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GENESIS MICROCHIP INC  
Form 10-K  
June 29, 2001

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended March 31, 2001

OR

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

Commission file number: 000-29592

GENESIS MICROCHIP INCORPORATED  
(Exact name of registrant as specified in its charter)

NOVA SCOTIA, CANADA  
(State of incorporation)

Not applicable  
(IRS employer identification number)

165 COMMERCE VALLEY DRIVE WEST  
THORNHILL, ONTARIO, CANADA  
(Address of principal executive offices)

L3T 7V8  
(Zip Code)

(905) 889-5400  
(Registrant's telephone number)

Securities registered pursuant to section 12(g) of the Act:  
Common shares, no par value

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of common shares held by non-affiliates at May 31, 2001 was approximately \$513,023,000 based on the last reported sale price of our common shares on The Nasdaq National Market on that date of \$27.29 per share. We had 19,782,321 common shares outstanding at May 31, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference information from our proxy statement for our annual general shareholders' meeting to be held on September 20, 2001, which the Registrant plans to file with the Commission on or before July 29, 2001 (the

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"2001 Proxy Statement")

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Statement regarding forward-looking information

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. Words such as "projects," "believes," "anticipates," "plans," "expects," "intends," and similar words and expressions are intended to identify forward-looking statements. We believe that the expectations reflected in the forward-looking statements are reasonable but we cannot assure you those expectations will prove to be correct. Important factors that could cause our actual results to differ materially from those expectations are disclosed in this report, including, without limitation, in the "Risk Factors" described in Item 7. All forward-looking statements are expressly qualified in their entirety by these factors and all related cautionary statements. We do not undertake any obligation to update any forward-looking statements.

Trademarks

Genesis with its logo(R) is our registered trademark, and Genesis Display Perfection (TM), SmartSCAN (TM), RealColor (TM), Real Recovery, Ultra-Reliable DVI (TM), Diamond Cinema, Platinum Cinema and Crystal Cinema are our trademarks. This report also refers to the trademarks of other companies.

### PART I

#### ITEM 1. BUSINESS:

##### Overview

We design, develop and market integrated circuits which receive and process digital video and graphic images. Our integrated circuits are typically located inside a display device and process images for viewing on that display. We also supply reference boards and designs that incorporate our proprietary integrated circuits. We are focused on developing and marketing image-processing solutions. We are currently targeting the flat-panel computer monitor market and other potential mass markets.

The transition from analog display systems, such as most televisions and computer monitors that use cathode ray tubes, to digital display systems that use a fixed matrix of pixels to represent an image, requires sophisticated digital image-processing solutions. Our products solve resolution, format and frame refresh rate conversion problems while maintaining critical image information and improving perceived image quality. Our products utilize patented algorithms and integrated circuit architectures as well as advanced integrated circuit design and system design expertise.

Our image-processing technologies include:

- . shrink, which is a reduction in the number of pixels in an image,
- . zoom, which is an increase in the number of pixels in an image,
- . de-interlace, which is the conversion of an image's display format, and
- . synchronize, which is the coordination of different pixel rates and image frame refresh rates.

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We began developing our image processing technologies and products in order to serve specialized markets such as medical imaging applications and avionics, where there is a requirement for high-quality images. As larger markets for display products have developed, such as projection systems and flat panel computer monitors, we have leveraged our image-processing technologies and expertise to develop products targeting those markets. Today, the LCD flat panel monitor market represents one of the fastest growing segments in the electronics industry.

In addition to our image-processing technologies, we have developed communications technologies. These communications technologies focus on the reception of signals or data by display devices, such as a computer monitor receiving signals from a computer. Our communications technologies include both analog and digital receivers that meet or exceed industry standard requirements, such as VGA standards for analog and DVI standards for digital receivers. Our integrated circuit products contain various combinations of our image processing and our communications technologies, depending on the needs of the targeted market.

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We were incorporated in Canada in 1987 and on May 28, 1999, we merged with Paradise Electronics, Inc. We operate through subsidiaries and offices in the United States and Taiwan. Our business is conducted globally, with the majority of our suppliers and customers located in Japan, Korea or Taiwan. For a geographical breakdown of our revenues and long-lived assets, see Note 10 to the Consolidated Financial Statements.

Markets, applications and customers

Our primary targeted markets include the following:

- . Flat-Panel Computer Monitors. Flat panel computer monitors are increasingly replacing monitors which use cathode ray tubes, or CRTs. For the year ended March 31, 2001, the flat panel computer monitor market represented 72.2% of our total revenues. Companies whose flat-panel computer monitors incorporate our products include Acer, Dell, Fujitsu, IBM, HP, Philips, Samsung, Sony, ViewSonic, NEC and many other leading brands.
- . Digital CRT Monitors. We have developed products for the emerging digital CRT monitor markets. The products are based on patent-pending technologies for digital CRT monitors. We believe this market will develop into a major market as the computer industry adopts the digital DVI monitor interface as a standard output interface available on all PCs. In addition, we believe multimedia content providers will demand that their content be protected by copy-protection systems which are available only for digital monitors.
- . Consumer Digital Television. We are leveraging our technologies and continue to produce products for consumer digital television markets. These potential markets include home theater, DVD, flat panel and digital television and HDTV. We have secured a number of design wins with leading manufacturers in these markets.

Products

The following table shows our principal integrated circuit products at March 31, 2001:

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Product	Description	Markets	Product Features
gm5010	LCD monitor controller (for XGA-resolution monitors)	Multi-synchronous LCD monitors (with dual analog and digital interfaces) and other fixed-resolution pixelated displays	Integrated TMDS analog-to-digital High-Bandwidth Protection (HDC) color adjustment advanced OSD control
gm5060	LCD monitor controller (for UXGA-resolution monitors)	Multi-synchronous LCD monitors (with dual analog and digital interfaces) and other fixed-resolution pixelated displays	Integrated TMDS analog-to-digital High-Bandwidth Protection (HDC) color adjustment advanced OSD control
gm5020	LCD monitor controller (for SXGA-resolution monitors)	Multi-synchronous LCD monitors (with dual analog and digital interfaces) and other fixed-resolution pixelated displays	Integrated TMDS analog-to-digital integrated frame variable scaling algorithms
gm3020	LCD monitor controller	Standalone and bundled LCD monitors (with digital interfaces), projection systems, fixed-resolution pixelated displays	Integrated TMDS display timing auto-configuration auto-detection
gmZAN1	LCD monitor controller	Multi-synchronous LCD monitors (with analog-only interfaces) and other fixed-resolution pixelated displays	Fully integrated converter (ADC) scaling algorithm programmable on-chip
gmVLX1A-X	Digital video processor	Home theater, PCTV, DVD, plasma panels, projection systems,	Genesis proprietary temporal filter
		scan doublers	mode, advanced built-in display

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(1) Calendar quarters. References in this report to fiscal year 2001 mean the fiscal year ended March 31, 2001

Research and development

Our research and development efforts are performed within the following four specialized groups:

- . Algorithm Development Group: focuses on developing high-quality image processing technologies and their implementation in silicon.

