430	16,424
Prepays and other	7,309	6,324
<b>Total current assets</b>	<b>228,652</b>	<b>230,453</b>
Property and equipment, net	15,548	16,238
Intangible assets, net	6,822	5,006
Goodwill	84,405	84,405
Deferred income taxes	299	252
Other long-term assets	15,214	15,360
<b>Total assets</b>	<b>\$ 350,940</b>	<b>\$ 351,714</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,363	\$ 6,759
Accrued liabilities	20,247	14,888
Income taxes payable	7,601	6,698
<b>Total current liabilities</b>	<b>34,211</b>	<b>28,345</b>
Stockholders' equity:		
Capital stock:		
Preferred stock:		
Authorized - 5,000 preferred shares, \$0.001 par value		
Issued and outstanding - none at June 30 and at March 31	-	-
Common stock:		
Authorized - 100,000 common shares, \$0.001 par value		
Issued and outstanding - 37,181 shares at June 30 and 37,097 shares at March 31	37	37
Additional paid-in capital	469,812	465,744
Treasury shares	(833)	(833)
Cumulative other comprehensive loss	(94)	(94)
Deficit	(152,193)	(141,485)
<b>Total stockholders' equity</b>	<b>316,729</b>	<b>323,369</b>

Total liabilities and stockholders' equity	\$	350,940	\$	351,714
--	----	---------	----	---------

See accompanying notes to condensed consolidated financial statements.

**GENESIS MICROCHIP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(amounts in thousands, except per share amounts)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Revenues	\$ 43,984	\$ 55,899
Cost of revenues (1)	27,031	33,240
Gross profit	16,953	22,659
<b>Operating expenses:</b>		
Research and development (2)(4)	16,233	14,917
Selling, general and administrative (3)	12,858	14,822
Total operating expenses	29,091	29,739
Loss from operations	(12,138)	(7,080)
<b>Interest and other income</b>		
Interest income	2,321	2,164
Other income (5)	-	3,217
Total interest and other income	2,321	5,381
Loss before income taxes	(9,817)	(1,699)
Provision for (recovery of) income taxes	891	(3,139)
Net income (loss)	\$ (10,708)	\$ 1,440
<b>Earnings (loss) per share:</b>		
Basic	\$ (0.29)	\$ 0.04
Diluted	\$ (0.29)	\$ 0.04
<b>Weighted average number of common shares outstanding:</b>		
Basic	37,142	36,001
Diluted	37,142	36,518
<b>(1) Amount includes stock-based compensation</b>		
	\$ 164	\$ 428
<b>(2) Amount includes stock-based compensation</b>		
	\$ 1,850	\$ 1,891
<b>(3) Amount includes stock-based compensation</b>		
	\$ 1,900	\$ 3,023
<b>(4) Amount includes amortization of intangibles related to acquisitions</b>		
	\$ 50	\$ 482
<b>(5) Gain on sale of investment</b>		
	\$ -	\$ 3,217

See accompanying notes to condensed consolidated financial statements.

**GENESIS MICROCHIP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(amounts in thousands)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from (used in) operating activities:		
Net income (loss)	\$ (10,708)	\$ 1,440
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	2,830	2,098
Amortization of intangible assets	191	568
Stock-based compensation	3,914	5,341
Deferred income taxes	(47)	(4,010)
Gain on sale of investment	-	(3,217)
Other	-	250
Change in operating assets and liabilities, net of amounts acquired:		
Accounts receivable trade	(3,020)	3,868
Inventories	3,994	(3,064)
Prepays and other	(985)	(950)
Accounts payable	(396)	(5,140)
Accrued liabilities	5,492	(3,713)
Income taxes payable	903	819
Net cash provided by (used in) operating activities	2,168	(5,710)
Cash flows from (used in) investing activities:		
Purchase of short-term investments	(22,344)	(26,733)
Proceeds on maturity of short-term investments	26,826	18,860
Additions to property and equipment	(1,601)	(1,223)
Proceeds on sale of investment	-	3,919
Additions to mask sets	(526)	(435)
Additions to intangible assets	(2,007)	(297)
Net cash from (used in) investing activities	348	(5,909)
Cash flows from financing activities:		
Proceeds from issue of common stock	154	926
Net cash provided by financing activities	154	926
Increase (decrease) in cash and cash equivalents	2,670	(10,693)
Cash and cash equivalents, beginning of period	123,701	154,630
Cash and cash equivalents, end of period	\$ 126,371	\$ 143,937

See accompanying notes to condensed consolidated financial statements.

