GSI TECHNOLOGY INC
Form 10-Q
August 04, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from to

Commission File Number 001-33387

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	77-0398779
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1213 Elko Drive

Sunnyvale, California 94089

(Address of principal executive offices, zip code)

(408) 331-8800

(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the registrant's common stock outstanding as of July 31, 2017: 21,010,778

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GSI TECHNOLOGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

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PART I — FINANCIAL INFORMATION

Item 1.Financial Statements

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2017	March 31, 2017
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	$ 31,871	$ 33,736
Short-term investments	17,220	16,199
Accounts receivable, net	6,162	6,349
Inventories	8,751	9,211
Prepaid expenses and other current assets	2,651	2,777
Total current assets	66,655	68,272
Property and equipment, net	7,615	7,689
Long-term investments	14,096	12,898
Goodwill	7,978	7,978
Intangible assets, net	3,224	3,302
Other assets	1,902	2,456
Total assets	$ 101,470	$ 102,595
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Accounts payable	$ 1,977	$ 1,627
Accrued expenses and other liabilities	5,050	7,051
Deferred revenue	2,043	1,796
Total current liabilities	9,070	10,474
Income taxes payable	247	244

Deferred income taxes	18	15
Other accrued expenses	5,515	5,418
Total liabilities	14,850	16,151
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: $0.001 par value authorized: 5,000,000 shares; issued and outstanding: none	—	—
Common Stock: $0.001 par value authorized: 150,000,000 shares; issued and outstanding: 21,010,078 and 20,612,757 shares, respectively	21	21
Additional paid-in capital	24,119	21,830
Accumulated other comprehensive loss	(68)	(62)
Retained earnings	62,548	64,655
Total stockholders' equity	86,620	86,444
Total liabilities and stockholders' equity	$ 101,470	$ 102,595

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,	
	2017	2016
Net revenues	$ 10,687	$ 12,946
Cost of revenues	5,083	6,224
Gross profit	5,604	6,722
Operating expenses:		
Research and development	4,335	3,499
Selling, general and administrative	2,798	2,834
Total operating expenses	7,133	6,333
Income (loss) from operations	(1,529)	389
Interest income, net	97	77
Other income (expense), net	1	65
Income (loss) before income taxes	(1,431)	531
Provision for income taxes	81	271
Net income (loss)	$ (1,512)	$ 260
Net income (loss) per share:		
Basic	$ (0.07)	$ 0.01
Diluted	$ (0.07)	$ 0.01
Weighted average shares used in per share calculations:		
Basic	20,805	21,299
Diluted	20,805	21,526

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30,	
	2017	2016
Net income (loss)	$ (1,512)	$ 260
Net unrealized gain (loss) on available-for-sale investments	(6)	7
Total comprehensive income (loss)	$ (1,518)	$ 267

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

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GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (1,512)	$ 260
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Allowance for sales returns, doubtful accounts and other	(1)	1
Provision for excess and obsolete inventories	448	85
Depreciation and amortization	306	424
Stock-based compensation	478	443
Amortization of premium on investments	23	25
Changes in assets and liabilities:		
Accounts receivable	188	(1,703)
Inventory	12	(494)
Prepaid expenses and other assets	(394)	(347)
Accounts payable	350	(447)
Accrued expenses and other liabilities	(1,468)	(999)
Deferred revenue	247	(354)
Net cash used in operating activities	(1,323)	(3,106)
Cash flows from investing activities:		
Purchase of investments	(3,498)	—
Maturities of short-term investments	1,250	3,148
Restricted cash	479	—
Purchases of property and equipment	(105)	(135)
Net cash provided by (used in) investing activities	(1,874)	3,013
Cash flows from financing activities:		
Repurchase of common stock	—	(3,906)
Payment of escrow amount	(479)	—
Proceeds from issuance of common stock under employee stock plans	1,811	273
Net cash provided by (used in) financing activities	1,332	(3,633)
Net decrease in cash and cash equivalents	(1,865)	(3,726)