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- . Product Development Group: focuses on developing standard semiconductor components to service our monitor and computer OEM customers and providing them with a complete turn-key solution, which reduces their time to market.
- . System Engineering Group: concentrates on producing evaluation boards and manufacture-ready reference designs that facilitate the integration of our products into the products of our customers.
- . Software Engineering Group: develops the software environment required for our products to work within their corresponding systems. The software engineering group occasionally customizes the software to meet specific customer needs.

As of March 31, 2001, we had 97 full-time employees engaged in research and development. Expenditures for research and development for the year ended March 31, 2001 were \$17.4 million. For the year ended March 31, 2000 they were \$16.1 million, and for the ten months ended March 31, 1999 they were \$10.3 million.

### Sales and marketing

We sell and market our products directly to customers, through regional sales representatives and through distributors. Our sales and marketing personnel work closely with customers, industry leaders, sales representatives and our distributors to define features, performance, price and market timing of new products. In Taiwan, we sell our products through our local sales and technical support office. In North America and Korea, we sell through technically trained sales representatives. In Europe, we sell our products through distributors. In Japan, we sell our products through both technically trained sales representatives and through distributors. Regardless of the sales channels used, we provide technical support and design assistance directly to our customers. We focus on developing long-term customer relationships with both system manufacturers and equipment manufacturers.

We provide direct service and support to our customers through our offices in the United States, Canada and Taiwan. Our sales representatives and our distributors also provide ongoing support and service on our behalf. We provide customer support through both on-site customer service and through remote support from our various facilities. We generally provide a one-year warranty for our integrated circuit products.

Our sales are derived from a limited number of customers, with our largest five customers accounting for 31% of total revenues in fiscal 2001, 34% of total revenues for fiscal 2000, and 47% during fiscal 1999.

For the year ended March 31, 2001, no customer accounted for more than 10% of total revenues. For the year ended March 31, 2000, one customer accounted for 10% of total revenues. At March 31, 2001, one customer represented 10% of accounts receivable trade. At March 31, 2000, two customers represented 16% and 10% of accounts receivable trade, respectively.

As of March 31, 2001, our sales and marketing force totaled 36 people. This included 12 field applications engineers whose role is to create reference designs and assist our customers to incorporate our integrated circuits into their products.

### Manufacturing

Our products are manufactured by third parties with state-of-the-art fabrication equipment and technology. This approach enables us to focus on product design and development, minimizes capital expenditures and provides us with access to advanced manufacturing facilities. Currently, our products are being fabricated, assembled or tested by UMC, TSMC, ASE, SPIL or ISE Labs.

As semiconductor manufacturing technologies advance, manufacturers typically retire their older manufacturing processes in favor of newer processes. When this occurs, the manufacturer generally provides notice to its customers of its intent to discontinue a process, and its customers will either retire the affected part or design a newer version of the part which can be manufactured on the more advanced process. Consequently, our products may become unavailable from their current manufacturers if the processes on which they are produced are discontinued. However, our devices are mainly 0.35 and 0.25 micron technology and these geometries will likely be available for the next two to three years. We must manage the transition to new parts from the older parts. We have commitments from our suppliers to provide two years notice of any discontinuance of their manufacturing processes in order to assist us in managing these types of product transitions.

We purchase products from several suppliers, but no single product is purchased from more than one supplier. Based on our current volumes of production, this approach of single sourcing is reasonable. As our target markets grow, it will be important to secure sufficient fab capacity. Both of our fabrication suppliers are in the process of adding additional capacity to respond to a worldwide capacity shortage for wafers.

#### Intellectual property and licenses

We protect our technology through a combination of patents, copyrights, trade secret laws, trademark registrations, confidentiality procedures and licensing arrangements. We have been issued 25 patents in the United States and have 17 patent applications pending there. In addition to filing patents in the United States, we apply for and have been granted patents in other jurisdictions, including Europe, Japan, Taiwan and Korea. Our patents relate to various aspects of algorithms, product design or architectures and expire from 2011 to 2016. To supplement our proprietary technology, we also license several patents from third parties.

#### Competition

The markets in which we operate are intensely competitive and are characterized by rapid technological change, evolving industry standards and declining average selling prices. We face competition from both large companies and start-up companies, including Macronix International Co., Ltd., Philips Semiconductors, a division of Philips Electronics NV, Pixelworks, Inc., Sage, Inc., Silicon Image, Inc. and ST Microelectronics, Inc. We believe that the principal competitive factors in our markets are:

- . product design features and performance,
- . product price,
- . the time to market of our products, and
- . the quality and speed of customer support.

#### Backlog

Our customers typically order products by way of purchase orders that may be canceled or rescheduled without significant penalty. These purchase orders are subject to price negotiations and to changes in quantities of products and

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delivery schedules in order to reflect changes in their requirements and manufacturing availability. Most of our sales have historically been made pursuant to short lead-time orders. In addition, our actual shipments depend on the manufacturing capability of our suppliers and the availability of products from those suppliers. As a result of the foregoing factors, we do not believe the backlog at any given time is a meaningful indicator of our future revenues.

### Employees

As of March 31, 2001, we employed a total of 173 full-time employees, including 97 in research and development, 36 in sales and marketing, 16 in manufacturing operations and 24 in finance and administration. We employ a number of temporary and part-time employees as well as consultants on a contract basis. Our employees are not represented by a collective bargaining organization. We believe that relations with our employees are satisfactory.

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### ITEM 2. PROPERTIES:

We lease offices in Alviso, California, Thornhill, Ontario, and Taipei, Taiwan. We believe our existing facilities are adequate to meet our needs for the immediate future and that future growth can be accomplished by leasing additional or alternative space on commercially reasonable terms. See Note 9 to the Consolidated Financial Statements.

### ITEM 3. LEGAL PROCEEDINGS:

On April 24, 2001, Silicon Image, Inc. filed a patent infringement lawsuit against us in the United States District Court for the Eastern District of Virginia. They simultaneously filed a complaint before the International Trade Commission in Washington, D.C. The complaint and suit allege that all of our products which contain digital receivers infringe on various claims of one of their patents. We believe the lawsuit and the complaint are baseless and without merit and we intend to vigorously defend our position. The financial impact of these claims is not yet determinable and no provision has been made in our consolidated financial statements for any costs associated with them.