**GENESIS MICROCHIP INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(unaudited)**

**1. Basis of presentation**

Genesis Microchip Inc. (“Genesis” or the “Company”) designs, develops and markets integrated circuits that manipulate and process digital video and graphic images.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and according to the rules and regulations of the Securities and Exchange Commission for interim financial reporting. Consequently, they do not include all of the information and footnotes required by GAAP for a complete set of annual financial statements. The accounting policies we have applied for the quarter ended June 30, 2007 are consistent with those at March 31, 2007, except as outlined in Note 2. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended March 31, 2007, that are included in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements reflect all adjustments, consisting solely of normal, recurring adjustments that are necessary for a fair presentation of the results for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. The results of operations for the three months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year or for any other period.

**2. Significant Accounting Policies**

***Property and equipment***

Property and equipment are stated at cost or fair value at the date of acquisition.

In the first quarter of fiscal year 2008, the Company completed its review of amortization methods applied to property and equipment. As a result of the review, the Company concluded that a straight-line depreciation method better reflects the pattern of consumption for certain assets which have historically been amortized on a declining balance basis. The effect of the change is not material.

Effective April 1, 2007, amortization of property and equipment is recorded using the following estimated useful lives of the assets:

Property and equipment	5 to 10 years
Software	1 to 5 years
Leasehold improvements	Over the term of the lease

The Company regularly reviews the carrying values of its property and equipment by comparing the carrying amount of the asset to the expected future cash flows to be generated by the asset. If the carrying value exceeds the estimated amount recoverable, a write-down equal to the excess of the carrying value over the asset’s fair value is charged to the consolidated statements of operations.

***Intangible assets***

Intangible assets are comprised of acquired technology and patents.



In the first quarter of fiscal year 2008, the Company completed its review of amortization methods applied to patents. As a result of the review, no change has been made to the method by which patents are amortized.

The Company continually evaluates the remaining estimated useful life of intangible assets that are being amortized to determine whether events or circumstances warrant a revision to the remaining period of amortization.

*Income taxes*

In the first quarter of fiscal year 2008, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). See Note 11 for further discussion.

**3. Stock-based compensation**

During the three months ended June 30, 2007 and June 30, 2006, the Company recognized stock-based compensation expense of \$3,914 and \$5,342, respectively, related to stock options, restricted share units and employee share purchase plans granted to employees and directors. The Company has not capitalized any stock-based compensation costs as part of the cost of an asset. There were no tax benefits recognized related to the compensation cost for share-based payments.

The fair value of stock-based compensation was determined using the Black-Scholes option-pricing model using a dividend yield of 0% and the assumptions noted in the following table:

	<b>Three Months Ended</b>	
	June 30	
	<b>2007</b>	<b>2006</b>
Stock Option Plans:		
Risk-free interest rates	4.9%	5.1%
Volatility	55%	71%
Expected life in years	4.25	4.25
Employee Stock Purchase Plans:		
Risk-free interest rates	4.9%	5.2%
Volatility	40%	53%
Expected life in years	0.75	1.25

The Company uses historical volatility as a basis for projecting the expected volatility of the underlying stock and estimates the expected life of its stock options based upon historical data. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average grant date fair values of options granted during the three months ended June 30, 2007 and June 30, 2006 were \$4.24 and \$7.13 respectively.

