

GENESIS MICROCHIP INC /DE  
Form 10-Q  
August 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

(mark one)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2007

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

**GENESIS MICROCHIP INC.**  
(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**77-0584301**  
(I.R.S. Employer  
Identification No.)

**2525 AUGUSTINE DRIVE**  
**SANTA CLARA, CALIFORNIA**  
(Address of principal  
executive offices)

**95054**  
(Zip Code)

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 919-8400**

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Former name, former address and former fiscal year if  
**changed since last report.**

Former address: N/A

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Former Fiscal Year: N/A

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 37,429,242 shares of the registrant's common shares issued and outstanding as of July 31, 2007.

**GENESIS MICROCHIP INC.  
FORM 10-Q  
THREE MONTHS ENDED June 30, 2007**

**Index**

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**PART I: FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS**

**GENESIS MICROCHIP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(amounts in thousands, except per share amounts)

ASSETS	June 30, 2007 (unaudited)	March 31, 2007
Current assets:		
Cash and cash equivalents	\$ 126,371	\$ 123,701
Short-term investments	60,067	64,549
Accounts receivable trade, net of allowance for doubtful accounts of nil at June 30 and March 31	22,475	19,455
Inventories	12,430	16,424
Prepays and other	7,309	6,324
<b>Total current assets</b>	<b>228,652</b>	<b>230,453</b>
Property and equipment, net	15,548	16,238
Intangible assets, net	6,822	5,006
Goodwill	84,405	84,405
Deferred income taxes	299	252
Other long-term assets	15,214	15,360
<b>Total assets</b>	<b>\$ 350,940</b>	<b>\$ 351,714</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,363	\$ 6,759
Accrued liabilities	20,247	14,888
Income taxes payable	7,601	6,698
<b>Total current liabilities</b>	<b>34,211</b>	<b>28,345</b>
Stockholders' equity:		
Capital stock:		
Preferred stock:		
Authorized - 5,000 preferred shares, \$0.001 par value		
Issued and outstanding - none at June 30 and at March 31	-	-
Common stock:		
Authorized - 100,000 common shares, \$0.001 par value		
Issued and outstanding - 37,181 shares at June 30 and 37,097 shares at March 31	37	37
Additional paid-in capital	469,812	465,744
Treasury shares	(833)	(833)
Cumulative other comprehensive loss	(94)	(94)
Deficit	(152,193)	(141,485)
<b>Total stockholders' equity</b>	<b>316,729</b>	<b>323,369</b>

Total liabilities and stockholders' equity	\$	350,940	\$	351,714
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See accompanying notes to condensed consolidated financial statements.

**GENESIS MICROCHIP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(amounts in thousands, except per share amounts)  
(unaudited)

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Revenues	\$ 43,984	\$ 55,899
Cost of revenues (1)	27,031	33,240
Gross profit	16,953	22,659
<b>Operating expenses:</b>		
Research and development (2)(4)	16,233	14,917
Selling, general and administrative (3)	12,858	14,822
Total operating expenses	29,091	29,739
Loss from operations	(12,138)	(7,080)
<b>Interest and other income</b>		
Interest income	2,321	2,164
Other income (5)	-	3,217
Total interest and other income	2,321	5,381
Loss before income taxes	(9,817)	(1,699)
Provision for (recovery of) income taxes	891	(3,139)
Net income (loss)	\$ (10,708)	\$ 1,440
<b>Earnings (loss) per share:</b>		
Basic	\$ (0.29)	\$ 0.04
Diluted	\$ (0.29)	\$ 0.04
<b>Weighted average number of common shares outstanding:</b>		
Basic	37,142	36,001
Diluted	37,142	36,518
<b>(1) Amount includes stock-based compensation</b>		
	\$ 164	\$ 428
<b>(2) Amount includes stock-based compensation</b>		
	\$ 1,850	\$ 1,891
<b>(3) Amount includes stock-based compensation</b>		
	\$ 1,900	\$ 3,023
<b>(4) Amount includes amortization of intangibles related to acquisitions</b>		
	\$ 50	\$ 482
<b>(5) Gain on sale of investment</b>		
	\$ -	\$ 3,217

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from (used in) operating activities:		
Net income (loss)	\$ (10,708)	\$ 1,440
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	2,830	2,098
Amortization of intangible assets	191	568
Stock-based compensation	3,914	5,341
Deferred income taxes	(47)	(4,010)
Gain on sale of investment	-	(3,217)
Other	-	250
Change in operating assets and liabilities, net of amounts acquired:		
Accounts receivable trade	(3,020)	3,868
Inventories	3,994	(3,064)
Prepays and other	(985)	(950)
Accounts payable	(396)	(5,140)
Accrued liabilities	5,492	(3,713)
Income taxes payable	903	819
Net cash provided by (used in) operating activities	2,168	(5,710)
Cash flows from (used in) investing activities:		
Purchase of short-term investments	(22,344)	(26,733)
Proceeds on maturity of short-term investments	26,826	18,860
Additions to property and equipment	(1,601)	(1,223)
Proceeds on sale of investment	-	3,919
Additions to mask sets	(526)	(435)
Additions to intangible assets	(2,007)	(297)
Net cash from (used in) investing activities	348	(5,909)
Cash flows from financing activities:		
Proceeds from issue of common stock	154	926
Net cash provided by financing activities	154	926
Increase (decrease) in cash and cash equivalents	2,670	(10,693)
Cash and cash equivalents, beginning of period	123,701	154,630
Cash and cash equivalents, end of period	\$ 126,371	\$ 143,937

See accompanying notes to condensed consolidated financial statements.

**GENESIS MICROCHIP INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(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.

The accompanying unaudited condensed consolidated financial statements have been prepared 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 accounting policies we have applied for the quarter ended June 30, 2007 are consistent with those at March 31, 2007, except as outlined in Note 2. These condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended March 31, 2007, that are included in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, 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. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. The results of operations for the three months ended June 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year or for any other period.

**2. Significant Accounting Policies**

***Property and equipment***

Property and equipment are stated at cost or fair value at the date of acquisition.

In the first quarter of fiscal year 2008, the Company completed its review of amortization methods applied to property and equipment. As a result of the review, the Company concluded that a straight-line depreciation method better reflects the pattern of consumption for certain assets which have historically been amortized on a declining balance basis. The effect of the change is not material.

Effective April 1, 2007, amortization of property and equipment is recorded using the following estimated useful lives of the assets:

Property and equipment	5 to 10 years
Software	1 to 5 years
Leasehold improvements	Over the term of the lease

The Company regularly reviews the carrying values of its property and equipment by comparing the carrying amount of the asset to the expected future cash flows to be generated by the asset. If the carrying value exceeds the estimated amount recoverable, a write-down equal to the excess of the carrying value over the asset’s fair value is charged to the consolidated statements of operations.

***Intangible assets***

Intangible assets are comprised of acquired technology and patents.



In the first quarter of fiscal year 2008, the Company completed its review of amortization methods applied to patents. As a result of the review, no change has been made to the method by which patents are amortized.

The Company continually evaluates the remaining estimated useful life of intangible assets that are being amortized to determine whether events or circumstances warrant a revision to the remaining period of amortization.

*Income taxes*

In the first quarter of fiscal year 2008, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). See Note 11 for further discussion.

**3. Stock-based compensation**

During the three months ended June 30, 2007 and June 30, 2006, the Company recognized stock-based compensation expense of \$3,914 and \$5,342, 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 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</b>	
	June 30	
	<b>2007</b>	<b>2006</b>
Stock Option Plans:		
Risk-free interest rates	4.9%	5.1%
Volatility	55%	71%
Expected life in years	4.25	4.25
Employee Stock Purchase Plans:		
Risk-free interest rates	4.9%	5.2%
Volatility	40%	53%
Expected life in years	0.75	1.25

The Company uses historical volatility as a basis for projecting the expected volatility of the underlying stock and estimates the expected life of its stock options based upon historical data. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average grant date fair values of options granted during the three months ended June 30, 2007 and June 30, 2006 were \$4.24 and \$7.13 respectively.

*Summary of Stock Options*

Details of stock option transactions are as follows:

	<b>Number of Options (in thousands)</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Life (Years)</b>
Outstanding, March 31, 2007	6,354	\$ 15.61	5.90
Granted	358	8.67	
Exercised	(21)	7.30	
Forfeited	(133)	15.12	
Expired	(192)	15.07	

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Outstanding, June 30, 2007	6,366	\$	15.27	5.67
Exercisable, March 31, 2007	4,239	\$	16.52	5.72
Exercisable, June 30, 2007	4,351	\$	16.47	5.52

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**Summary of Restricted Stock Units**

Details of restricted stock unit transactions are as follows:

	Number of Units (in thousands)	Weighted Average Grant-Date Fair Value
Nonvested at March 31, 2007	689	\$ 13.15
Granted	258	8.59
Vested	(63)	9.24
Forfeited	(18)	13.11
Nonvested at June 30, 2007	866	\$ 11.73

The Company's policy is to satisfy stock option exercises and RSUs by issuing new shares of common stock. No cash was used by the Company to settle equity instruments granted under stock-based compensation arrangements.