We are not a party to any other material legal proceedings.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS:

No matters were submitted to a vote of our security holders during the three months ended March 31, 2001.

## PART II

### ITEM 5. MARKET FOR OUR COMMON SHARES AND RELATED SHAREHOLDER MATTERS:

#### Market information

Our common shares have traded on the Nasdaq National Market under the symbol "GNSS" since February 8, 1999. Before that, from February 24, 1998 until February 5, 1999, they traded under the symbol "GNSSF". We have not listed our shares on any other markets or exchanges. The following table shows the high and low closing prices for our common shares as reported by the Nasdaq National Market:

	High	Low
1999 Calendar year	----	---

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First Quarter.....	\$35.000	\$22.000
Second Quarter.....	\$28.125	\$16.250
Third Quarter.....	\$30.688	\$16.625
Fourth Quarter.....	\$27.875	\$15.000
2000 Calendar year		
First Quarter.....	\$25.250	\$14.875
Second Quarter.....	\$21.000	\$15.375
Third Quarter.....	\$20.125	\$16.625
Fourth Quarter.....	\$18.250	\$ 8.563
2001 Calendar year		
First Quarter.....	\$18.875	\$ 9.313

As of May 31, 2001, we had approximately 270 holders of record of our common shares and a substantially greater number of beneficial owners.

### Dividend policy

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We have never declared or paid dividends on our common shares. We intend to retain our earnings for use in our business and therefore we do not anticipate declaring or paying any cash dividends in the foreseeable future.

### Exchange controls

Canada has no system of exchange controls. There is no law, government decree or regulation in Canada restricting the export or import of capital or affecting the payment of dividends, interest or other payments to a non-resident holder of common shares, other than withholding tax requirements.

### U.S. taxation

Under the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital (the "1980 Convention") we are not subject to U.S. income tax unless we engage in a trade or business in the United States through a permanent establishment. Our Canadian business currently does not have direct operations in the United States. We expect to be able to conduct our Canadian business activities in a manner that will not result in our being considered to be engaged in a trade or business or to have a permanent establishment in the United States. We engage in U.S. business operations through U.S. subsidiaries that are subject to U.S. taxation.

Taxation of dividends. For U.S. federal income tax purposes the gross amount of any dividend paid to you will be included in your gross income and treated as foreign source dividend income to the extent of our current or accumulated earnings and profits. Dividends paid in excess of our earnings and profits will be applied against and will reduce your basis in our common shares and will be treated as gain from the sale or exchange of our common shares to the extent they are in excess of your basis. The dividend is not eligible for the dividends-received deduction available for dividends received from U.S. corporations. The amount to include in your income will be the U.S. dollar value of the payment on the date of payment regardless of whether the payment is converted into U.S. dollars. Generally, your gain or loss resulting from currency fluctuations during the period beginning on the date any dividend is paid and ending on the date the payment is converted into U.S. dollars will be treated as ordinary income or loss.

You will have the option of claiming the amount of Canadian tax withheld at source on the distribution of dividends to you as either a deduction from your adjusted gross income or as a dollar-for-dollar credit against your U.S. federal income tax liability. If you elect to claim a credit for the Canadian tax, the



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election will be binding for all foreign taxes paid or accrued by you for that taxation year. You should consult with your tax advisers as to the availability of a U.S. foreign tax credit and the application of the U.S. foreign tax credit limitations to your particular situation.

Taxation of capital gains. Subject to the discussion below under the heading, "Passive Foreign Investment Company Considerations," you will be liable for U.S. federal income tax on gains related to our common shares to the same extent as any other gains from sales or disposition of shares. That is, you will recognize a taxable gain or loss on the sale, exchange or other disposition of our common shares in an amount equal to the difference between the amount realized on your sale, exchange or other disposition and your adjusted tax basis in the shares. The tax basis of your shares will equal its initial cost to you, reduced by any dividends on our common shares that you have treated as a return of capital. The gain or loss will be capital gain or loss. Capital gains of individuals derived from capital assets held for more than twelve months are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

### Passive foreign investment company considerations

We will be classified as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes if we satisfy either of the following two tests:

- . 75% or more of our gross income is passive income, or
- . 50% or more of our assets by value or, if we so elect, by adjusted basis, produce or are held for the production of passive income.

We do not believe that we satisfy either of the tests for PFIC status. If we were a PFIC for any taxation year, you would be required to either:

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- . pay an interest charge together with tax calculated at maximum ordinary income rates on certain "excess distributions", defined to include a gain on a sale or other disposition of our common shares, or
- . include in your taxable income certain undistributed amounts of our income, if you make a qualified electing fund election.

You should consult with your tax adviser before making a qualified electing fund election.

### Canadian taxation

Canadian corporations are taxed on their worldwide income. They are subject to a Canadian federal income tax of 29%. In addition, Canadian corporations are subject to provincial income tax by each Canadian province in which they have a permanent establishment. The result is that a corporation resident in Canada will pay a combined federal and provincial rate of approximately 45%. Dividends received from foreign affiliates engaged in an active business in a treaty country such as the United States are not taxed in Canada. These dividends may be subject to the withholding tax applied by the foreign country, at a rate that may vary according to the 1980 Convention.

Taxation of dividends. Amounts paid or credited as dividends to you may be subject to Canadian non-resident withholding tax. Withholding tax will also apply to amounts that are deemed to be paid or credited to you as dividends. The withholding tax is levied at a rate of 25%, which may be reduced according to the terms of the 1980 Convention. Under the 1980 Convention, the rate of Canadian non-resident withholding tax on the gross amount of dividends

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beneficially owned by you is 15%. If you are a company that owns at least 10% of our voting shares, the rate of withholding is 5%.

