GSI TECHNOLOGY INC
Form 10-Q
February 12, 2009
Table of Contents

# 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, 2008 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 000-33387**

# 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.) |

**2360 Owen Street**

**Santa Clara, California 95054**

(Address of principal executive offices, zip code)

**(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 x No o

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 Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

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

The number of shares of the registrant s common stock outstanding as of January 31, 2009: 26,833,259.

Table of Contents

**GSI TECHNOLOGY, INC.**

**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2008**

Table of Contents

## PART I FINANCIAL INFORMATION

### Item 1. *Financial Statements*

**GSI TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| | (In thousands, except share and per share amounts) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 12,330 | $ 15,899 |
| Short-term investments | 35,313 | 23,666 |
| Accounts receivable, net | 7,420 | 7,476 |
| Inventories | 13,481 | 15,704 |
| Prepaid expenses and other current assets | 2,770 | 1,807 |
| Deferred income taxes | 1,072 | 1,327 |
| Total current assets | 72,386 | 65,879 |
| Property and equipment, net | 5,366 | 5,840 |
| Long-term investments | 15,094 | 15,605 |
| Other assets | 783 | 991 |
| Total assets | $ 93,629 | $ 88,315 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Accounts payable | $ 2,743 | $ 4,282 |
| Accrued expenses and other liabilities | 2,157 | 1,584 |
| Deferred revenue | 3,720 | 4,943 |
| Total current liabilities | 8,620 | 10,809 |
| Income taxes payable | 312 | 366 |
| Total liabilities | 8,932 | 11,175 |
| Commitments and contingencies (Notes 7 and 10) | | |
| 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: 27,280,302 and 27,755,490 shares, respectively | 27 | 28 |
| Additional paid-in capital | 47,437 | 48,139 |
| Accumulated other comprehensive income | 191 | 16 |
| Retained earnings | 37,042 | 28,957 |
| Total stockholders equity | 84,697 | 77,140 |
| Total liabilities and stockholders equity | $ 93,629 | $ 88,315 |

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

Table of Contents

**GSI TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended December 31, 2008 | Three Months Ended December 31, 2007 | Nine Months Ended December 31, 2008 | Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| Net revenues | $ 14,030 | $ 13,978 | $ 48,468 | $ 37,955 |
| Cost of revenues | 8,034 | 8,433 | 26,963 | 23,403 |
| Gross profit | 5,996 | 5,545 | 21,505 | 14,552 |
| Operating expenses: | | | | |
| Research and development | 1,682 | 1,051 | 4,283 | 3,270 |
| Selling, general and administrative | 2,191 | 2,475 | 7,016 | 6,783 |
| Total operating expenses | 3,873 | 3,526 | 11,299 | 10,053 |
| Income from operations | 2,123 | 2,019 | 10,206 | 4,499 |
| Interest income, net | 378 | 451 | 1,128 | 1,288 |
| Other income (expense), net | 12 | 45 | (64) | 146 |
| Income before income taxes | 2,513 | 2,515 | 11,270 | 5,933 |
| Provision for income taxes | 1,026 | 857 | 3,185 | 1,972 |
| Net income | $ 1,487 | $ 1,658 | $ 8,085 | $ 3,961 |
| Basic and diluted net income per share available to common stockholders: | | | | |
| Basic | $ 0.05 | $ 0.06 | $ 0.29 | $ 0.14 |
| Diluted | $ 0.05 | $ 0.06 | $ 0.28 | $ 0.14 |
| Weighted average shares used in per share calculations: | | | | |
| Basic | 27,996 | 27,657 | 28,029 | 27,470 |
| Diluted | 28,613 | 28,380 | 28,751 | 28,669 |