**4. Earnings per share**

Basic earnings (loss) per share are computed by dividing the net income (loss) in a period by the weighted average number of shares of common stock outstanding during that period. Diluted earnings (loss) per share is calculated in order to give effect to all potential dilutive shares of common stock issuable during the period on the exercise of outstanding options. The weighted average number of diluted shares outstanding is calculated by assuming that any proceeds from the issuance of potential shares of common stock, such as stock options, are used to repurchase shares of common stock at the average market share price in the period. Per share information calculated on this basis is as follows:

	Three Months Ended June 30	
	2007	2006
Numerator for basic and diluted earnings (loss) per share:		
Net income (loss)	\$ (10,708)	\$ 1,440
Denominator for basic earnings (loss) per share:		
Weighted average common shares	37,142	36,001
Basic earnings (loss) per share:	\$ (0.29)	\$ 0.04
Denominator for diluted earnings (loss) per share:		
Weighted average common shares	37,142	36,001
Stock options (1)	-	517
Shares used in computing diluted earnings (loss) per share	37,142	36,518
Diluted earnings (loss) per share:	\$ (0.29)	\$ 0.04
Anti-dilutive potential common shares excluded from above calculation	6,370	6,691

(1) For the three months ended June 30, 2007, excludes the effect of all stock options as they are anti-dilutive due to the loss reported in the period.

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## 5. Segmented information

### Market information

Genesis operates and monitors its results in one operating segment. Genesis designs, develops and markets integrated circuits that manipulate and process digital video and graphic images. The target market is the advanced display market including LCD monitors and digital televisions.

### Geographic information

Geographic revenue information is based on the shipment destination. Long-lived assets include property and equipment, as well as intangible assets. Property and equipment information is based on the physical location of the asset while the intangible assets are based on the location of the owning entity.

Revenues from unaffiliated customers by geographic region were as follows:

	<b>Three Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
United States	\$ 314	\$ 158
China	14,074	25,553
Europe	2,431	5,578
Japan	6,484	5,481
South Korea	14,362	12,241
Taiwan	4,528	5,841
Rest of world	1,791	1,047
	\$ 43,984	\$ 55,899

Net long-lived assets by country were as follows:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
United States, including goodwill	\$ 96,690	\$ 94,716
Rest of world	15,109	16,103
	\$ 111,799	\$ 110,819

### Customer concentration information

The following table shows the percentage of our revenues in each period that was derived from customers who individually accounted for more than 10% of revenues in that period:

	<b>Three Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
Customer A	19%	16%

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Customer B	12%	-
Customer C	11%	13%
Customer D	-	12%

The following table shows customers accounting for more than 10% of accounts receivable trade at June 30, 2007 and March 31, 2007:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Customer 1	31%	36%
Customer 2	12%	13%
Customer 3	12%	-

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## Supplier arrangements

Genesis subcontracts most of its semiconductor manufacturing from a limited number of suppliers. Should our wafer supplier or any of Genesis's packaging or testing subcontractors cease to be available, management believes that this would have a material adverse effect on Genesis's business, financial condition and results of operations. Genesis has no guarantee of minimum capacity from its suppliers, long term pricing agreements, and is not liable for any significant minimum purchase commitments.

## 6. Inventories

Inventories consist of the following:

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Finished goods	\$ 10,085	\$ 11,596
Work-in-process	5,952	8,757
	16,037	20,353
Less: Inventory reserve	(3,607)	(3,929)
	<b>\$ 12,430</b>	<b>\$ 16,424</b>

The following table presents a roll forward of the inventory obsolescence reserve for the indicated periods:

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 3,929	\$ 3,665
Increase (decrease) to provision	(321)	236
Write offs	(1)	(145)
Balance at end of period	\$ 3,607	3,756

## 7. Product warranty

Genesis accrues the estimated future cost of replacing faulty products under the provisions of its warranty agreements as an increase to cost of revenues. Product warranties typically cover a one-year period from the date of delivery to the customer. Management estimates the accrual based on known product failures (if any), historical experience, and other currently available evidence and records the accrual within accrued liabilities. The following table presents a roll forward of the product warranty accrual for the indicated periods:

	<b>Three Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 210	\$ 164
Increase to provision	256	260
Processed claims	(87)	(78)
Balance at end of period	\$ 379	\$ 346

## 8. Intangible assets



Intangible assets consist of the following:

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<b>June 30, 2007</b>				
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Impairment</b>	<b>Net</b>
Acquired technology	\$ 50,577	\$ 44,144	\$ 3,425	\$ 3,008
Patents	5,117	1,303	—	3,814
Other	500	500	—	—
<b>Total</b>	<b>\$ 56,194</b>	<b>\$ 45,947</b>	<b>\$ 3,425</b>	<b>\$ 6,822</b>

<b>March 31, 2007</b>				
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Impairment</b>	<b>Net</b>
Acquired technology	\$ 48,792	\$ 44,009	\$ 3,425	\$ 1,358
Patents	5,132	1,484	—	3,648
Other	500	500	—	—
<b>Total</b>	<b>\$ 54,424</b>	<b>\$ 45,993</b>	<b>\$ 3,425</b>	<b>\$ 5,006</b>

In the quarter ended December 31, 2006, the Company determined a triggering event occurred, due to a decline in projected revenue for products which incorporate technology acquired from VM Labs in fiscal 2002, which required the Company to reassess the underlying value of the acquired technology. The Company engaged an independent valuation professional to assist with its measurement of fair value as part of the intangible asset impairment test. The recoverability of this asset was assessed by comparing its carrying amount with its estimated fair value using a discounted cash flow approach. An impairment was identified for which the Company recorded a non-cash impairment charge of \$3,425 in the quarter ended December 31, 2006 prior to performing the goodwill impairment analysis.

Estimated future intangible assets' amortization expense, based on current balances as of June 30, 2007, is as follows:

**For the year ended March 31:**

2008	\$ 1,030
2009	1,324
2010	1,106
2011	447
2012	240
Thereafter	2,675
<b>Total</b>	<b>\$ 6,822</b>

## 9. Goodwill

The majority of the goodwill carried on the balance sheet arose in February 2002 when the Company acquired Sage Inc. for approximately \$297,000.

The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. Management has determined that the Company has one reporting unit for purposes of goodwill impairment review under SFAS 142. Where the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for the amount by which the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill.

In the quarter ended December 31, 2006, the Company determined a triggering event occurred due to a sustained reduction in the Company's market capitalization plus the decline in current and projected revenue from certain customers, which required management to assess the recoverability of goodwill. Upon performing the impairment test, it was found that the carrying value of goodwill exceeded its implied fair value of \$84,405 and therefore an impairment charge of \$97,576 was recorded in the quarter ending December 31, 2006. The Company engaged an independent valuation professional to assist with its measurement of fair value as part of the goodwill impairment test. The fair value of the reporting unit was estimated using a combination of the market approach and a discounted cash flows approach.

	June 30, 2007			March 31, 2007		
	Cost	Impairment	Net	Cost	Impairment	Net
Goodwill	\$ 181,981	\$ (97,576)	\$ 84,405	\$ 181,981	\$ (97,576)	\$ 84,405

## 10. Other long-term assets

Other long-term assets consist of the following:

	June 30, 2007			March 31, 2007		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Investments, at cost	\$ 10,190	\$ —	\$ 10,190	\$ 10,190	\$ —	\$ 10,190
Production mask sets	9,456	4,432	5,024	8,930	3,760	5,170
Total	\$ 19,646	\$ 4,432	\$ 15,214	\$ 19,120	\$ 3,760	\$ 15,360

## 11. Income Taxes

In June 2006, the Financial Standards Accounting Board ("FASB") issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions FIN 48 on April 1, 2007. No material adjustments in the reserve for unrecognized income tax benefits was recorded as a result of the implementation of FIN 48. At the adoption date of April 1, 2007, we had

\$6,340 of unrecognized tax benefits, \$1,258 of which would affect our effective tax rate if recognized.

At June 30, 2007, we have \$6,340 of unrecognized tax benefits. It is possible that this balance may decrease by approximately \$201 in the next 12 months due to the settlement of an ongoing tax audit and the filing of amended tax returns. These balances relate to certain non-deductible expenditures.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2007, we have approximately \$519 of accrued interest and penalties related to uncertain tax positions.

The tax years from 1999 onwards remain open to examination in Canada and the tax years from 1995 onwards remain open to examination in the United States.

## 12. Related party transactions

In March 2006, Genesis made an equity investment in Mobilygen Corp, and Elias Antoun, our president and CEO, joined Mobilygen's Board of Directors.

In March 2006, we entered into a cross-licensing agreement with Mobilygen Corp., a privately held company that is developing H.264 and other video codec solutions for mobile devices. The agreement allows for both companies access to certain technologies for select markets and enables them to jointly define future products to complement existing product portfolios.

The investment in Mobilygen is recorded within other long term assets. No financial transactions were undertaken with Mobilygen during the quarter ended June 30, 2007 and June 30, 2006.

## 13. Contingent liabilities

Genesis is not party to any material legal proceedings.

## 14. Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 157, "Fair Value Measurement" ("SFAS 157") was issued in September 2006. SFAS 157 provides guidance for using fair value to measure assets and liabilities. SFAS 157 also expands disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurement on earnings. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not expand the use of fair value measurements in any new circumstances. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts. SFAS 157 is effective for fair value measurements and disclosures made by the Company in its fiscal year beginning on April 1, 2008. The Company is currently reviewing the impact of this statement.

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. SFAS 159 is effective for the Company beginning April 1, 2008. The Company is currently assessing the potential impact that the adoption of SFAS 159 will have on its financial statements.

In June 2007 the Emerging Issues Task Force ("EITF") reached a consensus on Issue 07-03 *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development*. Under this EITF, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for fiscal years beginning after December 15, 2007 and interim periods within those years. The Company is currently assessing the potential impact of this new EITF.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding anticipated revenues and unit shipments, gross margins, operating expenses, inventory levels, tax rates, amortization of intangibles and stock-based compensation, liquidity and cash flow, business strategy, demand for our products, average selling prices, regional market growth, amount of sales to distributors and future competition. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions identify such forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors which could cause actual results to differ materially include those set forth in the following discussion, and, in particular, the risks discussed below under the subheading "Risk Factors" and in other documents we file with the Securities and Exchange Commission. Unless required by law, we undertake no obligation to update publicly any forward-looking statements.*

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a general discussion of our target markets, the nature of our products, and some of the business issues we are facing as a company. Next, we address the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. We then discuss our Results of Operations for the three month periods ended June 30, 2007 and June 30, 2006 as viewed through the eyes of our management. Lastly, we provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments. This MD&A should be read in conjunction with the other sections of this Quarterly Report on Form 10-Q. Dollars are in thousands unless otherwise noted.