Taxation of capital gains. You will not be subject to tax under the Income Tax Act (Canada) (the "ITA") for a disposition of our common shares unless, at the time of your disposition, those common shares constituted "taxable Canadian property" for purposes of the ITA. Our common shares will not constitute "taxable Canadian property" if they are listed on a prescribed stock exchange for the purposes of the ITA at the time the shares are disposed of by you. However, if you or persons with whom you did not deal at arm's length owned 25% or more of the issued shares of any class or series of our shares at any time during the five year period before your share disposition, then our common shares will constitute "taxable Canadian property." Our common shares are currently listed on a prescribed stock exchange for the purposes of the ITA.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA:

Selected consolidated financial data for the last five years appear below (in thousands, except per share data):

	Year Ended March 31,	Ten Months Ended March 31,		Year Ended
	2001	2000	1999	1998
Statement of Operations Data:				
Revenues.....	\$63,627	\$53,332	\$37,738	\$15,988
Cost of revenues.....	32,416	17,021	14,062	4,869
Gross profit.....	31,211	36,311	23,676	11,119
Operating expenses:.....				
Research and development.....	17,413	16,065	10,261	7,100
Selling, general and administrative.....	15,947	12,364	10,307	6,137
Merger related costs.....	-	3,455	-	-
Total operating expenses.....	33,360	31,844	20,568	13,237
Income (loss) from operations.....	(2,149)	4,427	3,108	(2,118)
Interest and other income.....	2,328	1,941	1,436	773
Income (loss) before income taxes.....	179	6,368	4,544	(1,345)
Provision for (recovery of) income taxes.....	(2,483)	360	(986)	(890)
Net income (loss).....	\$ 2,662	\$ 6,008	\$ 5,530	\$ (455)
Earnings (loss) per share				

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Basic.....	\$	0.14	\$	0.32	\$	0.31	\$	(0.04)	\$
Diluted.....	\$	0.13	\$	0.30	\$	0.29	\$	(0.04)	\$
Weighted average number of common shares outstanding:									
Basic.....		19,406		18,756		18,027		11,634	

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Diluted.....	19,884	19,922	19,365	11,634
Balance Sheet Data:				
Cash and cash equivalents.....	Mar. 2001 \$ 32,827	Mar. 2000 \$ 42,942	Mar. 1999 \$ 38,479	May 1998 \$ 38,401
Working capital.....	53,190	50,661	50,131	42,996
Total assets.....	81,446	71,791	64,815	53,452
Total long-term debt, net of current portion...	410	518	504	1,235
Shareholders' equity.....	70,389	65,247	55,408	47,163

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

#### Overview

We design, develop and market integrated circuits which receive and process digital video and graphic images. We also supply reference boards and designs that incorporate our proprietary integrated circuits. We are focused on developing and marketing image-processing solutions. We are currently targeting the flat-panel computer monitor market and other potential mass markets. We market and sell our products through authorized distributors and directly to customers with the support of regional sales representatives. Average selling prices to distributors are typically less than average selling prices to direct customers. Average selling prices and product margins of our products are typically highest during the initial months following product introduction and decline over time and as volume increases. We recognize revenues from product sales when they are shipped. Product returns and allowances are estimated and provided for at the time of sale. To date, we have not experienced any significant product returns.

In addition to product sales, we derive revenues from providing design services. We provide these services in order to assist our customers to develop products that include our chips in their designs or to accelerate the development of our products to meet customer demand. We also earn revenues from leasing out portions of our premises that are not required for current operations, and from license fees and royalties.

We have limited ability to reschedule our purchase orders and, therefore, we have to place purchase orders for products before we receive purchase orders from our customers. This restricts our ability to react to fluctuations in demand for our products and 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. For the year ended March 31, 2001, we recorded provisions totaling \$1.3 million for declines in inventory value and for write downs of excess inventory. For the year ended March 31, 2000, we recorded provisions totaling \$0.6 million. We have agreements with suppliers in Asia such that we are dependent on the suppliers' manufacturing yields.

We earn investment tax credits under the provisions of the Income Tax Act (Canada) because we carry out qualifying research and development activities in Canada. These tax credits are earned at a rate of 20% of those qualifying expenditures. The tax credits earned may only be applied to reduce income taxes payable. We have losses and deductions available to reduce future years' taxable income in both Canada and the United States. Most of these aggregate losses and deductions can be carried forward for periods in excess of ten years, and in some cases, indefinitely. Details of these losses and deductions can be found in Note 7 to our consolidated financial statements, which are included in Item 8 of this report. As a result of the available tax losses and ongoing tax credits, we anticipate that our average tax rate will be approximately 10% in fiscal 2002.

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On May 28, 1999, we merged with Paradise Electronics, Inc. and adopted a new fiscal year effective April 1, 1999. Our fiscal year now runs from April 1 to March 31, aligning our fiscal quarters with calendar quarters. We believe that this makes our results more easily comparable to other companies in our industry. Information

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in this Form 10-K combines our past results with those of Paradise for all periods presented, as required by pooling-of-interests accounting for business combinations.

### Results of operations

The following table shows the percentage of total revenues represented by each category of cost or expense in our consolidated statements of operations for the periods indicated:

	Year Ended March 31, 2001	Year Ended March 31, 2000	Ten Ended 31,
	-----	-----	-----
Revenues.....	100.0 %	100.0 %	
Cost of revenues.....	50.9	31.9	
	-----	-----	
Gross profit.....	49.1	68.1	
Operating expenses:			
Research and development.....	27.4	30.1	
Selling, general and administrative.....	25.1	23.2	
Merger related costs.....	--	6.5	
	-----	-----	
Total operating expenses.....	52.5	59.8	
	-----	-----	
Income (loss) from operations.....	(3.4)	8.3	
Interest and other income.....	3.7	3.7	
	-----	-----	
Income before income taxes.....	0.3	12.0	
Provision for (recovery of) income taxes.....	(3.9)	0.7	
	-----	-----	
Net income .....	4.2 %	11.3 %	
	=====	=====	

### Total Revenues.

Total revenues for the year ended March 31, 2001 increased by \$10.3 million to \$63.6 million from \$53.3 million in the year ended March 31, 2000, an increase of 19.3%. Total revenues for the year ended March 31, 2000 increased by \$15.6 million or 41.3% from \$37.7 million in the ten months ended March 31, 1999. The increase in total revenues over the last two fiscal periods is primarily because of increased demand for our products in the flat panel monitor market.

Revenues from the flat panel monitor market increased to \$45.9 million or 72.2% of total revenues in the year ended March 31, 2001 from \$36.8 million or 69.0% of total revenues in the year ended March 31, 2000, and from \$26.4 million or 70.0% in the ten months ended March 31, 1999. This increase was a result of overall growth of that market together with our increased share of that market, partially offset by declining average selling prices.

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The overall growth of the flat panel monitor market was positively impacted by reductions in retail selling prices of the end products. This decline was primarily as a result of reductions in the cost of LCD panels used in flat panel monitors, caused by additional manufacturing capacity and improved manufacturing yields for the panels.

During calendar 1999 there was a lack of capacity to manufacture a sufficient number of LCD panels to satisfy the increasing demand. This lack of panel availability resulted in an increase in the cost of LCD panels, which in turn, resulted in an increase in the retail selling price of flat-panel computer monitors to about \$1,200 by the end of the year. The increase in retail selling prices in 1999 resulted in a reduced rate of growth for the flat panel monitor market through reduced end consumer demand, which caused a build-up of analog interface monitor inventories. This inventory build-up temporarily reduced demand for our products in the second half of fiscal 2000, as vendors sought to reduce their monitor inventory levels. In fiscal 2001, retail prices of flat panel computer monitors continued to decline, increasing the size of the overall flat-panel computer monitor market.