Cash and cash equivalents at beginning of the period	33,736	31,963
Cash and cash equivalents at end of the period	$ 31,871	$ 28,237
Non-cash financing activities:		
Purchases of property and equipment through accounts payable and accruals	49	—
Supplemental cash flow information:		
Net cash paid for income taxes	$ —	$ 1,256

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

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GSI TECHNOLOGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of GSI Technology, Inc. and its subsidiaries ("GSI" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These interim financial statements contain all adjustments (which consist of only normal, recurring adjustments) that are, in the opinion of management, necessary to state fairly the interim financial information included therein. The Company believes that the disclosures are adequate to make the information not misleading. However, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

The consolidated results of operations for the three months ended June 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year.

Significant accounting policies

The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017.

Recent accounting pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09, "Scope of Modification Accounting". ASU 2017-09 amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. This guidance clarifies that an entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the fair value of the award, (ii) the vesting conditions of the award, and (iii) the classification of the award as an equity instrument or liability instrument. The standard is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017, including adoption in any interim period. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

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In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". ASU 2016-18 requires entities to include in their cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. As a result, companies will no longer present transfers between cash and cash equivalents, and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this new guidance will have on its consolidated statement of cash flows.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset other than inventory. The Company adopted ASU 2016-16 in the quarter ended June 30, 2017. ASU 2016-16 is applied on a modified retrospective basis in the period of adoption. The adoption of this guidance resulted in a derecognition of a prepaid tax asset of $595,000 related to a prior period intra-entity asset transfer, with an offsetting reduction to retained earnings. Because of the Company's valuation allowance in the United States, there was no change to the Company's net deferred tax assets. The derecognition of the prepaid tax asset as of April 1, 2017 decreased the Company's income tax expense by $11,000 in the quarter ended June 30, 2017 and is projected to decrease the Company's fiscal 2018 tax expense by $43,000.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". ASU 2016-15 adds or clarifies guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in the update provide guidance on eight specific cash flow issues, and are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. The amendments to the guidance should be applied using a retrospective transition method for each period presented and, if it is impracticable to apply all of the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact this new guidance will have on its consolidated statement of cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For trade and other receivables, loans, and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, with early adoption permitted beginning April 1, 2019. Application of the amendments is through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 in the quarter ended June 30, 2017. The Company has elected to continue to estimate forfeitures as part of the compensation cost of equity awards. ASU 2016-09 is applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption. The adoption of ASU 2016-09 resulted in an increase to the net operating loss carryforward deferred tax asset and a corresponding increase in the valuation allowance of $654,000 attributable to excess tax benefits not previously recognized as they did not reduce income taxes payable.

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In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, “Elements of Financial Statements,” and, therefore, recognition of those lease assets and lease liabilities represents a change of previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. Although the Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The accounting standard update also updates certain presentation and disclosure requirements. This accounting standard update will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory.” This standard update intends to simplify the subsequent measurement of inventory, excluding inventory accounted for under the last-in, first-out or the retail inventory methods. The update replaces the current lower of cost or market test with a lower of cost and net realizable value test. Under the current guidance, market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted ASU 2015-11 in the quarter ended June 30, 2017. Implementation of this guidance did not have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The new accounting standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The accounting standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. ASU No. 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company presently expects to select the modified retrospective transition method. Assuming all other revenue recognition criteria have been met, it is likely that the new guidance would require the Company to recognize revenue and cost relating to distributor sales upon product delivery, subject to estimated allowance for distributor price adjustments and rights of return. In March, April and May 2016, the FASB issued additional updates to the new revenue standard relating to reporting revenue on a gross versus net basis, identifying performance obligations and licensing arrangements, and narrow-scope improvements and practical expedients, respectively. The Company is in the process of assessing the impact this additional guidance is expected to have upon adoption.

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NOTE 2—NET INCOME (LOSS) PER COMMON SHARE

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

Three Months Ended June 30,	
2017	2016

&nbs