### OVERVIEW

We develop and market image-processing and image enhancing solutions. We design, develop and market integrated circuits that receive and process digital video and graphic images. We also supply reference boards and designs that incorporate our software and proprietary integrated circuits, or chips. Our products are primarily used in large-area liquid crystal displays ("LCDs"). These displays may be used in desktop monitor applications or other types of display devices, including LCD TVs, Plasma TVs, Rear Projection TVs, Digital CRT TVs, DVD players and AVRs (Audio/Video Receivers).

We generate the majority of our revenue by selling our image-processing solutions to the manufacturers of LCD monitors, flat panel displays and television sets. We outsource the manufacturing of our products to large semiconductor manufacturers, thereby eliminating the need for capital-intensive plant and equipment. Our most significant cash operating expense is labor, with our workforce employed in research and development of new products and technologies and in marketing, sales, customer support, and distribution of our products.

Our primary target end-markets are LCD computer monitors and flat panel televisions. We also design products that serve both applications, so-called multi-function monitors, and it is difficult to distinguish between a monitor with television capability and a television with a PC input. Both of these display devices could use the same Genesis chip. Similarly, we supply certain customers with chips originally designed for an LCD computer monitor that the customer may use in flat panel televisions. We assist customers in developing their designs. Typically, a TV design will take substantially more time and support from our software application and field application engineers than a monitor design, increasing our costs during a customer's pre-production period.

The growth in our target markets is limited by the industry's capacity to supply LCD panels or other digital displays. Furthermore, the availability of LCD panels from time to time has been constrained, causing unexpected increases in

the cost of LCD panels to our customers, thus resulting in customers rapidly changing their demand expectations for our products. Our products usually represent less than two percent of the average retail cost of a standard flat panel TV today, while the cost of the LCD panel within a LCD computer monitor or flat panel TV represents the majority of the cost of the finished product. The increase in production volumes of larger size LCD panels in new fabrication facilities coming on line over the next few years is expected to result in lower-cost panels and hence lower average selling prices of the end product. We believe retail prices for televisions will continue to decline and we expect this trend to lead to an increase in demand for display controllers.

The LCD computer monitor and flat panel TV industries are very competitive and growth industries like ours tend to attract new entrants. The average selling prices of monitor display controllers, in spite of increased functionality, have declined by more than 40% over the past two fiscal years. Our strategy is to lead the market by integrating new features and functions and by providing the highest image quality at a cost-effective price. Our goal is to deliver the desired feature-rich image quality through relationships with customers, patented technologies, effective chip design, software capabilities, and customer support. We also strive to generate profitability by reducing product cost through efficient chip design and driving costs down throughout our supply chain.

Sales to distributors comprised approximately 25% of revenue for the quarter ended June 30, 2007. We are also using distributor relationships to enable us to increase our market penetration of smaller customers with minimal incremental direct customer support.

Average selling prices and product margins of our products are typically highest during the initial periods following product introduction and decline over time and as volume increases.

Part of our overall strategy is to develop intellectual property that is used in our integrated circuits. We have and will continue to defend our intellectual property rights against those companies that may use our technology without the proper authorization. At times we may enter into agreements that allow customers or other companies to license our patented technology.

### **Revenue Recognition**

Genesis recognizes revenue primarily from semiconductor product sales to customers when a contract is established, the price is determined, shipment is made and collectibility is reasonably assured. Genesis has also periodically entered into license agreements and recognizes royalty revenue. Product sales to distributors may be subject to agreements having a right of return on termination of the distributor relationship. Revenue, and related cost of revenues from sales to distributors, is deferred until the distributors resell the product, verified by point-of-sale reports. At the time of shipment to distributors, we record a trade receivable for the selling price, relieve inventory of the value of the product shipped and record the gross margin as deferred revenue, a component of accrued liabilities on our consolidated balance sheet. In certain circumstances, where orders are placed with non-cancelable/non-return terms, we recognize revenue upon shipment. Reserves for sales returns and allowances are recorded at the time of recognizing revenue. To date, we have not experienced significant product returns.

### **Manufacturing and Supply**

We generally need to place purchase orders for products before we receive purchase orders from our customers. This is because production lead times for silicon wafers and substrates, from which our products are manufactured, can be as long as three to four months, while many of our customers place orders only one month or less in advance of their requested delivery date. We have agreements with suppliers in Asia such that we are dependent on the suppliers' manufacturing yields. We continue to review and, where feasible, establish alternative sources of supply to reduce our reliance on individual key suppliers and reduce lead times, though dual sourcing for specific products sometimes is more costly due to initial set-up costs and lower initial yields as each new manufacturing supplier ramps up production. While we have frequent communication with significant customers to review their requirements, we are restricted in our ability to react to fluctuations in demand for our products, which exposes us to the risk of having either too much or not enough of a particular product. We regularly evaluate the carrying value of inventory held.

### **Global Operations**

We operate through subsidiaries and offices in several countries throughout the world. Our head office is located in Santa Clara (Silicon Valley), California. Our research and development resources are located in the United States,



Canada and India. The majority of our customers are located in Asia, supported by our sales offices in China, Germany, Japan, Singapore, South Korea, Taiwan and Turkey. Our third party suppliers are located primarily in Taiwan. Although all of our revenues and virtually all of our costs of revenues are denominated in U.S. dollars, portions of our operating expenses are denominated in foreign currencies. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies. Any future strengthening of those currencies against the U.S. dollar could negatively impact our operating results by increasing our operating expenses as measured in U.S. dollars.

We do not currently engage in any hedging or other transactions intended to manage the risks relating to foreign currency exchange rate fluctuations, other than natural hedges that occur as a result of holding both assets and liabilities denominated in foreign currencies. Our operating expenses are also affected by changes in the rate of inflation in the various countries in which we operate.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. As described below, significant estimates are used in determining the allowance for doubtful accounts, inventory obsolescence provision, deferred tax asset valuation, potential settlements and costs associated with patent litigation, royalty obligations to third parties and the useful lives of intangible assets. We evaluate our estimates on an on-going basis, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, warranty and royalty obligations, litigation and other contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

- We record estimated reductions to revenue for customer returns based on historical experience. A customer has a right to return products only if the product is faulty or upon termination of a distributor agreement, although in certain circumstances we agree to accept returns if replacement orders are placed for other products or to maintain our business relationship. If actual customer returns increase, we may be required to recognize additional reductions to revenue.
- We record the estimated future cost of replacing faulty product as an increase to cost of revenues. To date we have not experienced significant returns related to quality. If returns increase as a result of changes in product quality, we may be required to recognize additional warranty expense.
- We maintain allowances for estimated losses resulting from the inability of our customers to make required payments and other disputes. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not suffered any significant loss in this area.
  - We provide for inventory obsolescence reserves against our inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we project, additional inventory valuation reserves may be required.
- We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment. Under the provisions of SFAS No. 123R, stock based compensation is estimated at the grant date based on the award's fair-value as calculated by the Black-Scholes option-pricing model and is recognized as expense ratably over the requisite service period. The Black-Scholes model requires various judgmental assumptions including volatility, and expected option life. In addition, share-based compensation expense is adjusted to reflect estimated forfeiture rates. If any of the assumptions change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.
- We provide for costs associated with settling litigation when we believe that we have a reasonable basis for estimating those costs. If actual costs associated with settling litigation differ from our estimates, we may be required to recognize additional costs.

- Goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations, is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment tests are performed in accordance with FASB Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”. Accordingly, an impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. This determination is made at the reporting unit level. We have assigned all goodwill to a single, enterprise-level reporting unit. The impairment test consists of two steps. First, we determine the fair value of the reporting unit. The fair value is then compared to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit’s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill would be determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in accordance with FASB Statement of Financial Accounting Standards No. 141, “Business Combinations”. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. We perform our annual impairment test on January 1st of each year.

As a result of an impairment review that was performed in December 2006, the Company recorded a goodwill impairment charge of \$97,576 in fiscal 2007. We did not record any goodwill impairment charges in fiscal 2006 or 2005. Goodwill balances may also be affected by changes in other estimates, for example, related to the ability to utilize acquired tax benefits, made at the time of acquisitions.

- We adopted the provisions of the Financial Standards Accounting Board (FASB) Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), as of April 1, 2007. FIN48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. The Company has, and expects to continue to provide a valuation allowance on future tax benefits in certain jurisdictions until it can demonstrate a sustained level of profitability that establishes its ability to utilize the assets in the jurisdictions that the assets relate.

- From time to time, we incur costs related to potential merger activities. When we assess that we will be the acquirer for accounting purposes in such transactions and we expect to complete the transaction, direct costs associated with the acquisition are deferred and form part of the final purchase price. In the event these assessments change, any such deferred costs would be expensed. Costs associated with other merger activities are expensed as incurred.

#### **Recent Accounting Pronouncements**

Please refer to Note 14 of the condensed consolidated financial statements of this report.