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

Table of Contents

**GSI TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | (In thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income | $ | 8,085 | $ | 3,961 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Allowance for sales returns, doubtful accounts and other | | 21 | | 13 |
| Provision for excess and obsolete inventories | | 693 | | 328 |
| Depreciation and amortization | | 1,004 | | 866 |
| Stock-based compensation | | 986 | | 1,149 |
| Deferred income taxes | | 461 | | (159) |
| Windfall tax benefits from stock options exercised | | (280) | | |
| Amortization of bond premium on investments | | 642 | | 249 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | | 35 | | (1,567) |
| Inventory | | 1,530 | | 7,113 |
| Prepaid expenses and other assets | | (961) | | 872 |
| Accounts payable | | (1,582) | | (1,056) |
| Accrued expenses and other liabilities | | 400 | | 242 |
| Deferred revenue | | (1,223) | | 1,010 |
| Net cash provided by operating activities | | 9,811 | | 13,021 |
| Cash flows from investing activities: | | | | |
| Decrease in restricted cash | | | | 1,000 |
| Purchase of investments | | (37,019) | | (50,446) |
| Proceeds from sales and maturities of investments | | 25,416 | | 12,102 |
| Purchases of property and equipment | | (596) | | (2,039) |
| Net cash used in investing activities | | (12,199) | | (39,383) |
| 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 |
| Repurchase of common stock | | (2,508) | | |
| Windfall tax benefits from stock options exercised | | 280 | | 2 |
| Increase in bank overdrafts | | 508 | | |
| Proceeds from issuance of common stock under employee stock plans | | 539 | | 31 |
| Net cash (used in) provided by financing activities | | (1,181) | | 30,655 |
| Net (decrease) increase in cash and cash equivalents | | (3,569) | | 4,293 |
| Cash and cash equivalents at beginning of the period | | 15,899 | | 4,275 |
| Cash and cash equivalents at end of the period | $ | 12,330 | $ | 8,568 |
| Non-cash financing activities: | | | | |
| Purchases of property and equipment through accounts payable and accruals | $ | 219 | $ | 240 |
| Conversion of preferred stock to common stock | $ | | $ | 9,007 |
| Supplemental cash flow information: | | | | |
| Cash paid for income taxes | $ | 2,636 | $ | 2,104 |

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

Table of Contents

**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, 2008.

The consolidated results of operations for the three months and nine months ended December 31, 2008 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, 2008. The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), as of the first day of the first quarter of fiscal 2009. The Company has not otherwise materially changed its significant accounting policies.

***Comprehensive net income***

The Company s comprehensive net income for the three month and nine month periods ended December 31, 2008 and 2007 was as follows:

| | Three Months Ended December 31, 2008 | Three Months Ended December 31, 2007 | Nine Months Ended December 31, 2008 | Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Net income | $ 1,487 | $ 1,658 | $ 8,085 | $ 3,961 |
| Change in net unrealized gain on available-for-sale investments | 476 | 21 | 175 | 29 |
| Comprehensive net income | $ 1,963 | $ 1,679 | $ 8,260 | $ 3,990 |

***Recent accounting pronouncements***

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. We do not expect that this Statement will result in a change in any of our current accounting practices.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133* ( SFAS 161 ), which expands the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 specifically requires entities to provide enhanced disclosures addressing: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company does not expect the impact of adoption to have any affect as the Company does not engage in any hedging activities.

Table of Contents

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 next 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 No. 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. SFAS 160 is effective for the Company s fiscal year beginning April 1, 2009. The Company has not yet determined the impact, if any, that SFAS 160 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that were not previously 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 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have an effect on the Company s financial position or results of operations as the Company did not elect this fair value option.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to previous 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. In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13* ( FSP 157-1 ). FSP 157-1 amends SFAS 157 to exclude from its scope SFAS No. 13 and other pronouncements that address fair value measurements for purposes of lease classification or measurement. The scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value (including assets and liabilities not related to leases). In February 2008, the FASB issued Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ( FSP 157-3 ). FSP 157-3 clarifies the application of SFAS 157, 2008, in situations where the market is not active. The Company considered the guidance provided by FSP 157-3 in its determination of estimated fair values as of December 31, 2008, and determined that the impact was not material. The Company adopted the provisions of SFAS 157 effective April 1, 2008 for financial assets and liabilities measured on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company s financial position or results of operations.

**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* , 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 in April 2007, were participating securities due to their participation rights related to cash dividends declared by the Company.

