

GENESIS MICROCHIP INC /DE

Form 10-Q

November 06, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

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**FORM 10-Q**

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(mark one)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2006

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

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**GENESIS MICROCHIP INC.**

(Exact name of registrant as specified in its charter)

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DELAWARE  
(State or other jurisdiction of

incorporation or organization)

77-0584301  
(I.R.S. Employer

Identification No.)

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2150 GOLD STREET

P.O. BOX 2150

ALVISO, CALIFORNIA  
(Address of principal executive offices)

95002  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 262-6599

Former name, former address and former fiscal year if

changed since last report.

Former address: N/A

Former Fiscal Year: N/A

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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 36,572,494 shares of the registrant's common shares issued and outstanding as of October 31, 2006.

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**GENESIS MICROCHIP INC.**

**FORM 10-Q**

**THREE AND SIX MONTHS ENDED September 30, 2006**

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\* No information has been provided because this item is not applicable.

**Table of Contents****PART I: FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****GENESIS MICROCHIP INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except per share amounts)

	September 30, 2006	March 31, 2006
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 150,416	\$ 154,630
Short-term investments	28,894	30,749
Accounts receivable trade, net of allowance for doubtful accounts of \$42 at Sept 30 and \$401 at March 31	41,080	36,184
Inventories	25,311	17,175
Prepays and other	6,452	6,034
Total current assets	252,153	244,772
Property and equipment, net	15,132	16,459
Intangible assets, net	8,884	9,055
Goodwill	181,981	181,981
Deferred income taxes	15,825	11,151
Other long-term assets	15,846	16,259
Total assets	\$ 489,821	\$ 479,677
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,105	\$ 14,911
Accrued liabilities	15,579	21,778
Income taxes payable	5,207	3,565
Total current liabilities	33,891	40,254
Stockholders' equity:		
Capital stock:		
Preferred stock:		
Authorized 5,000 preferred shares, \$0.001 par value		
Issued and outstanding none at September 30 and at March 31		
Common stock:		
Authorized 100,000 common shares, \$0.001 par value		
Issued and outstanding 36,521 shares at September 30 and 35,899 shares at March 31	36	36
Additional paid-in capital	452,417	441,197
Treasury shares	(833)	
Cumulative other comprehensive loss	(94)	(94)
Deferred stock-based compensation		(4,572)
Retained earnings	4,404	2,856
Total stockholders' equity	455,930	439,423

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Total liabilities and stockholders' equity	\$ 489,821	\$ 479,677
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See accompanying notes to condensed consolidated financial statements.

**Table of Contents****GENESIS MICROCHIP INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(amounts in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2006	2005	2006	2005
Revenues	\$ 69,009	\$ 74,854	\$ 124,908	\$ 134,679
Cost of revenues (1)(2)	38,225	41,974	71,465	77,593
Gross profit	30,784	32,880	53,443	57,086
Operating expenses:				
Research and development (3)(5)	17,401	11,542	32,318	22,504
Selling, general and administrative (4)	15,314	12,092	30,136	22,845
Total operating expenses	32,715	23,634	62,454	45,349
Income (loss) from operations	(1,931)	9,246	(9,011)	11,737
Interest and other income				
Interest income	2,212	1,067	4,376	1,977
Other income (6)			3,217	
Interest and other income	2,212	1,067	7,593	1,977
Income (loss) before income taxes	281	10,313	(1,418)	13,714
Provision for (recovery of) income taxes	173	1,032	(2,966)	2,372
Net income	\$ 108	\$ 9,281	\$ 1,548	\$ 11,342
Earnings per share:				
Basic	\$ 0.00	\$ 0.27	\$ 0.04	\$ 0.33
Diluted	\$ 0.00	\$ 0.25	\$ 0.04	\$ 0.31
Weighted average number of common shares outstanding:				
Basic	36,437	34,826	36,220	34,239
Diluted	36,840	37,534	36,664	36,413
(1) Amount includes amortization of acquired developed product technology	\$	\$ 1,925	\$	\$ 3,850
(2) Amount includes stock-based compensation	\$ 371	\$	\$ 799	\$
(3) Amount includes stock-based compensation	\$ 2,467	\$ 37	\$ 4,358	\$ 179
(4) Amount includes stock-based compensation	\$ 2,279	\$ 10	\$ 5,302	\$ 112
(5) Amount includes amortization of acquired intangibles	\$ 507	\$ 729	\$ 989	\$ 1,458
(6) Gain on sale of investment	\$	\$	\$ 3,217	\$

See accompanying notes to condensed consolidated financial statements.