**RESULTS OF OPERATIONS****REVENUE AND GROSS PROFIT**

The following table shows unaudited statement of operations data for the three months ended June 30, 2007 and June 30, 2006:

	<b>Three months ended June 30 (dollars in thousands)</b>	
	<b>2007</b>	<b>2006</b>
Total revenue	\$ 43,984	\$ 55,899
Gross profit	16,953	22,659
Gross profit percentage	38.5%	40.5%
Revenue by geography:		
United States	\$ 314	\$ 158
China	14,074	25,553
Europe	2,431	5,578
Japan	6,484	5,481
South Korea	14,362	12,241
Taiwan	4,528	5,841
Rest of world	1,791	1,047
<b>Total revenue</b>	<b>\$ 43,984</b>	<b>\$ 55,899</b>

**Total Revenues**

Revenues for the three months ended June 30, 2007 decreased by 21% to \$43,984 from \$55,899 for the three months ended June 30, 2006. The revenue decline year over year is attributable to a 20% decrease in unit shipments to 12.9 million units for the quarter ended June 30, 2007 from 16.0 million units for the same period last year, as well as the declining average selling prices (“ASPs”) of 2%. The LCD computer monitor and flat panel TV industries are very competitive and growth industries like ours tend to attract new entrants. The average selling prices of monitor display controllers, in spite of increased functionality, have declined by more than 40% over the past two fiscal years. Going forward we do not expect the decline in ASPs for these products to continue at the same pace.

Our products are designed for multiple applications. Therefore, we must estimate whether the chips we have sold are used in LCD monitors or flat-panel televisions. Estimated revenue from monitor controllers and licensing decreased to \$21,368 for the quarter ended June 30, 2007 from \$24,505 for the same period last year, due to lower unit shipments. Our estimate of unit shipments into digital televisions and other related video devices decreased by 22%, compared to the same period last year. Estimated revenue from this market decreased by 28% to \$22,538. During the first quarter of fiscal year 2008, we estimate that approximately 51% of total revenue was from TV and video products, compared with 56% for the same period last year. We expect an increase in revenue in the second quarter of fiscal 2008, due to higher unit shipments of flat panel TV controllers. This is typically our strongest quarter due to seasonality of our customer demands.

Revenue in China decreased 45% in the quarter ending June 30, 2007 compared with the same period last year. The revenue decline year over year is mainly attributable to a loss in market share of monitor products. We expect revenue levels in China to remain relatively flat or decrease slightly in future quarters.

We continue to ship the majority of our product to customers located in Asia, and we expect most of our revenue to come from this region in the future.

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## **Gross Profit**

Gross profit for the three months ended June 30, 2007 was \$16,953, representing a decrease of approximately 25% compared with the quarter ended June 30, 2006 gross profit of \$22,659. Gross profit represented 38.5% of revenues for the three months ended June 30, 2007, compared with 40.5% for the same period last year. The decrease in the gross profit % is primarily due to a lower percentage of the higher margin TV business and increased pricing pressures on our products, partially offset by a decrease in inventory reserves and royalty revenue received during the current quarter. We expect a slight decline in gross profit % during the second quarter of fiscal 2008, as the one time benefit of selling previously reserved inventory is not expected to recur.

**OPERATING EXPENSES****Research and Development**

	<b>Three months ended</b>			
	<b>June 30, 2007</b>		<b>June 30, 2006</b>	
	<b>\$000</b>	<b>% of Revenue</b>	<b>\$000</b>	<b>% of Revenue</b>
Research and development	\$ 16,233	36.9%	\$ 14,917	26.7%

Research and development expenses include costs associated with research and development personnel, application engineers, development tools, hardware and software licenses, prototyping and the amortization of acquired intangibles.

Research and development expenses for the three months ended June 30, 2007 were \$16,233, compared with \$14,917 in the three months ended June 30, 2006. This 9% increase is a reflection of the continued investment in the research and development of technologies addressing the television and video markets, especially the digital TV market and other related technologies, such as DisplayPort, a new digital interconnect standard, MCTi™ by Faroudja, our motion compensation technology, and our universal demodulator technology for our DTV products. In addition, the mix of spending has changed, as we devote increasing resources to improving performance and integration of the more complex multimedia and video applications, especially digital TV technologies, while the focus within the monitor applications has moved more towards technologies supporting multi-function monitors. Genesis's move towards lower geometry processes, including 0.13 micron and lower, for its highly integrated SOC digital TV chips has also increased research and development spending.

Research and development expenses for the quarters ended June 30, 2007 and June 30, 2006 include stock based compensation charges of \$1,850 and \$1,891, respectively, and amortization of acquired intangibles of \$50 and \$482, respectively.

**Selling, General and Administrative**

	<b>Three months ended</b>			
	<b>June 30, 2007</b>		<b>June 30, 2006</b>	
	<b>\$000</b>	<b>% of Revenue</b>	<b>\$000</b>	<b>% of Revenue</b>
Selling, general and administrative	12,858	29.2%	14,822	26.5%

Selling, general and administrative expenses consist of personnel and related overhead costs for selling, including field application engineers, product marketing, marketing communications, customer support, finance, human resources, legal costs including settlement fees, IT, public company costs related, but not limited to, our compliance with the Sarbanes Oxley Act of 2002, general management functions and commissions paid to sales representatives.

Selling, general and administrative expenses for the three months ended June 30, 2007, were \$12,858, compared with \$14,822 million in the three months ended June 30, 2006. The decrease in selling, general and administrative expenses is mostly due to a decrease in stock-based compensation of \$1,100. Selling, general and administrative expenses for the quarters ended June 30, 2007 and June 30, 2006 include stock-based compensation charges of \$1,900 and \$3,023, respectively.



**NON OPERATING INCOME AND EXPENSES****Interest and Other Income**

	<b>Three months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2006</b>
	<b>\$000</b>	<b>\$000</b>
Interest income	2,321	2,164
Other income	—	3,217
Interest and other income	2,321	5,381

Interest income includes interest earned on cash, cash equivalents and short-term investments.

Interest income earned for the three months ended June 30, 2007 was \$2,321 compared with \$2,164 for the three months ended June 30, 2006. The slight increase is due to the combined effects of higher average cash, cash equivalents and short-term investments and higher average interest rates during the first quarter of fiscal 2007 compared to the same period last year.

Other income declined for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 due to the fact that the prior period includes a gain of \$3,217 on the disposal of our entire investment in the shares of Techwell, Inc. in conjunction with their initial public offering. This gain on sale of investment is a non-recurring item outside the ordinary course of business and no such dispositions occurred in the three months ended June 30, 2007.

### Provision for (Recovery of) Income Taxes

	<b>Three months ended</b>	
	<b>June 30, 2007 \$000</b>	<b>June 30, 2006 \$000</b>
Current income tax expense	938	871
Deferred income tax expense (recovery)	(47)	(4,010)
<b>Total</b>	<b>891</b>	<b>(3,139)</b>

We recorded a net income tax expense of \$891 for the three months ended June 30, 2007 compared to a recovery of \$3,139 for the three months ended June 30, 2006. The income tax expense for the three months ended June 30, 2007 was primarily due to Canadian withholding tax and Indian income taxes. Due to the expiration of the Indian tax holiday, the Indian subsidiary is now subject to normal taxation under the provisions of the domestic Indian tax statutes.

Our accounting effective tax rate typically differs from the expected statutory rates due to several permanent differences including, but not limited to, research and experimental development tax credits, stock-based compensation expense for which no tax benefits can be recognized, foreign exchange fluctuations on the U.S. dollar working capital balances of foreign subsidiaries, and differences in tax rates in foreign jurisdictions. Any net tax benefit of these items is partially offset by changes in the valuation allowance against net operating loss carry forwards. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible in the appropriate jurisdiction. Management considers projected future taxable income, uncertainties related to the industry in which Genesis operates and tax planning strategies in making this assessment. Historically, the Company has recorded the majority of its valuation allowance against the tax attributes in the United States. FASB Statement No. 109, Accounting for Income Taxes, states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence, such as losses in the jurisdictions to which the deferred tax asset relate. As a result of the review undertaken in the third quarter of fiscal 2007, the Company concluded that it was appropriate to establish a full valuation allowance in the financial statements against the tax attributes in Canada. In addition, we expect to provide a full valuation allowance on future tax benefits until we can demonstrate a sustained level of profitability that establishes our ability to utilize the assets in the jurisdictions to which the assets relate. Furthermore, in the near term we expect approximately \$1 million of income tax expense per quarter, while the company incurs operating losses.



In June 2006, the Financial Standards Accounting Board (“FASB”) issued Financial Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions FIN 48 on April 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the reserve for unrecognized income tax benefits.

## LIQUIDITY AND CAPITAL RESOURCES

Since inception we have satisfied our liquidity needs primarily through cash generated from operations and sales of equity securities, initially by way of a public offering, and subsequently under our stock option and employee stock purchase plans. We believe that our existing cash balances together with any cash generated from our operations will be sufficient to meet our capital and operating requirements for the foreseeable future.

Periodically, we may be required to use a portion of our cash balances to increase investment in operating assets such as prepaid assets or inventory to assist in the growth of our business, or for property and equipment. Furthermore, because we do not have our own semiconductor manufacturing facility, we may be required to make deposits to secure supply in the event there is a shortage of manufacturing capacity in the future. While we currently have no plans to raise additional funds for such uses, we could be required or could elect to seek to raise additional capital in the future.

From time to time we evaluate acquisitions and investments in businesses, products or technologies that are complimentary or strategic to our business. Any such transactions, if consummated, may use a portion of our working capital or require the issuance of equity securities that may result in further dilution to our existing stockholders.

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
	<b>(Dollars in thousands)</b>	
Cash and cash equivalents	\$ 126,371	\$ 123,701
Short-term investments	60,067	64,549
Total cash, cash equivalents and short-term investments	\$ 186,438	\$ 188,250
Working capital	\$ 194,441	\$ 202,108
Current ratio	6.68	8.13
Receivables days outstanding	47	46
Inventory turnover days	42	61

At June 30, 2007, cash equivalents and short-term investments totaled \$186,438 compared with \$188,250 at March 31, 2007. Our current ratio at June 30, 2007 was 6.68 compared to 8.13 at March 31, 2007. Net cash generated from operating activities was \$2,168 for the three months ended June 30, 2007 compared with cash used in operating activities of \$5,710 for the three months ended June 30, 2006. We do not expect to generate cash from operating activities in the next quarter, largely due to the higher inventory levels expected in the second quarter of fiscal year 2008.