*Summary of Stock Options*

Details of stock option transactions are as follows:

	<b>Number of Options (in thousands)</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Life (Years)</b>
Outstanding, March 31, 2007	6,354	\$ 15.61	5.90
Granted	358	8.67	
Exercised	(21)	7.30	
Forfeited	(133)	15.12	
Expired	(192)	15.07	

Edgar Filing: GENESIS MICROCHIP INC /DE - Form 10-Q

Outstanding, June 30, 2007	6,366	\$	15.27	5.67
Exercisable, March 31, 2007	4,239	\$	16.52	5.72
Exercisable, June 30, 2007	4,351	\$	16.47	5.52

7

---

**Summary of Restricted Stock Units**

Details of restricted stock unit transactions are as follows:

	Number of Units (in thousands)	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2007	689	\$ 13.15
Granted	258	8.59
Vested	(63)	9.24
Forfeited	(18)	13.11
Nonvested at June 30, 2007	866	\$ 11.73

The Company's policy is to satisfy stock option exercises and RSUs by issuing new shares of common stock. No cash was used by the Company to settle equity instruments granted under stock-based compensation arrangements.

**4. Earnings per share**

Basic earnings (loss) per share are computed by dividing the net income (loss) in a period by the weighted average number of shares of common stock outstanding during that period. Diluted earnings (loss) per share is calculated in order to give effect to all potential dilutive shares of common stock issuable during the period on the exercise of outstanding options. The weighted average number of diluted shares outstanding is calculated by assuming that any proceeds from the issuance of potential shares of common stock, such as stock options, are used to repurchase shares of common stock at the average market share price in the period. Per share information calculated on this basis is as follows:

	Three Months Ended June 30	
	2007	2006
Numerator for basic and diluted earnings (loss) per share:		
Net income (loss)	\$ (10,708)	\$ 1,440
Denominator for basic earnings (loss) per share:		
Weighted average common shares	37,142	36,001
Basic earnings (loss) per share:	\$ (0.29)	\$ 0.04
Denominator for diluted earnings (loss) per share:		
Weighted average common shares	37,142	36,001
Stock options (1)	-	517
Shares used in computing diluted earnings (loss) per share	37,142	36,518
Diluted earnings (loss) per share:	\$ (0.29)	\$ 0.04
Anti-dilutive potential common shares excluded from above calculation	6,370	6,691

(1) For the three months ended June 30, 2007, excludes the effect of all stock options as they are anti-dilutive due to the loss reported in the period.

8

---

## 5. Segmented information

### Market information

Genesis operates and monitors its results in one operating segment. Genesis designs, develops and markets integrated circuits that manipulate and process digital video and graphic images. The target market is the advanced display market including LCD monitors and digital televisions.

### Geographic information

Geographic revenue information is based on the shipment destination. Long-lived assets include property and equipment, as well as intangible assets. Property and equipment information is based on the physical location of the asset while the intangible assets are based on the location of the owning entity.

Revenues from unaffiliated customers by geographic region were as follows:

	<b>Three Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
United States	\$ 314	\$ 158
China	14,074	25,553
Europe	2,431	5,578
Japan	6,484	5,481
South Korea	14,362	12,241
Taiwan	4,528	5,841
Rest of world	1,791	1,047
	\$ 43,984	\$ 55,899

Net long-lived assets by country were as follows:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
United States, including goodwill	\$ 96,690	\$ 94,716
Rest of world	15,109	16,103
	\$ 111,799	\$ 110,819

### Customer concentration information

The following table shows the percentage of our revenues in each period that was derived from customers who individually accounted for more than 10% of revenues in that period:

	<b>Three Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
Customer A	19%	16%

Edgar Filing: GENESIS MICROCHIP INC /DE - Form 10-Q

Customer B	12%	-
Customer C	11%	13%
Customer D	-	12%

The following table shows customers accounting for more than 10% of accounts receivable trade at June 30, 2007 and March 31, 2007:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Customer 1	31%	36%
Customer 2	12%	13%
Customer 3	12%	-

9

---

**Supplier arrangements**

Genesis subcontracts most of its semiconductor manufacturing from a limited number of suppliers. Should our wafer supplier or any of Genesis's packaging or testing subcontractors cease to be available, management believes that this would have a material adverse effect on Genesis's business, financial condition and results of operations. Genesis has no guarantee of minimum capacity from its suppliers, long term pricing agreements, and is not liable for any significant minimum purchase commitments.

**6. Inventories**

Inventories consist of the following:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Finished goods	\$ 10,085	\$ 11,596
Work-in-process	5,952	8,757
	16,037	