

GSI TECHNOLOGY INC
Form 10-Q
February 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2007 or

o **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

(State or other jurisdiction of incorporation or organization)

77-0398779

(IRS Employer Identification No.)

2360 Owen Street

Santa Clara, California 95054

(Address of principal executive offices, zip code)

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(408) 980-8388

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). 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

The number of shares of the registrant's common stock outstanding as of January 31, 2008: 27,697,315.

GSI TECHNOLOGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2007

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2007	March 31, 2007
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 8,568	\$ 4,275
Restricted cash		1,000
Short-term investments	42,124	4,000
Accounts receivable, net	7,951	6,397
Inventories	16,768	24,209
Prepaid expenses and other current assets	1,728	3,205
Deferred income taxes	1,173	1,084
Total current assets	78,312	44,170
Property and equipment, net	4,816	4,745
Other assets	1,089	995
Total assets	\$ 84,217	\$ 49,910
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS EQUITY		
Accounts payable	\$ 3,868	\$ 4,864
Accrued expenses and other liabilities	1,349	2,603
Deferred revenue	4,714	3,704
Total current liabilities	9,931	11,171
Income taxes payable	334	
Total liabilities	10,265	11,171
Commitments and contingencies (Notes 7 and 13)		
Redeemable convertible preferred stock: \$0.001 par value		
Authorized: 15,120,168 shares		
Issued and outstanding: 0 and 15,120,168 shares, respectively		
Liquidation preference: \$0 and \$9,007, respectively		9,007
Stockholders' equity:		
Preferred stock: \$0.001 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: none		
Common stock: \$0.001 par value	28	6
Authorized: 150,000,000 shares		

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Issued and outstanding: 27,685,815 and 6,343,411 shares, respectively

Additional paid-in capital	47,750	7,542
Accumulated other comprehensive income	29	
Retained earnings	26,145	22,184
Total stockholders' equity	73,952	29,732
Total liabilities, redeemable convertible preferred stock and stockholders' equity	\$ 84,217	\$ 49,910

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

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Net revenues	\$ 13,978	\$ 15,251	\$ 37,955	\$ 44,180
Cost of revenues	8,433	9,771	23,403	27,213
Gross profit	5,545	5,480	14,552	16,967
Operating expenses:				
Research and development	1,051	1,312	3,270	3,756
Selling, general and administrative	2,475	1,740	6,783	4,440
Total operating expenses	3,526	3,052	10,053	8,196
Income from operations	2,019	2,428	4,499	8,771
Interest income, net	451	218	1,288	614
Other income (expense), net	45	(64)	146	(73)
Income before income taxes	2,515	2,582	5,933	9,312
Provision for income taxes	857	1,060	1,972	3,293
Net income	\$ 1,658	\$ 1,522	\$ 3,961	\$ 6,019
Basic and diluted net income per share available to common stockholders:				
Basic	\$ 0.06	\$ 0.21	\$ 0.14	\$ 0.86
Diluted	\$ 0.06	\$ 0.07	\$ 0.14	\$ 0.26
Weighted average shares used in per share calculations:				
Basic	27,657	6,282	27,470	6,238
Diluted	28,380	22,819	28,669	22,745