Working capital generation of cash related primarily to the decrease in inventories and the increase in accrued liabilities, partially offset by an increase in accounts receivable. Inventories decreased by 24% from March 31, 2007 to \$12,430 from \$16,424 due to larger than expected depletion of inventory in our LCD monitor products where demand exceeded forecast. Average days of inventory on hand at June 30, 2007 decreased to 42 days, compared to 61 days at March 31, 2007. The average inventory levels and inventory turns is impacted by a number of dynamic activities including the accuracy of customer forecasts, expected panel supplies, and pricing considerations. We expect inventory levels to increase at the end of the second quarter. Accounts receivable increased by \$3,020 in June 30, 2007 compared to March 31, 2007, reflecting the increase in revenue during the current quarter. Days sales outstanding (“DSO”) increased at June 30, 2007 compared to March 31, 2007 to 47 days. Our credit policy is to offer credit to customers only after examination of their creditworthiness. Our payment terms range from cash in advance of shipment, to payment ninety days after shipment. For the three months ended June 30, 2007, our three largest customers accounted for 42% of revenue, compared with 41% for the three months ended June 30, 2006. Additionally, these top three customers accounted for 51% of accounts receivable at June 30, 2007 and 60% at March 31, 2007. The decrease in the percentage of accounts receivable for these top three customers is due to the higher accounts receivable balance at June 30, 2007.

Net cash from investing activities was \$348 during the three months ended June 30, 2007, compared with a use of cash of \$5,909 during the three months ended June 30, 2006. The increase in cash was primarily due to an increase in net proceeds received on the maturity of short-term investments, partially offset by the proceeds on the sale of an investment during the three months ended June 30, 2006.

Net cash provided by financing activities was \$154 for the three months ended June 30, 2007, and \$926 for the three months ended June 30, 2006. These represent funds received for the purchase of shares under the terms of our stock option and employee stock purchase plans.

### Contractual Obligations

As of June 30, 2007, our principal commitments consisted of obligations outstanding under operating leases. These commitments include a lease for our existing corporate headquarters in Santa Clara, California, which was signed in September 2006. This new lease commenced on January 1, 2007, expires in January 2012, and is non-cancelable. The aggregate minimum annual payments required under our lease obligations, excluding sub-lease income, by fiscal year are as follows:

	Payments Due By Fiscal Year (\$000)					
	TOTAL	2008	2009	2010	2011	2012
Operating Leases	\$ 14,140	\$ 4,092	\$ 4,512	\$ 2,571	\$ 1,900	\$ 1,065

Our lease agreements expire at various dates through calendar 2012.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

### Capital commitments

We do not have any capital commitments that will have a material future effect on our financial condition.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to financial market risks including changes in interest rates and foreign currency exchange rates.

The fair value of our investment portfolio or related income would not be significantly impacted by either a 10% increase or decrease in interest rates due mainly to the short-term nature of the major portion of our investment portfolio.

We carry out a significant portion of our operations outside of the United States, primarily in Canada and in India and to a lesser extent China, Japan, South Korea, Singapore and Taiwan. Although virtually all of our revenues and costs of revenues are denominated in U.S. dollars, portions of our operating revenue and expenses are denominated in foreign currencies. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies. Any future strengthening of those currencies against the U.S. dollar could negatively impact our operating results by increasing our operating expenses as measured in U.S. dollars. The maximum potential exposure on a near-term 10% depreciation in the U.S. dollar is estimated to be approximately \$4 million annually. We do not currently engage in any hedging or other transactions intended to manage the risks relating to foreign currency exchange rate fluctuations, other than natural hedges that occur as a result of holding both assets and liabilities denominated in foreign currencies. We may, in the future, undertake hedging or other such transactions, if we determine it is necessary to offset exchange rate risks. Based on our overall currency rate exposure at June 30, 2007 and March 31, 2007, a near-term 10% appreciation or depreciation in the U.S. dollar relative to a pool of our foreign currencies would not have a material effect on our operating expenses or financial condition.

### **ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures.* Our management evaluated, with the participation of our Chief Executive Officer and our Principal Accounting Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Principal Accounting Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

*Changes in internal control over financial reporting.* In connection with our Chief Financial Officer resigning in May 2007, we appointed an interim principal accounting officer to assume the responsibilities of maintaining the internal controls over financial reporting. With the exception of the change in responsibility there were no changes in internal control over financial reporting that occurred during the first quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

## PART II: OTHER INFORMATION

### ITEM 1A. RISK FACTORS

*Our business involves risks and uncertainties. You should carefully consider the risks described below, together with all of the other information in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended March 31, 2007 and other filings with the Securities and Exchange Commission in evaluating our business. If any of the following risks actually occur, our business, financial condition, operating results and growth prospects would likely be adversely affected. In such an event, the trading price of our common stock could decline, and you could lose all or part of your investment in our common stock. Our past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. These risks involve forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.*

***Our quarterly revenues and operating results fluctuate significantly due to a variety of factors, which may result in volatility or a decline in our stock price.***

Our historical revenues and operating results have varied significantly from quarter to quarter. Moreover, our actual or projected operating results for some quarters may not meet the expectations of stock market analysts and investors, which may cause our stock price to decline. In addition to the factors discussed elsewhere in this “Risk Factors” section, a number of factors may cause our revenue to fall short of our expectations or cause fluctuations in our operating results, including:

- Our ability to gain and maintain “design wins” with our customers and ramp up new designs into production volumes;
  - Our inventory levels, and customer inventory levels of our products;
- Growth rate of the flat-panel TV and LCD monitor and DisplayPort product markets, our customers’ share of those markets, and the success of our customers’ products into which we are designed;
- Seasonal consumer demand for flat-panel TV, high definition TV (“HDTV”) and LCD monitors into which our products are incorporated;
  - Changes in the mix of products we sell;
  - Increased competition and competitive pricing pressures;
  - The timing of new product introductions by us and our competitors;
  - Availability and pricing of panels and other components for flat-panel TVs and LCD monitors;
- Changes in product costs or manufacturing yields or available production capacity at our fabrication facilities;
  - Changes in our expected operating expenses and ;
- Foreign exchange rate fluctuations, research and development tax credits and other factors that impact tax rates.

As a result of the fluctuation in our revenues and operating results, our stock price can be volatile, especially if our actual financial performance in a quarter deviates from the financial targets we set at the beginning of that quarter, or



from market expectations.

***We have had significant senior management and key employee turnover, and may not be able to attract, retain and motivate the personnel we need to succeed.***

In order to compete, we must attract, retain and motivate executives and other key employees, including those in managerial, technical, sales and marketing positions. We have recently experienced significant turnover in our senior management team. Several executives and other key employees have left the company, while others have joined or have been appointed to senior management roles, including the following:

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- In May 2006, Tzoyao Chan, our Senior Vice President, Product Development, resigned and Behrooz Yadegar joined the company as his successor.
  - In July 2006, Ken Murray, our Vice President, Human Resources, resigned and we appointed a successor.
- In August 2006, Mohammad Tafazzoli, our Senior Vice President, Operations, resigned and we appointed a successor.
- In September 2006, Hildy Shandell, our Senior Vice President, Corporate Development, joined the company.
- In October 2006, Raphael Mehrbians, our Senior Vice President, Product Marketing, resigned and we appointed two Vice Presidents of Marketing, but have not yet appointed a Senior Vice President.
- In May 2007, Michael Healy, our Chief Financial Officer, resigned and we have not yet appointed a successor. Linda Millage is currently serving as our interim Principal Accounting Officer in addition to her role as Senior Director of Finance and Worldwide Controller while we conduct an executive search for a Chief Financial Officer.
- In June 2007, Anders Frisk, our Executive Vice President, resigned and his responsibilities have been assigned to Hildy Shandell and other executive management.

In addition, we have lost key technical personnel. We have experienced, and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications.

We may not be able to attract and retain the senior management or other key employees that we need. Competition for experienced employees in the semiconductor industry can be intense. If we cannot attract and retain the employees we need, our business could be harmed, particularly if the departure of any executive or key employee results in a business interruption or if we are not successful in preserving material knowledge of our departing employees. In addition, a high level of turnover in our finance team could have an effect on our ability to maintain our disclosure controls and procedures and our internal control over financial reporting. See the risk factor entitled “*We need to continually evaluate internal financial controls against evolving standards.*”

***We must increase our revenues and reduce our operating expenses in order to return to profitability and we may not be able to achieve profitability on a quarterly or annual basis.***

We were not profitable in the quarter ended June 30, 2007. Our net loss for the quarter ended June 30, 2007 was approximately \$10.7 million. As of June 30, 2007, we had an accumulated deficit of approximately \$152.2 million. Returning to profitability will depend in large part on our ability to generate and sustain increased revenue levels in future periods. We also need to reduce operating expenses to a level commensurate with our revenues, while successfully executing our product development strategy. As a result, we have and expect that we may continue to implement cost reductions through reductions-in-force, outsourcing, and the like. These efforts may be more costly than we expect and we may not be able to increase our revenue enough to offset our operating expenses. We may not succeed in returning to profitability and could incur losses in future periods and, even if we do return to profitability, we may not be able to maintain or increase our level of profitability. If we cannot increase our revenue at a greater rate than our expenses, we will not become profitable.

***We must sell our current products in greater volumes, or introduce new products with improved margins.***

Average selling prices for our products have declined in the past, in many cases significantly, and we expect them to continue to decline in the future. When average selling prices decline, our revenues decline unless we are able to sell more units, and our gross margin dollars decline unless we are able to reduce our manufacturing and/or other supply

chain costs by a commensurate amount. We, therefore, need to sell our current products in greater volumes to offset the decline in their ASPs, and introduce new products that have improved gross margins.