Table of Contents

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, 2008 and 2007, 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, 2008 | Three Months Ended December 31, 2007 | Nine Months Ended December 31, 2008 | Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| | (In thousands, except per share amounts) | | | |
| Numerators: | | | | |
| Net income | $ 1,487 | $ 1,658 | $ 8,085 | $ 3,961 |
| Net income allocated to participating redeemable convertible preferred stockholders | | | | 5 |
| Net income available to common stockholders Basic | 1,487 | 1,658 | 8,085 | 3,956 |
| Net income allocated to participating redeemable convertible preferred stockholders | | | | 5 |
| Net income available to common stockholders Diluted | $ 1,487 | $ 1,658 | $ 8,085 | $ 3,961 |
| Denominators: | | | | |
| Weighted average shares Basic | 27,996 | 27,657 | 28,029 | 27,470 |
| Dilutive effect of employee stock options | 617 | 723 | 722 | 1,090 |
| Dilutive effect of redeemable convertible preferred shares | | | | 109 |
| Weighted average shares Dilutive | 28,613 | 28,380 | 28,751 | 28,669 |
| Net income per common share Basic | $ 0.05 | $ 0.06 | $ 0.29 | $ 0.14 |
| Net income per common share Diluted | $ 0.05 | $ 0.06 | $ 0.28 | $ 0.14 |

The following outstanding redeemable convertible preferred stock and common stock options determined on a weighted average basis were excluded from the computation of diluted net income per share as they had an anti-dilutive effect:

| | Three Months Ended December 31, 2008 | Three Months Ended December 31, 2007 | Nine Months Ended December 31, 2008 | Nine Months Ended December 31, 2007 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Redeemable convertible preferred stock | | | | 1 |
| Stock options | 3,166 | 2,656 | 2,818 | 2,375 |
| | 3,166 | 2,656 | 2,818 | 2,376 |

**NOTE 3 BALANCE SHEET DETAIL**

| | December 31, 2008 | | March 31, 2008 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Inventories: | | | | |
| Work-in-progress | $ | 4,423 | $ | 5,521 |
| Finished goods | | 7,721 | | 8,549 |
| Inventory at distributors | | 1,337 | | 1,634 |
| | $ | $13,481 | $ | 15,704 |

Table of Contents

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Accounts receivable, net: | | |
| Accounts receivable | $ 7,557 | $ 7,592 |
| Less: Allowances for sales returns, doubtful accounts and other | (137) | (116) |
| | $ 7,420 | $ 7,476 |

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Prepaid expenses and other current assets: | | |
| Prepaid tooling and masks | $ 1,024 | $ 516 |
| Other prepaid expenses | 1,746 | 1,291 |
| | $ 2,770 | $ 1,807 |
| Property and equipment, net: | | |
| Computer and other equipment | $ 9,238 | $ 9,428 |
| Software | 3,565 | 3,288 |
| Furniture and fixtures | 235 | 234 |
| Leasehold improvements | 728 | 286 |
| | 13,766 | 13,236 |
| Less: Accumulated depreciation and amortization | (8,400) | (7,396) |
| | $ 5,366 | $ 5,840 |

Depreciation and amortization expense was $361,000 and $310,000, respectively, for the three months ended December 31, 2008 and 2007 and $1,004,000 and $866,000, respectively, for the nine months ended December 31, 2008 and 2007.

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Other Assets: | | |
| Non-current deferred income taxes | $ 663 | $ 869 |
| Deposits | 120 | 122 |
| | $ 783 | $ 991 |

| | December 31, 2008 | March 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Accrued expenses and other liabilities: | | |
| Accrued compensation | $ 445 | $ 567 |
| Accrued professional fees | 111 | 125 |
| Accrued commissions | 372 | 390 |
| Accrued royalties | 10 | 48 |
| Accrued income taxes | | 2 |
| Accrued equipment and software costs | | 109 |
| Other accrued expenses | 1,219 | 343 |
| | $ 2,157 | $ 1,584 |

**NOTE 4 RELATED PARTY TRANSACTIONS**

HolyStone Enterprises Co. Ltd., its subsidiaries, and its Chief Executive Officer, together held approximately 11% of the outstanding shares of the Company s common stock at March 31, 2007.