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

GSI TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31,	
	2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 3,961	\$ 6,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for sales returns and doubtful accounts	13	(50)
Provision for excess and obsolete inventories	328	328
Depreciation and amortization	866	632
Stock-based compensation	1,149	809
Deferred income taxes	(159)	
Amortization of bond premium on investments	249	
Changes in assets and liabilities:		
Accounts receivable	(1,567)	(3,187)
Inventory	7,113	(8,144)
Prepaid expenses and other assets	872	(612)
Accounts payable	(1,056)	2,041
Accrued expenses and other liabilities	242	862
Deferred revenue	1,010	1,440
Net cash provided by operating activities	13,021	138
Cash flows from investing activities:		
Decrease in restricted cash	1,000	
Purchase of short-term investments	(50,446)	(9,500)
Proceeds from sales and maturities of short-term investments	12,102	7,500
Purchases of property and equipment	(2,039)	(777)
Net cash used in investing activities	(39,383)	(2,777)
Cash flows from financing activities:		
Initial public offering costs paid during the period	(739)	
Proceeds from initial public offering, net of underwriting discount	31,361	
Windfall tax benefits from stock options exercised	2	
Proceeds from issuance of common stock upon option exercises	31	39
Net cash provided by financing activities	30,655	39
Net increase (decrease) in cash and cash equivalents	4,293	(2,600)
Cash and cash equivalents at beginning of the period	4,275	11,505
Cash and cash equivalents at end of the period	\$ 8,568	\$ 8,905
Non-cash financing activities:		
Purchases of property and equipment through accounts payable and accruals	\$ 240	\$
Supplemental cash flow information:		
Cash paid for income taxes	\$ 2,104	\$ 2,541
Cash paid for interest	\$	\$ 8

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

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 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 generally accepted accounting principles 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, 2007.

The consolidated results of operations for the three and nine months ended December 31, 2007 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, 2007. The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48) as of the first day of the first quarter of fiscal 2008. The Company has not otherwise materially changed its significant accounting policies.

Income taxes

FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under the Interpretation, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values. The first step is to

evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation process, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. The Company adopted this standard in the first quarter of fiscal 2008 and the impact of the adoption of FIN 48 is disclosed in Note 5.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS 141(R), *Business Combinations* (SFAS 141R). SFAS 141R replaces SFAS 141, *Business Combinations* (SFAS 141). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R will apply prospectively to business combinations for which the acquisition date is on or after April 1, 2009, the beginning of the Company's 2010 fiscal year. While the Company has not yet evaluated this statement for the impact, if any, that SFAS 141R will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after March 31, 2009.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has not yet determined the impact, if any, that SFAS 160 will have on its consolidated financial statements. SFAS 160 is effective for the Company's fiscal year beginning April 1, 2009.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The Company will be required to adopt the provisions of SFAS No. 157 beginning with its fiscal quarter ending June 30, 2008. The Company is currently evaluating the impact of the adoption of SFAS No. 157, but the Company does not currently believe its adoption will have a material impact on its consolidated financial position, results of operations or cash flows.

NOTE 2 NET INCOME PER COMMON SHARE

The Company applies the provisions of EITF Issue No. 03-6, *Participating Securities and the Two Class Method under FASB Statement 128* (EITF No. 03-6), which established standards regarding the computation of earnings per share by companies with participating securities or multiple classes of common stock. The Company's Series A through E redeemable convertible preferred stock, which were converted into common stock immediately prior to the closing of the initial public offering of the Company's common stock, were participating securities due to their participation rights related to cash dividends declared by the Company.

Basic net income available to common stockholders per share is computed by dividing the net income available to common stockholders by the weighted-average common shares outstanding for the three months and nine months ended December 31, 2007 and 2006, respectively. The net income available to common stockholders is calculated by deducting dividends allocable to the Company's redeemable convertible preferred stock from net income to determine the net income available to common stockholders.

Diluted net income available to common stockholders per share is computed giving effect to all potentially dilutive common stock, including options and common stock subject to repurchase using the treasury stock method, and all convertible securities using the if-converted method to the extent they are dilutive.

The following table sets forth the computation of basic and diluted net income attributable to common stockholders per share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2007	2006	2007	2006
	(In thousands, except per share amounts)			
Numerators:				
Net income	\$ 1,658	\$ 1,522	\$ 3,961	\$ 6,019
Net income allocated to participating redeemable convertible preferred stockholders		225	5	676
Net income available to common stockholders - Basic	\$ 1,658	\$ 1,297	\$ 3,956	\$ 5,343
Net income allocated to participating redeemable convertible preferred stockholders		214	5	642
Net income available to common stockholders - Diluted				