We expect that our revenues will continue to grow in fiscal 2002 because the flat-panel market is expected to grow substantially in units over fiscal 2001. We anticipate that average selling prices will continue to decline but at a slower rate than the growth of the market.

Gross Profit. Gross profit for the year ended March 31, 2001 decreased to \$31.2 million from \$36.3 million in the year ended March 31, 2000, and compared to \$23.7 million in the ten months ended March 31, 1999. This

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represents 49.1% of total revenues in the 2001 period, 68.1% of total revenues in the 2000 fiscal year and 62.7% of total revenues in the fiscal 1999 period. The decrease in gross profit percentage in the fiscal 2001 year was primarily attributable to costs incurred in the fourth quarter of the 2001 fiscal year. These costs, which totaled \$5.5 million, included costs attributable to the write down of our prior-generation products and initial low manufacturing yield associated with the line buffer sections in one of our new products. Excluding these costs, our gross margin would have been 57.7% in fiscal 2001. We expect that our gross margins in fiscal 2002 will average 46% to 47%, as a result of declining average selling prices and competition.

Research and Development. Research and development expenses include costs associated with research and development personnel, development tools and prototyping costs. Research and development expenses for the year ended March 31, 2001 increased to \$17.4 million from \$16.1 million in the year ended March 31, 2000 and from \$10.3 million in the ten months ended March 31, 1999. These expenses represented 27.4% of total revenues in the 2001 fiscal year, 30.1% in fiscal 2000, and 27.2% of total revenues in the fiscal 1999 period. The increase in absolute dollars in each period reflects greater personnel costs associated with an expansion in our research and development activities and increased prototype and pre-production expenses of new products. We expect to continue to make substantial investments in our research and development activities and anticipate that research and development expenses will continue to increase in absolute dollars. The decrease in expense as a percentage of total revenues resulted from the faster rate of growth in total revenues compared to growth in research and development expenses.

Selling, General and Administrative. Selling, general and administrative expenses consist of personnel, commissions and related overhead costs for selling, marketing, customer support, finance, human resources and general

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management functions. Selling, general and administrative expenses were \$15.9 million in the year ended March 31, 2001, \$12.4 million in the year ended March 31, 2000, and \$10.3 million in fiscal 1999. These expenses represented 25.1% of total revenues in the 2001 fiscal year, 23.2% of total revenues in the 2000 fiscal year, and 27.3% of total revenues in fiscal 1999. The dollar increase in selling, general and administrative expenses reflects increased personnel costs related to increased selling, administrative and customer support activities and increased commissions associated with higher sales volumes. In addition, in fiscal 2001 we incurred \$0.9 million in costs of employee terminations and for professional fees and expenses associated with strategic initiatives that we terminated due to economic and market conditions. Excluding those costs, selling, general and administrative costs in fiscal 2001 would have been 23.6% of total revenues. We expect selling, general and administrative expenses to increase in the future in absolute dollars due to the addition of administrative, marketing, selling and customer support personnel and because of continued expansion of our international operations.

**Interest and Other Income.** Interest and other income in the year ended March 31, 2001 was \$2.3 million, compared with \$1.9 million in fiscal 2000, and \$1.4 million in fiscal 1998. Future interest income will depend on the amount of funds available to invest and on future interest rates.

**Provision for Income Taxes.** Our tax provision is a combination of taxes on income offset by the substantial research and development tax credits earned in Canada. Future income tax provisions will depend on our effective tax rates and the distribution of taxable income between taxation jurisdictions, the amount of research and development performed in Canada, and the likelihood of being able to utilize available tax credits or losses.

### Quarterly results of operations

The following table shows our unaudited quarterly statement of operations data for the most recent eight quarters reported. This unaudited data has been prepared on the same basis as our audited consolidated financial statements that are included in Item 8 of this report, and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such information for the periods presented. The statement of operations data should be read in conjunction with our consolidated financial statements and their related notes. Amounts in this table are in thousands of U.S. dollars.

	Three Months Ended						
	Mar. 2001	Dec. 2000	Sep. 2000	Jun. 2000	Mar. 2000	Dec. 1999	Sep. 1999
Revenues.....	\$18,471	\$17,304	\$15,040	\$12,812	\$10,605	\$10,059	\$16,360
Cost of revenues.....	14,762	7,697	5,603	4,354	3,492	3,263	5,000

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Gross profit.....	3,709	9,607	9,437	8,458	7,113	6,796	11,360
Operating expenses:.....							

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Research and development.....	4,156	4,792	4,417	4,048	4,149	4,351	3,98
Selling, general and administrative.....	5,372	3,833	3,553	3,189	2,988	2,991	3,11
Merger related costs.....	--	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----
Total operating expenses....	9,528	8,625	7,970	7,237	7,137	7,342	7,09
	-----	-----	-----	-----	-----	-----	-----
Income (loss) from operations..	(5,819)	982	1,467	1,221	(24)	(546)	4,26
Interest income.....	433	642	739	514	459	550	51
	-----	-----	-----	-----	-----	-----	-----
Income (loss) before income taxes.....	(5,386)	1,624	2,206	1,735	435	4	4,77
Provision for (recovery of) income taxes.....	(2,540)	(354)	241	170	(74)	(196)	75
	-----	-----	-----	-----	-----	-----	-----
Net income (loss).....	\$(2,846)	\$ 1,978	\$ 1,965	\$ 1,565	\$ 509	\$ 200	\$ 4,02
	=====	=====	=====	=====	=====	=====	=====

The majority of our revenues come from sales of semiconductors to manufacturers of flat-panel computer monitors. Retail selling prices for flat-panel computer monitors declined to approximately \$1,000 in early calendar 1999 from about \$2,500 in early calendar 1998. However, during calendar 1999 there was a lack of capacity to manufacture a sufficient number of LCD panels to satisfy the increasing demand. This lack of panel availability resulted in an increase in the cost of LCD panels, which in turn, resulted in an increase in the retail selling price of flat-panel computer monitors. Retail prices increased to about \$1,200 by the end of calendar 1999. By the end of calendar 2000, selling prices of flat-panel computer monitors had declined to approximately \$850 as a result of increased manufacturing capacity for LCD panels. The increase in retail selling prices in 1999 resulted in a reduced rate of growth for the flat-panel monitor market, negatively impacting demand for our products in the quarters ended March 31, 2000 and December 31, 1999. The subsequent reduction in retail prices has increased the growth rate of our markets. Gross margins have declined over time as a result of reductions in blended average selling prices driven by volume increases and competition. In addition, we incurred costs of \$5.5 million in the March 2001 quarter attributable to the write down of our prior-generation products and initial low manufacturing yield associated with the line buffer sections in one of our new products. Research and development expenses have varied from quarter to quarter primarily due to the timing of non-recurring engineering charges related to new product development. Selling, general and administrative expenses have varied from quarter to quarter due to increases in levels of staff for sales and customer support activities, and variable commissions based on sales levels. In addition, in the March 2001 quarter we incurred \$0.9 million in costs of employee terminations and for professional fees and expenses associated with strategic initiatives that we terminated due to economic and market conditions.