*We face intense competition in our market, especially from larger, better-known companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.*

The markets in which we operate are intensely competitive and are characterized by technological change, changes in customer requirements, frequent new product introductions and improvements, evolving industry standards and rapidly declining average selling prices. We expect the level of competition to increase in the future. If we are unable to respond quickly and successfully to these developments, our competitive position will be harmed, and our products or technologies may become uncompetitive or obsolete.

Our chief competitors include both large and small companies, such as AMD (ATI Technologies), Broadcom Corporation, LSI Corporation, Micronas Semiconductor Holding AG, Mediatek Inc., MStar Semiconductor, Inc., National Semiconductor Corporation, Novatek Microelectronics Corp., NXP Semiconductors, Pixelworks, Inc., Realtek Semiconductor Corp., Renesas Technology Corp., Silicon Image, Inc., ST Microelectronics, N.V., Trident Microsystems, Inc., and Zoran Corporation. In addition, many of our current and potential customers have their own internally developed integrated circuit solutions, and may choose not to purchase solutions from third party merchant suppliers like Genesis. We may also face competition from start-up companies.

Some of our competitors, who may include our own customers, also include companies with greater financial and other resources than we have. Large companies may have advantages over us because of their longer operating histories, greater brand name recognition, larger customer bases or greater financial, technical and marketing resources. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They also have greater resources to devote to the promotion and sale of their products than we have. In addition, our overseas competitors have reduced cost structures that enable them to compete aggressively on price. Increased competition could harm our business, by, for example, increasing pressure on our profit margins or causing us to lose customers. Also, we have received a license from Silicon Image, Inc. for certain of their digital visual interface (DVI) patents and high definition multimedia interface (HDMI) patents, and must pay Silicon Image royalties on all of our DVI and HDMI products. This agreement, and other royalty obligations we may have, could hinder our ability to compete with unlicensed competitors that are not required to pay royalties on competing products. We may not be able to compete successfully against our current or potential competitors, especially those with significantly greater financial resources or brand name recognition.

***Our failure to respond quickly to customer demand for technological improvements and integrate new features could have an adverse effect on our ability to compete.***

To compete successfully, we must develop new products and improve our existing products at the same pace or ahead of our competitors. For example, in order to compete successfully in the digital television market, consumer electronics manufacturers must first select our products for incorporation into their digital televisions (giving us a so-called “design win”), and then we must be able to deliver those products in high volumes in a timely fashion. Manufacturers may not choose our digital television solution over our competitors’ solutions. We often incur significant expenditures on the development of a new product without any assurance that our product will be selected for a design win. Even if we are chosen, the design win may not result in any significant revenues to us, since sales of our products largely depend on the commercial success of our customers’ display products, and whether our customers are relying on us merely as a second source.

In addition, we need to design products for customers that continually require higher functionality at lower costs. We must, therefore, continue to add features to our products and to include these features on a single chip. The development process for these advancements is lengthy and will require us to accurately anticipate technological innovations and market trends. Developing and enhancing these products is time-consuming, costly and complex.

There is a risk that these developments and enhancements will be late, fail to meet customer or market specifications, and will not be competitive with other products using alternative technologies that offer comparable functionality. These types of events could continue to have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and requiring us to recognize and record impairments of our assets.

***We do not have long-term commitments from our customers, so it is difficult for us to forecast our revenues, and could result in excess inventory.***

Our sales are made on the basis of purchase orders rather than long-term purchase commitments. In addition, our customers may cancel or defer purchase orders. We provide revenue guidance and manufacture our products according to our estimates of customer demand and we have limited visibility of such demand beyond one quarter. This process requires us to make multiple demand forecast assumptions, each of which may introduce errors into our estimates. If we overestimate customer demand, we may miss our revenue guidance, which could cause our stock price to decline. In addition, the timing and correction of this overestimation could cause us to manufacture products that we may not be able to sell. As a result, we could have excess inventory, which could increase our losses. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity were unavailable, we could forgo revenue opportunities, lose market share and damage our customer relationships.

***A limited number of our customers comprise a significant portion of our revenues and any decrease in revenue from these customers could have an adverse effect on our net revenues and operating results.***

The markets for our products are highly concentrated. Our revenues are derived from a limited number of customers. Revenues from our largest five customers accounted for 57% of our revenues, with 19% of our revenues coming from our largest customer, for the quarter ended June 30, 2007. This customer concentration increases the risk of quarterly fluctuations in our revenues and operating results. Any downturn in the business of our key customers or potential new customers could have a negative impact on our sales to such customers, which could adversely affect our net revenues and results of operations. We expect that a small number of customers will continue to account for a large amount of our revenues. The decision by any large customer to decrease or cease using our products would harm our business. For example, during fiscal year 2007, we lost significant TV designs with one of our largest customers. This loss is expected to negatively impact our revenue until we are able to regain designs with that customer or other customers.

In addition, several of our customers sell to a limited number of original equipment manufacturers (OEMs). The decision by any large OEM to decrease or cease using our customer's products could, in turn, cause our customer to decrease or cease buying from us. Most of our sales are made on the basis of purchase orders rather than long-term agreements so that any customer could cease purchasing products at any time without penalty.

***Our success will depend on the growth of the market for flat-panel televisions and LCD monitors, and our customers' commercial success in those markets.***

Our ability to generate revenues depends on the growth of the market for flat-panel televisions, digital televisions and LCD computer monitors. Since we do not sell to every manufacturer in those markets, our revenues also depend on how well our customers' products into which our products are incorporated perform in those markets. To the extent that our customers' share of the flat panel television, LCD monitor or digital television markets declines or does not grow, the sales of our products will be negatively impacted. In addition, our growth will also depend upon emerging markets for consumer electronics such as HDTV. The potential size of these markets and the timing of their development are uncertain and will depend in particular upon:

- A continued reduction in the costs of products in the respective markets;
- The availability, at a reasonable price, of components required by such products (such as LCD panels); and
- The emergence of competing technologies and standards.

These and other potential markets may not develop as expected, which would harm our business.

***Our success may depend in part on market adoption of the DisplayPort digital interface standard.***

The DisplayPort digital display interface, which is based on technology developed by Genesis and is expected to be used in our products, is a new interface standard that has yet to achieve widespread adoption. DisplayPort is an alternative to older, established interconnect standards such as DVI, and therefore could face significant obstacles to adoption. In addition, other new standards may be introduced which could impact DisplayPort's success. If DisplayPort does not achieve market adoption in the computer and/or consumer electronics industry, our ability to generate revenue from DisplayPort-based products would be limited.

***Our customers experience fluctuating product cycles and seasonality, which causes their sales to fluctuate.***

Our products are incorporated into flat-panel and CRT displays. Because the market for flat-panel displays is characterized by numerous new product introductions, our operating results may vary significantly from quarter to

quarter. Our customers also experience seasonality in the sales of their products, which affects their orders of our products. Typically, the second half of the calendar year represents a disproportionate percentage of sales for our customers due to the holiday shopping period for consumer electronics products, and therefore, a disproportionate percentage of our sales. Also, our sales in the first quarter of the calendar year may be lower as a result of the Chinese New Year holiday in Asia. We expect these sales fluctuations to continue for the foreseeable future.

***Our semiconductor products are complex and are difficult to manufacture cost-effectively.***

Manufacturing semiconductor products is a complex process. It is often difficult for semiconductor foundries to achieve acceptable product yields. Product yields depend on both our product design and the manufacturing process technology unique to the semiconductor foundry. Since low yields may result from either design or process difficulties, identifying yield problems may occur well into the production cycle, when a product exists which can be physically analyzed and tested. Low yields negatively impact our gross margins and our financial results.

***Product quality problems could increase our costs, cause customer claims, and delay our product shipments.***

Although we test our products, they are complex and may contain defects and errors. In the past, we have encountered defects and errors in our products. Delivery of products with defects or reliability, quality or compatibility problems may damage our reputation and our ability to retain existing customers and attract new customers. In addition, product defects and errors could result in additional development costs, diversion of technical resources, delayed product shipments, increased product returns, and product liability claims against us which may not be covered by insurance. Any of these could harm our business.

***We rely on distributors to sell our products, and disruptions to or our failure to effectively develop these channels could adversely affect our ability to generate revenues from the sale of our products.***

We derive a substantial percentage of our total revenues from sales by distributors of our products. During the quarter ended June 30, 2007, revenues and sales through distributors represented approximately 25% of our total revenue. We expect that our revenues will continue to depend, in part, on the performance of these distributors. We do not expect to have any long-term contracts or minimum purchase commitments with any of our distributors. In addition, our distributors may sell products that are competitive with ours, may devote more resources to those competitive products and may cease selling our products altogether. The distributors through whom we sell our products may not be successful in selling our products for reasons beyond our control. If any of the foregoing occurs, our operating results will suffer.

***We subcontract our manufacturing, assembly and test operations.***

We do not have our own fabrication facilities, assembly or testing operations. Instead, we rely on others to fabricate, assemble and test all of our products. We do not have any long-term supply contracts with any of these suppliers. Most of our products use silicon wafers manufactured by Taiwan Semiconductor Manufacturing Corporation. If we were required to obtain silicon wafers from other manufacturers, we could experience a material increase in the price we must pay for silicon wafers. There are many risks associated with our dependence upon outside manufacturing, including:

- Lack of adequate capacity during periods of excess demand;
- Increased manufacturing cost or the unavailability of product in the event that manufacturing capacity becomes constrained;
- Reduced control over manufacturing and delivery schedules of products;
- Reduced control over quality assurance and reliability;
- Difficulty of managing manufacturing costs and quantities;
- Potential misappropriation of intellectual property; and
- Political or environmental risks (including earthquake and other natural disasters) in Taiwan, where the manufacturing facilities are located.