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

	<b>Six Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Cash flows from (used in) operating activities:		
Net income	\$ 1,548	\$ 11,342
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	4,235	3,517
Amortization of intangible assets	989	5,308
Stock-based compensation	10,459	291
Deferred income taxes	(4,674)	943
Gain on sale of investment	(3,217)	
Loss on disposal of property and equipment		453
Change in operating assets and liabilities, net of amounts acquired:		
Accounts receivable trade	(4,896)	(9,604)
Inventories	(8,136)	(11,875)
Prepays and other	(418)	(152)
Accounts payable	(1,806)	5,914
Accrued liabilities	(6,199)	5,704
Income taxes payable	1,642	(1,329)
Net cash provided by (used in) operating activities	(10,473)	10,512
Cash flows used in investing activities:		
Purchase of short-term investments	(44,835)	(10,002)
Proceeds on maturity of short-term investments	46,690	
Additions to property and equipment	(1,926)	(2,831)
Proceeds on sale of investment	3,919	
Other	(2,089)	(1,576)
Net cash provided by (used in) investing activities	1,759	(14,409)
Cash flows from financing activities:		
Proceeds from issue of common stock	4,500	23,508
Net cash provided by financing activities	4,500	23,508
Increase (decrease) in cash and cash equivalents	(4,214)	19,611
Cash and cash equivalents, beginning of period	154,630	129,757
Cash and cash equivalents, end of period	\$ 150,416	\$ 149,368

See accompanying notes to condensed consolidated financial statements.



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**GENESIS MICROCHIP INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(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.

We have prepared the accompanying unaudited condensed consolidated financial statements 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 policies applied are consistent with those at March 31, 2006 except as outlined in Note 2. These condensed financial statements should be read in conjunction with our financial statements and notes thereto for the year ended March 31, 2006 that are included in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. We believe that 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. The results of operations for the three and six months ended September 30, 2006 are not necessarily indicative of the results to be expected for the full fiscal year or for any other period.

**2. Stock-based compensation**

On April 1, 2006, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 123 (revised 2004), Share-Based Payment ( SFAS 123R ), which requires the measurement and recognition of compensation expense for all share-based payment awards based on the grant date fair value of the awards.

Prior to the adoption of SFAS 123R, the Company followed Accounting Principles Board Opinion No. 25 ( APB 25 ), Accounting for Stock Issued to Employees and related interpretations, in accounting for employee stock options and restricted stock units. Under APB 25, deferred stock-based compensation was recorded at the grant date in an amount equal to the excess of the market value of a share of common stock over the exercise price of the option or restricted stock unit and was amortized over the vesting period of the individual options or stock units, generally two to four years, in accordance with Financial Accounting Standards Board's ( FASB ) FIN 44.

The Company adopted SFAS 123R using the modified prospective transition method, which requires the recognition of compensation expense for awards granted after April 1, 2006 that are expected to vest and for unvested awards granted prior to adoption that are expected to vest. The compensation expense related to the awards granted prior to adoption is based on the grant date fair value estimated in accordance with SFAS 123 for prior year pro forma disclosure purposes, adjusted to reflect estimated forfeitures. In accordance with the modified prospective transition method, prior period results have not been adjusted to reflect the adoption of SFAS 123R. No modifications have been made to the terms of the Company's outstanding stock options in anticipation of the adoption of SFAS 123R.

During the three and six months ended September 30, 2006, the Company recognized stock-based compensation expense of \$5,117,000 and \$10,459,000, 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 cumulative effect of the implementation of SFAS 123R for the three months ended September 30, 2006 was to decrease income from operations, income before income taxes and net income by \$4,636,000 and basic and fully diluted earnings per share by \$0.13. The cumulative effect of the implementation of SFAS 123R for the six months ended September 30, 2006 was to decrease income from operations, income before income taxes and net income by \$9,556,000 and basic and fully diluted earnings per share by \$0.26. In addition, \$4,571,000 of deferred stock-based compensation recorded as a reduction to stockholder's equity as of March 31, 2006 was reversed against the Company's additional paid-in-capital. There was no impact on the statement of cash flow.

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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 September 30</b>		<b>Six Months Ended September 30</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Stock Option Plans:				
Risk-free interest rates	4.6%	4.2%	5.1%	4.2%
Volatility	66%	83%	71%	