Our results of operations have fluctuated significantly in the past and may continue to fluctuate in the future as a result of a number of factors, many of which are beyond our control. These factors include those described under the caption "Risk Factors," among others. Any one or more of these factors could result in our failure to achieve our expectations as to future operating results. Our expenditures for research and development, selling, general and administrative functions are based in part on future revenue projections. We may be unable to adjust spending in a timely manner in response to any

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unanticipated declines in revenues, which may have a material adverse effect on our business, financial condition and results of operations. We may be required to reduce our selling prices in response to competitive pressure or other factors or increase spending to pursue new market opportunities or to defend ourselves against lawsuits that may be brought against us. Any decline in average selling prices of a particular IC product which is not offset by a reduction in product costs or by sales of other products with higher gross margins would decrease our overall gross profit and adversely affect our business, financial condition and results of operations.

Period-to-period comparisons of our operating results should not be relied upon as an indication of future performance. It is likely that in some future period our operating results or business outlook will be below the expectations of securities analysts or investors, which would likely result in a significant reduction in the market price for our common shares.

### Liquidity and capital resources

Cash and cash equivalents were \$32.8 million at March 31, 2001, \$42.9 million at March 31, 2000, and \$38.5 million at March 31, 1999. Net cash used in operations was \$10.1 million for the year ended March 31, 2001, compared to cash generated from operations of \$13.5 million for the year ended March 31, 2000 and cash used in operations of \$1.4 million in the ten months ended March 31, 1999. The decrease in cash flow from operations in fiscal 2001 compared with the prior year was primarily a result of higher working capital balances,

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primarily increases in accounts receivable and an increase in inventories to support a higher sales level. The significant revenue growth experienced during fiscal 2001 resulted in a need to grant larger amounts of credit to our customers and therefore to increase investment in accounts receivable. It also resulted in a need to stock additional quantities of products to meet increased customer demands, thereby increasing our investment in inventories.

Net cash used in investing activities was \$2.3 million in the year ended March 31, 2001, \$11.2 million in the year ended March 31, 2000, and \$1.9 million in the ten months ended March 31, 1999. This was used for the purchase of capital assets, less sales of assets determined to be surplus to our needs. The increase in fiscal 2000 resulted from the continued expansion of our business through development of new products which requires higher levels of capital equipment purchases and investments in leasehold improvements in new facilities in Thornhill and Alviso. We have no significant capital spending or purchase commitments other than purchase commitments made in the ordinary course of business.

Net cash provided by financing activities was \$2.3 million for the year ended March 31, 2001, \$2.2 million for the year ended March 31, 2000 and \$3.3 million in the ten months ended March 31, 1999. This consisted primarily of amounts received for the purchase of shares under our share purchase and stock option plans.

Since inception we have satisfied our liquidity needs primarily through sales of equity securities and, to a lesser extent, through long-term debt and bank indebtedness for working capital purposes. We believe that our existing cash balances together with any cash generated from our operations will be sufficient to meet our capital requirements on a short-term basis.

On a long-term basis, we may be required to raise additional capital to fund investments in operating assets such as accounts receivable or inventory to assist in the growth of our business, or for capital assets such as land,



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buildings or equipment. 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. Although 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. In addition, from time to time we evaluate acquisitions of businesses, products or technologies that complement 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 shareholders.

### RISK FACTORS

You should carefully consider the risks described below, elsewhere in this report and in the documents that we have incorporated by reference into this report. This report contains forward-looking statements that involve known and unknown risks and uncertainties. See "Statement regarding forward-looking information" at the beginning of this report. The factors described below are cautionary statements identifying important matters that you should consider, including risks and uncertainties that could cause our actual results to differ materially and adversely from our forward-looking statements.

#### Factors that may affect future operating results

The following factors may have a harmful impact on our business:

Our success will depend on the growth of the flat panel computer monitor market and other electronics markets

Our ability to generate increased revenues will depend on the growth of the flat panel computer monitor market. This market is at an early stage of development. Our continued growth will also depend upon emerging markets for digital CRT monitors, and for consumer electronics markets, such as home theater, DVD, flat screen and digital television, and HDTV. The potential size of these markets and the timing of their development is uncertain and will depend in particular upon:

- . a significant reduction in the costs of products in the respective markets,
- . the availability of components required by such products, and
- . the emergence of competing technologies.

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For the year ended March 31, 2001, 72.2% of our revenues were derived from sales to customers in the flat panel computer monitor market. This and other potential markets may not develop as expected, which would harm our business.

Our products may not be accepted in the flat-panel computer monitor market and other emerging markets

Our success in the flat panel computer monitor market, as well as the markets for digital CRTs, home theater, DVD, flat panel and digital television, and HDTV, will depend upon the extent to which manufacturers of those products incorporate our integrated circuits into their products. Our ability to sell products into these markets will depend upon demand for the functionality provided by our products. We typically need to determine the functionality of our products and to complete their design in advance of our customers completing the designs of their products. As a result, we may not be able to react to changes in our customers' desired functionality in a timely manner. The failure of our products to be accepted in the flat panel computer monitor market in particular would harm our business.

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We must develop new products and enhance our existing products to react to rapid technological change

We must develop new products and enhance our existing products with improved technologies to meet rapidly evolving customer requirements and industry standards. We need to design products for customers that continually require higher functionality at lower costs. This requires us to continue to add features to our products and to include all of these features on a single chip. The development process for these advances is lengthy and will require us to accurately anticipate technological innovations and market trends. We may be unable to successfully develop new products or product enhancements. Any new products or product enhancements may not be accepted in new or existing markets. If we fail to develop and introduce new products or product enhancements, that failure will harm our business.