We depend upon outside manufacturers to fabricate silicon wafers on which our integrated circuits are imprinted. These wafers must be of acceptable quality and in sufficient quantity and the manufacturers must deliver them to assembly and testing subcontractors on time for packaging into final products. We have, at times, experienced delivery delays, long manufacturing lead times and product quality issues. These manufacturers fabricate, test and assemble products for other companies. We cannot be sure that our manufacturers will devote adequate resources to the production of our products or deliver sufficient quantities of finished products to us on time or at an acceptable cost. The lead-time necessary to establish strategic relationships with new manufacturing partners is considerable. We would be unable to readily obtain an alternative source of supply for any of our products if this proves necessary. Any occurrence of these manufacturing difficulties could harm our business or cause us to incur costs to obtain adequate and timely supply of products.





***Our products require licenses of third-party technology that may not be available to us on reasonable terms, or at all.***

We license technology from third parties that is incorporated into our products. Future products or product enhancements may require additional third-party licenses, which may not be available to us on commercially reasonable terms, or at all. Third-party licenses may impact our gross margins. We also license third-party intellectual property in order to comply with display technology standards. For example, we signed the DVI Adopters Agreement and the HDMI Adopters Agreement in order to obtain a license to those standards. However, even though we licensed the DVI technology, Silicon Image, Inc., one of the promoters of the DVI standard, sued us for allegedly infringing certain DVI patents. In December 2006, we entered into a royalty-bearing Settlement and License Agreement with Silicon Image. If we are unable to obtain third-party licenses required to develop new products and product enhancements, or to comply with applicable standards, we could be at competitive disadvantage.

***Because of the lengthy sales cycles for our products and the fixed nature of a significant portion of our expenses, we may incur substantial expenses before we earn associated revenue and may not ultimately achieve our forecasted sales for our products.***

Because our products are based on new technology and standards, a lengthy sales process, typically requiring several months or more, is often required before potential customers begin the technical evaluation of our products. This technical evaluation can then exceed nine months and it may take an additional nine months before a customer commences volume shipments of systems that incorporate our products. However, even when a manufacturer decides to design our products into its systems, the manufacturer may never ship systems incorporating our products. Given our lengthy sales cycle, we experience a delay between the time we increase expenditures for research and development, sales and marketing efforts and inventory and the time we generate revenues, if any, from these expenditures. These long cycles, as well as our expectation that customers will tend to sporadically place large orders with short lead times, may cause revenues and operating results to vary significantly and unexpectedly from quarter to quarter. As a result, our business could be harmed if a significant customer reduces or delays its orders or chooses not to release products incorporating our products. Given our customer concentration and our lengthy sales cycle, the loss or decline in volume of one or several key customers could have a material impact on our revenue for a sustained period of time.

***We are subject to risks associated with international operations, which may harm our business.***

We depend on product design groups located outside of the United States, primarily in Canada and India. We also rely on foreign third-party manufacturing, assembly and testing operations. These foreign operations subject us to a number of risks associated with conducting business outside of the United States, including the following:

- Unexpected changes in, or impositions of, legislative or regulatory requirements;
- Delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions;
- Imposition of additional taxes and penalties;
- The burdens of complying with a variety of foreign laws; and
- Other factors beyond our control, including acts of terrorism, which may delay the shipment of our products, impair our ability to travel or our ability to communicate with foreign locations.

In addition, the laws of certain foreign countries in which our products are or may be designed, manufactured or sold may not protect our products or intellectual property rights to the same extent as the laws of the United States. This increases the possibility of piracy of our technology and products.

***Our multi-jurisdictional tax structure is complex and we could be subject to increased taxation.***

We conduct business operations in a number of countries and are subject to taxation in those jurisdictions. We develop our tax position based upon the anticipated nature and structure of our business and the tax laws, administrative practices and judicial decisions now in effect in the countries in which we have assets or conduct business, all of which are subject to change or differing interpretations. We are also subject to audit by local tax authorities which could result in additional tax expense in future periods. Any increase in our income tax expense could adversely impact on our future earnings and cash flows.

In addition, some of our subsidiaries provide products and services to, and may undertake significant transactions with, our other subsidiaries that are incorporated in different jurisdictions. Some of these jurisdictions have tax laws with detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's-length pricing principles. International transfer pricing is a complex area of taxation and generally involves a significant degree of judgment. If international taxation authorities successfully challenge our transfer pricing policies, our income tax expense may be adversely affected.

***Most of our revenues will come from sales to customers outside of the United States, which creates additional business risks.***

Most of our revenues come from sales to customers outside of the United States, particularly to equipment manufacturers located in South Korea, China, Europe, Japan and Taiwan. For the quarter ended June 30, 2007, sales to regions outside of the United States represented 99% of revenues. For that same period, sales to China and South Korea alone constituted 32% and 33%, respectively. These sales are subject to numerous risks, including:

· Fluctuations in currency exchange rates, tariffs, import restrictions and other trade barriers;

· Unexpected changes in regulatory requirements;

· Political and economic instability;

· Exposure to litigation or government investigations in these countries;

· Longer payment periods;

· Ability to enforce contracts or payment terms;

· Potentially adverse tax consequences;

· Export license requirements; and

· Unexpected changes in diplomatic and trade relationships.

Because our sales are denominated in U.S. dollars, increases in the value of the U.S. dollar could increase the price of our products in non-U.S. markets and may make our products more expensive than competitors' products denominated in local currencies.

***The cyclical nature of the semiconductor industry may lead to significant variances in the demand for our products.***

In the past, significant downturns and wide fluctuations in supply and demand have characterized the semiconductor industry. Also, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions, including economic conditions in Asia. These cycles have led to significant variances in product demand and production capacity. They have also accelerated the erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of changes in industry-wide conditions.

***We have in the past and may in the future engage in acquisitions of companies, products or technologies, which involve numerous risks and the anticipated benefits of any acquisitions we make may never be realized.***

Our growth is dependent upon our ability to enhance our existing products and introduce new products on a timely basis. One of the ways we may address the need to develop new products is through acquisitions of other companies or technologies, such as our prior acquisitions of Sage and the assets of VM Labs. These acquisitions and potential future acquisitions involve numerous risks, including the following:

- We may experience difficulty in assimilating the acquired operations and employees;
- We may be unable to retain the key employees of the acquired operations;
- The acquisitions may disrupt our ongoing business;

- We may not be able to incorporate successfully the acquired technologies and operations into our business and maintain uniform standards, controls, policies and procedures;
  - We may lack the experience to enter into new markets, products or technologies; and
- An acquisition we choose to pursue may require a significant amount of capital, which limits our ability to pursue other strategic opportunities.

Acquisitions of high-technology companies are inherently risky, and recent or potential future acquisitions may not be successful and may adversely affect our business, operating results or financial condition. We must also maintain our ability to manage growth effectively. Failure to manage growth effectively and successfully integrate acquisitions made by us could materially harm our business and operating results.

***Intellectual property infringement suits brought against us or our customers may significantly harm our business.***

We defended and settled claims brought against us by Silicon Image, Inc., alleging that certain of our products that contain digital receivers infringe various Silicon Image patent claims. In addition, IP Innovation LLC has sued Toshiba Corporation and other companies that incorporate our products into their displays, alleging patent infringement by certain consumer and professional electronics products, including some that contain our display controller products. Any future patent infringement lawsuits could subject us to permanent injunctions preventing us from selling the accused products and/or cause us to incur significant costs, including defense costs, settlements and judgments. In addition, as a result of this lawsuit or any future patent infringement lawsuits, our existing customers may decide to stop buying our products, and prospective customers may be unwilling to buy our products.

Intellectual property lawsuits, regardless of their success, are time-consuming and expensive to resolve and divert management time and attention.

In addition, if we are unsuccessful and our products (or our customers' monitors or televisions that contain our products) are found to infringe the intellectual property rights of others, we could be forced to do one or more of the following:

- Stop selling the products or using the technology that are allegedly infringing;
- Attempt to obtain a license to the relevant intellectual property, which license may not be available on commercially reasonable terms or at all;
  - Incur substantial costs including defense costs, settlements and/or judgments; and
  - Attempt to redesign those products that are allegedly infringing.

As a result, intellectual property litigation could have a material adverse effect on our revenues, financial results and market share.

***We may be required to indemnify our customers against claims of intellectual property infringement.***

From time to time, we enter into agreements with our customers that contain indemnification provisions for claims based on infringement of third party intellectual property rights. As a result, if such a claim based on our products is made against an indemnified customer, we may be required under our indemnification obligations to defend or settle the litigation, and/or to reimburse that customer for its costs, including defense costs, settlements and judgments.

From time to time, we receive requests for indemnification from customers with whom we do not have indemnification agreements. We may also be subject to claims for indemnification under statutory or common law. Patent litigation and any indemnification obligations we may have could have a material adverse effect on our revenues, financial results and market share, and could result in significant payments by us that could have a material adverse effect on our financial position.

***We may be unable to adequately protect our intellectual property. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as non-disclosure agreements and other methods to protect our proprietary technologies.***

We have been issued patents and have pending United States and foreign patent applications. Our patents may be subject to challenges, may not be broad enough to protect our technology, or could be invalidated or circumvented. If we are not successful in obtaining the patent protection we need, our competitors may be able to replicate our technology and compete more effectively against us. The legal protections described above afford only limited protection. It is possible that we may also have to resort to litigation to enforce and protect our copyrights, trademarks, patents and trade secrets, which litigation could be costly and a diversion of management resources. In addition, it is possible that existing or future patents, or even court rulings in our favor regarding our patents, may be challenged, invalidated or circumvented. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products, or otherwise attempt to obtain and use our intellectual property or develop similar technology independently or design around our patents. Monitoring unauthorized use of our products is difficult, and the steps we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where effective patent, copyright, trademark and trade secret protection may be unavailable or may not protect our proprietary rights as fully as in the United States.

