

GSI TECHNOLOGY INC  
Form 10-Q  
February 09, 2015  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended December 31, 2014

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

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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.)

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

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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, 2015: 23,386,580

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## GSI TECHNOLOGY, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	December 31, 2014	March 31, 2014
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 40,853	\$ 41,520
Short-term investments	24,978	39,412
Accounts receivable, net	5,522	8,238
Inventories	9,059	8,185
Prepaid expenses and other current assets	3,377	5,152
Total current assets	83,789	102,507
Property and equipment, net	8,972	9,683
Long-term investments	18,652	28,819
Other assets	531	668
Total assets	\$ 111,944	\$ 141,677
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 2,920	\$ 4,870
Accrued expenses and other liabilities	4,610	4,444
Deferred revenue	2,261	2,523
Total current liabilities	9,791	11,837
Income taxes payable	772	1,462

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Total liabilities	10,563	13,299
Commitments and contingencies (Note 6)		
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: 23,657,906 and 27,561,482 shares, respectively	24	28
Additional paid-in capital	31,735	56,399
Accumulated other comprehensive income (loss)	(48)	33
Retained earnings	69,670	71,918
Total stockholders' equity	101,381	128,378
Total liabilities and stockholders' equity	\$ 111,944	\$ 141,677

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 December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net revenues	\$ 14,227	\$ 13,778	\$ 40,435	\$ 45,732
Cost of revenues	7,577	8,410	21,785	25,496
Gross profit	6,650	5,368	18,650	20,236
Operating expenses:				
Research and development	2,850	2,780	8,869	8,728
Selling, general and administrative	4,454	4,490	12,945	13,710
Total operating expenses	7,304	7,270	21,814	22,438
Loss from operations	(654)	(1,902)	(3,164)	(2,202)
Interest income, net	76	92	249	291
Other income (expense), net	25	(30)	35	(33)
Loss before income taxes	(553)	(1,840)	(2,880)	(1,944)
Benefit for income taxes	(701)	(1,106)	(632)	(1,155)
Net income (loss)	\$ 148	\$ (734)	\$ (2,248)	\$ (789)
Net income (loss) per share:				
Basic	\$ 0.01	\$ (0.03)	\$ (0.09)	\$ (0.03)
Diluted	\$ 0.01	\$ (0.03)	\$ (0.09)	\$ (0.03)
Weighted average shares used in per share calculations:				
Basic	23,738	27,667	25,591	27,495
Diluted	24,325	27,667	25,591	27,495

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 December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
	(In thousands)			
Net income (loss)	\$ 148	\$ (734)	\$ (2,248)	\$ (789)
Net unrealized gain (loss) on available-for-sale investments, net of tax	(46)	15	(81)	(23)
Total comprehensive income (loss)	\$ 102	\$ (719)	\$ (2,329)	\$ (812)

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)

	Nine Months Ended December 31,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net loss	\$ (2,248)	\$ (789)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Allowance for sales returns, doubtful accounts and other	(11)	(15)
Provision for excess and obsolete inventories	912	1,642
Depreciation and amortization	1,294	1,486
Stock-based compensation	1,533	1,644
Deferred income taxes	—	(115)
Windfall tax benefits from stock options exercised	—	(280)
Amortization of bond premium on investments	478	640
Changes in assets and liabilities:		
Accounts receivable	2,727	1,202
Inventory	(1,786)	2,946
Prepaid expenses and other assets	1,782	439
Accounts payable	(1,950)	(789)
Accrued expenses and other liabilities	(524)	(582)
Deferred revenue	(262)	(686)
Net cash provided by operating activities	1,945	6,743
Cash flows from investing activities:		
Purchase of investments	(10,712)	(29,927)
Sales and maturities of short-term investments	34,754	23,912
Purchases of property and equipment	(453)	(253)
Net cash provided by (used in) investing activities	23,589	(6,268)
Cash flows from financing activities:		

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Repurchase of common stock	(27,120)	(2,536)
Windfall tax benefits from stock options exercised	—	280
Proceeds from issuance of common stock under employee stock plans	919	2,701
Net cash provided by (used in) financing activities	(26,201)	445
Net increase (decrease) in cash and cash equivalents	(667)	920
Cash and cash equivalents at beginning of the period	41,520	41,120
Cash and cash equivalents at end of the period	\$ 40,853	\$ 42,040
Supplemental cash flow information:		
Net cash paid (received) for income taxes	\$ (1,597)	\$ 28

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, 2014.

The consolidated results of operations for the three months and nine months ended December 31, 2014 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, 2014.

## Litigation and settlement costs

From time to time, the Company is involved in legal actions. The Company currently is a party to pending legal proceedings which it is defending aggressively. See Note 6 for additional information regarding this pending litigation. There are many uncertainties associated with any litigation, and the Company may not prevail. The litigation, regardless of its eventual outcome, will be costly and time consuming and, should the outcome be adverse to the Company, could result in the Company being required to pay significant monetary damages. If that occurs, our business, financial condition and results of operations could be materially and adversely affected. If information becomes available that causes us to determine that a loss in any of our pending litigation, or the settlement of such litigation, is probable, and we can reasonably estimate the loss associated with such events, we will record the loss in accordance with GAAP. However, the actual liability in any such litigation may be materially different from our estimates, which could require us to record additional costs.

## Recent accounting pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance related to the Company’s responsibility to evaluate whether there is substantial doubt about its ability to continue ongoing business operations and to provide relevant footnote disclosures. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

In July 2013, the FASB issued an Accounting Standards Update (“ASU”) on Income Taxes, to improve the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is expected to reduce diversity in practice and is expected to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards

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exist. Implementation of this guidance in the quarter ended June 30, 2014 did not have a material impact on the Company's financial position or results of operations.

In M