We face intense competition and may not be able to compete effectively

We compete with both large companies and start-up companies, including Macronix International Co., Ltd., Philips Semiconductors, a division of Philips Electronics N.V., Pixelworks, Inc., Sage, Inc., Silicon Image, Inc., and ST Microelectronics, Inc. We anticipate that as the markets for our products develop, our current customers may develop their own products and competition from diversified electronic and semiconductor companies will intensify. Some competitors are likely to include companies with greater financial and other resources than us. Increased competition could harm our business, by, for example, increasing pressure on our profit margins or causing us to lose customers.

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

The manufacture of semiconductors 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 can only occur well into the production cycle, when a product exists which can be physically analyzed and tested.

Defects in our products could increase our costs 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 fully covered by insurance. Any of these could harm our business.

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. Virtually all of our products use silicon wafers manufactured either by Taiwan Semiconductor Manufacturing Corporation or by United Semiconductor Corporation. No

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single product is purchased from more than one supplier. There are many risks associated with our dependence upon outside manufacturing, including:

- . reduced control over manufacturing and delivery schedules of products,
- . potential political or environmental risks in the countries where the manufacturing facilities are located,
- . reduced control over quality assurance,
- . difficulty of management of manufacturing costs and quantities,
- . potential lack of adequate capacity during periods of excess demand, and
- . potential misappropriation of intellectual property.

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 and long manufacturing lead times. 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 a strategic relationship with a new manufacturing partner 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.

Our third-party wafer foundries, third-party assembly and test subcontractors and significant customers are located in an area susceptible to earthquakes

All of our outside foundries and most of our third-party assembly and test subcontractors are located in Taiwan, which is an area susceptible to earthquakes. In addition, some of our significant customers are located in Taiwan. Damage caused by earthquakes in Taiwan may result in shortages of water or electricity or cause transportation difficulties that could limit the production capacity of our outside foundries or the ability of our subcontractors to provide assembly and test services. Any reduction in production capacity or the ability to provide assembly and test services could cause delays or shortages in our product supply, which would harm our business. Customers located in Taiwan were responsible for 47.1% of our product revenue for the year ended March 31, 2001. If future earthquakes damage our customers' facilities or equipment they could reduce their purchases of our products, which would harm our business. In addition, the operations of suppliers to our outside foundries and our Taiwanese customers could be disrupted by future earthquakes, which could in turn harm our business by resulting in shortages in our product supply or reduced purchases of our products.

A large percentage of our revenues come from sales to a small number of large customers

The markets for our products are highly concentrated. Our sales are derived from a limited number of customers. Sales to our largest five customers accounted for 31.0% of our revenues for the year ended March 31, 2001. We expect that a small number of customers will continue to account for a large amount of our revenues. All 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. The decision by any large customer to decrease or cease using our products could harm our business.

We do not have long-term commitments from our customers, and we allocate resources based on our estimates of customer demand

Our sales are made on the basis of purchase orders rather than long-term

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purchase commitments. In addition, our customers may cancel or defer purchase orders. We manufacture our products according to our estimates of customer demand. This process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may manufacture products that we may not be able to sell. As a result, we would have excess inventory, which would increase our losses. Conversely, if we underestimate customer demand or if sufficient manufacturing capacity is unavailable, we would forego revenue opportunities, lose market share and damage our customer relationships.

Our lengthy sales cycle can result in uncertainty and delays in generating revenues

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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 six months. It can take an additional six 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. 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.

Our business depends on relationships with industry leaders that are non-binding

We work closely with industry leaders in the markets we serve to design products with improved performance, cost and functionality. We typically commit significant research and development resources to such design activities. We often divert financial and personnel resources from other development projects without entering into agreements obligating these industry leaders to continue the collaborative design project or to purchase the resulting products. The failure of an industry leader to complete development of a collaborative design project or to purchase the products resulting from such projects would have an immediate and serious impact on our business, financial condition and results of operations. Our inability to establish such relationships in the future would, similarly, harm our business.

A large percentage of our revenues will come from sales outside of North America, which creates additional business risks

A large portion of our revenues will come from sales to customers outside of North America, particularly to equipment manufacturers located in Japan and other parts of Asia. For the year ended March 31, 2001, sales to regions outside of North America represented 80.2% of revenues. 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,
- . longer payment periods,
- . potentially adverse tax consequences,
- . export license requirements,
- . political and economic instability, and
- . unexpected changes in diplomatic and trade relationships.

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Because our sales are denominated in United States dollars, increases in the value of the United States dollar could increase the price of our products in non-U.S. markets and 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 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 a number of pending United States and foreign patent applications. However, we cannot assure you that any patent will be issued as a result of any applications or, if issued, that any claims allowed will be sufficiently broad to protect our technology. In addition, it is possible that existing or

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future patents may be challenged, invalidated or circumvented. It may be possible for a third party to copy or otherwise obtain and use our products, or technology without authorization, develop similar technology independently or design around our patents. Effective copyright, trademark and trade secret protection may be unavailable or limited in foreign countries.

Others may bring infringement claims against us that could be time-consuming and expensive to defend

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. This litigation is widespread in the high-technology industry and is particularly prevalent in the semiconductor industry, where a number of companies aggressively use their patent portfolios by bringing numerous infringement claims. In addition, in recent years, there has been an increase in the filing of so-called "nuisance suits" alleging infringement of intellectual property rights, which pressure defendants into entering settlement arrangements to quickly dispose of such suits, regardless of their merits. We may become a party to litigation in the future to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. For example, we are currently defending claims brought against us by Silicon Image, Inc. as described in Item 3 of this Form 10-K.

Any such lawsuit could subject us to significant liability for damages and invalidate our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- . stop selling products or using technology that contain the allegedly infringing intellectual property;

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- . attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all; and
- . attempt to redesign those products that contain the allegedly infringing intellectual property.

If we are forced to take any of these actions, we may be unable to manufacture and sell some of our products, which could harm our business.

We are growing rapidly, which strains our management and resources

We are experiencing a period of significant growth that will continue to place a great strain on our management and other resources. To manage our growth effectively, we must:

- . implement and improve operational and financial systems;
- . train and manage our employee base; and
- . attract and retain qualified personnel with relevant experience.

We must also manage multiple relationships with customers, business partners, and other third parties, such as our foundry and test partners. Moreover, we will spend substantial amounts of time and money in connection with our rapid growth and may have unexpected costs. Our systems, procedures or controls may not be adequate to support our operations and we may not be able to expand quickly enough to exploit potential market opportunities. Our future operating results will also depend on expanding sales and marketing, research and development and administrative support. If we cannot attract qualified people or manage growth effectively, our business would be seriously harmed.

We may not be able to attract or retain the key personnel we need to succeed

Competition for qualified management, engineering and technical employees is intense. As a result, employees could leave with little or no prior notice. We cannot assure you that we will be able to attract and retain employees.