***We need to continually evaluate internal financial controls against evolving standards.***

The Sarbanes-Oxley Act of 2002 and other rules and regulations of the Securities and Exchange Commission and the National Association of Securities Dealers impose duties on us and our executives, directors, attorneys and independent registered public accountants. In order to comply with the Sarbanes-Oxley Act and other rules and regulations, we have evaluated our internal controls systems that require management to report on, and our independent auditors to attest to, our internal controls. In addition, our Chief Financial Officer resigned in May 2007 and we have otherwise experienced significant turnover in our senior management as more fully described under the risk factor entitled “We have had significant senior management and key employee turnover, and may not be able to attract, retain and motivate the personnel we need to succeed.” If we are not able to maintain internal controls over financial reporting in light of the significant senior management and key employee turnover, we may not be able to meet the requirements of Section 404. While we have met the requirements of Section 404 including the evaluation, documentation and testing of internal controls for the year ended March 31, 2007, we cannot be certain as to the future outcome of our testing and resulting remediation actions or the impact of the same on our operations. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements and we expect to continue to incur significant expenses in connection with this process. In the event that our Chief Executive Officer, Principal Accounting Officer or independent registered public accounting firm determine in the future that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions may be adversely affected and could cause a decline in the market price of our stock. In addition, current regulatory standards are subject to change, and additional standards may be imposed.

***We may become subject to judgments for securities class action suits.***

We have been a defendant in a securities class action suit. In March 2006, Genesis and the plaintiff signed an agreement to settle the lawsuit, and in December 2006, the court issued a final judgment approving the settlement and dismissing the case with prejudice. However, we may be subject to future securities class action suits, which could subject us to judgments in excess of our insurance coverage and could harm our business. In addition, this kind of lawsuit, regardless of its outcome, is likely to be time-consuming and expensive to resolve and may divert management time and resources.

***A breakdown in our information technology systems could cause a business interruption, impair our ability to manage our business or report results, or result in the unauthorized disclosure of our confidential and proprietary***



*information.*

Our information technology systems could suffer a sudden breakdown as a result of factors beyond our control, such as earthquakes, insecure connections or problems with our outside consultants who provide information technology services to us. If our information technology systems were to fail and we were not able to gain timely access to adequate alternative systems or back-up information, this could have a negative impact on our ability to operate and manage our business and to report results in a timely manner. Also, any breach of our information systems by an unauthorized third party could result in our confidential information being made public or being used by a competitor, which could have a material adverse effect on our ability to realize the potential of our proprietary rights.

***General economic conditions may reduce our revenues and harm our business.***

As our business has grown, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic conditions. During times of economic slowdown, many industries may delay or reduce technology purchases. As a result, if economic conditions in the United States, Asia or Europe worsen, or if a wider or global economic slowdown occurs, reduced orders and shipments may cause us to fall short of our revenue expectations for any given period and may result in us carrying increased inventory. These conditions would negatively affect our business and results of operations. If our inventory builds up as a result of order postponement, we would carry excess inventory that is either unusable or that must be sold at reduced prices which will harm our revenues and gross margins. In addition, weakness in the technology market could negatively affect the cash flow of our customers who could, in turn, delay paying their obligations to us. This would increase our credit risk exposure, which could harm our financial condition.

**ITEM 6. EXHIBITS**

EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Exhibit Description</b>
2.1(1)	Agreement and Plan of Merger and Reorganization, dated as of September 27, 2001, by and between Genesis Microchip Incorporated and Sage, Inc.
2.2(1)	Share Exchange and Arrangement Agreement and Plan of Arrangement by and among the Registrant, Genesis Microchip Nova Scotia Corp., and Genesis Microchip Incorporated.
2.3(2)	Agreement and Plan of Merger, dated as of March 17, 2003, among Genesis Microchip Inc., Display Acquisition Corporation and Pixelworks, Inc. (with Forms of Voting Agreements).
3.1(1)	Certificate of Incorporation of the Registrant.
3.2(3)	Amended and Restated Bylaws of the Registrant.
3.3(4)	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Registrant.
4.1(1)	Form of Common Stock Certificate of the Registrant.
4.2(4)	Preferred Stock Rights Agreement, dated as of June 27, 2002, between the Registrant and Mellon Investor Services, L.L.C., as amended on March 16, 2003.
10.1(5)*	Offer Letter of Employment with Anders Frisk, dated February 15, 2000.
10.2(5)*	Separation Agreement and Release with Chandrashekar Reddy.
10.3(5)*	Consulting Agreement with Chandrashekar Reddy.
10.4(6)*	1987 Stock Option Plan.
10.5	Intentionally omitted.
10.6(21)*	1997 Employee Stock Purchase Plan, as last amended on August 24, 2005.
10.7(21)*	1997 Non-Employee Stock Option Plan, as last amended on June 8, 2007.
10.8(21)*	2000 Nonstatutory Stock Option Plan, as amended on June 8, 2007.
10.9(21)*	2001 Nonstatutory Stock Option Plan, as amended on June 8, 2007.
10.10(6)*	Paradise Electronics, Inc. 1997 Employee Stock Option Plan.
10.11(6)*	Sage, Inc. Second Amended and Restated 1997 Stock Plan.

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- 10.12(6)\* 2001 Employee Stock Purchase Loan Plan (for non-officers).
- 10.13(7)\* Offer Letter with Michael Healy.
- 10.14(8)\* CFO "Tier 1" Change of Control Severance Agreement with Michael Healy.
- 10.15(8)\* CEO "Tier 1" Change of Control Severance Agreement with Elias Antoun.
- 10.15(8)\* Form of director and officer indemnification agreement.
- 10.16(9)\* 2003 Stock Plan.
- 10.17(10)\* Form of 2000 Nonstatutory Stock Option Plan Stock Option Agreement with Nonemployee Directors.
- 10.18(10)\* Form of 2000 Nonstatutory Stock Option Plan International Stock Option Agreement.
- 10.19(10)\* Form of 2000 Nonstatutory Stock Option Plan Stock Option Agreement for China.
- 10.20(11)\* Amendment No. 1 to Separation Agreement and Release with Chandrashekar Reddy, dated November 10, 2004.
- 10.21(12)\* Offer Letter of Employment with Elias Antoun, dated November 10, 2004.
- 10.22(13)\* 1997 Employee Stock Option Plan, as amended on September 19, 2005, and form of Notice of Grant of Restricted Stock Units.
- 10.24(14)\* Offer Letter with Behrooz Yadegar, dated April 11, 2006.
- 10.25(15)\* Fiscal Year 2007 Executive Bonus Plan, dated June 10, 2006.

- 10.26(16)\* Separation Agreement and Release with Tzoyao Chan, dated July 27, 2006
- 10.27(17)\* Offer Letter with Hildy Shandell, dated August 30, 2006
- 10.28(17)\* Change in Control Severance Agreement with Hildy Shandell, dated September 12, 2006
- 10.29(18) Lease Agreement and Lease Rider Agreement with Transamerica Occidental Life Insurance Company, dated September 18, 2006.
- 10.30(19)\* Separation Agreement and Release with Raphael Mehrbians, dated October 20, 2006.
- 10.31(20) Settlement and License Agreement with Silicon Image, Inc., dated December 21, 2006.
- 10.32(8)\* “Tier 2” Change of Control Agreement with Anders Frisk.
- 10.33(8)\* Form of “Tier 2” Change of Control Severance Agreement.
- 10.34 Summary of Compensation Plan of Non-Employee Board Members.
- 10.35\* Offer Letter with Linda Millage, effective May 1, 2007.
- 31.1 Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Principal Accounting Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer and Principal Accounting Officer, as required by Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

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- (1) Incorporated by reference to the Registrant’s Registration Statement on Form S-4 (File No. 333-72202) filed with the Securities and Exchange Commission on October 25, 2001, as amended.
- (2) Incorporated by reference to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 20, 2003.
- (3) Incorporated by reference to the Registrant’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on July 1, 2002, as amended.
- (4) Incorporated by reference to the Registrant’s Registration Statement on Form 8-A12G filed with the Securities and Exchange Commission on August 5, 2002, as amended by the Registrant’s Statement on Form 8-12G/A filed with the Securities and Exchange Commission on March 31, 2003.
- (5) Incorporated by reference to the Registrant’s Annual Report on Form 10-K filed with the Securities Exchange Commission on June 20, 2003.
- (6)

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Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Securities Exchange Commission on February 21, 2002.

- (7) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Securities Exchange Commission on February 13, 2004.
- (8) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2007.
- (9) Incorporated by reference to the Registrant's Registration Statement on Form S-8 filed with the Securities Exchange Commission on October 15, 2003.
- (10) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Securities Exchange Commission on November 9, 2004.
- (11) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on November 15, 2004.

- (12) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on November 19, 2004.
  - (13) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed with the Securities Exchange Commission on November 8, 2005.
  - (14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on May 10, 2006.
  - (15) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the Securities Exchange Commission on June 14, 2006.
  - (16) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on August 1, 2006.
  - (17) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on September 18, 2006.
  - (18) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on September 19, 2006.
  - (19) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on October 23, 2006.
  - (20) Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the Securities Exchange Commission on December 22, 2006.
  - (21) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the Securities Exchange Commission on June 12, 2007.
- \* Identifies a management contract or compensatory plan of arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of this report.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENESIS MICROCHIP INC.

Date: August 9, 2007

By: /s/ LINDA MILLAGE

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Linda Millage  
Principal Accounting Officer

(Authorized Officer to sign on behalf of Registrant &  
Principal Accounting Officer)