If we cannot attract and retain key employees, our business would be harmed.

We may make future acquisitions where advisable and acquisitions involve numerous risks

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Our growth is dependent upon market growth and 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. 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 operation;
- . The acquisition may disrupt our ongoing business;
- . We may not be able to incorporate successfully the acquired technology and operations into our business and maintain uniform standards, controls, policies and procedures; and
- . We may lack the experience to enter into new markets, products or technologies.

Acquisitions of high-technology companies are inherently risky, and no assurance can be given that our future acquisitions, if any, will be successful and will not adversely affect our business, operating results or financial condition. We must also maintain our ability to manage any such growth effectively. Failure to manage growth effectively and successfully integrate acquisitions made by us

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could materially harm our business and operating results.

Other factors to consider

You should also consider the following factors:

The price of our stock fluctuates substantially and may continue to do so

The stock market has experienced large price and volume fluctuations that have affected the market price of many technology companies that have often been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our common stock in the future. The market price of our common stock may fluctuate significantly in response to a number of factors, including:

- . actual or anticipated fluctuations in our operating results;
- . changes in expectations as to our future financial performance;
- . changes in financial estimates of securities analysts;
- . changes in market valuations of other technology companies;
- . announcements by us or our competitors of significant technical innovations, design wins, contracts, standards or acquisitions;
- . the operating and stock price performance of other comparable companies; and
- . the number of our shares that are available for trading by the public and the trading volume of our shares.

Due to these factors, the price of our stock may decline and the value of your investment would be reduced. In addition, the stock market experiences volatility often unrelated to the performance of particular companies. These market fluctuations may cause our stock price to decline regardless of our performance.

It may be difficult for our shareholders to enforce civil liabilities under the United States federal securities laws because we are incorporated in Canada

The enforcement by our shareholders of civil liabilities under the federal securities laws of the United States may be adversely affected because:

- . we are incorporated under the laws of Nova Scotia, Canada,
- . some of our directors and officers are residents of Canada, and
- . substantial portions of our assets are located outside the United States.

As a result, it may be difficult for holders of our common shares to effect service of a legal claim within the United States on our directors and officers or on other individuals who are not residents of the United States. It may also be difficult to satisfy any judgements of courts of the United States based upon civil liabilities under the federal securities laws of the United States.

Our anti-takeover defense provisions may deter potential acquirers

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Our authorized capital consists of 1,000,000,000 special shares issuable in one or more series and 1,000,000,000 common shares. Our board of directors has the authority to issue special shares and to determine the price, designation, rights, preferences, privileges, restrictions and conditions of these shares without any further vote or action by our shareholders, including voting and dividend rights. The rights of holders of our common shares will be subject to, and may be adversely affected by, rights of holders of any special shares that we may issue in the future. The issuance of special shares could make it more difficult for a third party to acquire a majority of our outstanding voting

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shares. We have no present plans to issue any special shares. We have adopted a shareholder rights plan with respect to our common shares. This plan is specifically designed to make an unsolicited, non-negotiated takeover attempt more difficult. We also have a board of directors with three-year staggered terms, which may, in certain circumstances, make an unsolicited, non-negotiated takeover attempt more difficult.

### ITEM 7A. 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 in Canada. Although virtually all of our revenues and costs of revenues are denominated in U.S. dollars, a portion of our operating expenses is denominated in Canadian dollars. Accordingly, our operating results are affected by changes in the exchange rate between the Canadian and U.S. dollars. Any future strengthening of the Canadian dollar 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 Canadian dollar denominated assets and Canadian dollar denominated liabilities. We may in the future undertake hedging or other such transactions if we determine that it is necessary to offset exchange rate risks. Based on our overall currency rate exposure at March 31, 2001 a near-term 10% appreciation or depreciation in the Canadian dollar-U.S. dollar exchange rate would not have a material effect on our operating results or financial condition.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

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### AUDITORS' REPORT

To the Board of Directors and Shareholders of  
Genesis Microchip Incorporated



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We have audited the consolidated balance sheets of Genesis Microchip Incorporated as at March 31, 2001 and March 31, 2000 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended March 31, 2001 and March 31, 2000, and the ten month period ended March 31, 1999, as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits to provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at March 31, 2001 and March 31, 2000 and the results of operations and its cash flows for the years ended March 31, 2001 and March 31, 2000 and the ten month period ended March 31, 1999 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

May 4, 2001  
Toronto, Canada

KPMG LLP  
Chartered Accountants

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GENESIS MICROCHIP INCORPORATED  
CONSOLIDATED BALANCE SHEETS  
(dollar amounts in thousands of U.S. dollars)

ASSETS

Current assets:

Cash and cash equivalents.....	\$3
Accounts receivable trade, net of allowance for doubtful accounts of \$78 in 2001 and \$230 in 2000.....	1
Income taxes recoverable.....	1
Inventory.....	1
Investment held for resale.....	

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Other.....	---
Total current assets.....	6
Property and equipment (note 3).....	1
Deferred income taxes (note 7).....	---
Other.....	---
Total assets.....	\$8
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable.....	\$
Accrued liabilities.....	---
Current portion of loan payable (note 4 ).....	---
Total current liabilities.....	1
Long-term liabilities:	
Loan payable (note 4).....	---
Total liabilities.....	1
Shareholders' equity (note 5):	
Share capital:	
Special shares:	
Authorized - 1,000,000,000 special shares	
Issued and outstanding - none at March 31, 2000 and 2001.....	
Common shares:	
Authorized - 1,000,000,000 common shares	
Issued and outstanding - 19,559,103 at March 31, 2001	
and 19,140,482 shares at March 31, 2000.....	7
Additional paid in capital.....	
Cumulative other comprehensive loss.....	
Deferred compensation.....	
Deficit.....	(
Total shareholders' equity.....	7
Total liabilities and shareholders' equity.....	\$8
Commitments and contingencies (notes 9 and 11)	

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INCORPORATED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(dollar amounts in thousands of U.S. dollars, except per share amounts)

	Year Ended March 31 2001 -----	Year Ended March 31 2000 -----	Ten Months Ended March 31 1999 -----
Revenues.....	\$63,627	\$53,332	\$37,738

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Cost of revenues.....	32,416	17,021	14,062
	-----	-----	-----
Gross profit.....	31,211	36,311	23,676
Operating expenses:			
Research and development.....	17,413	16,065	10,261
Selling, general and administrative.....	15,947	12,364	10,307
Merger related costs.....	-	3,455	-
	-----	-----	-----
Total operating expenses.....	33,360	31,844	20,568
	-----	-----	-----
Income (loss) from operations.....	(2,149)	4,427	3,108
Interest and other income.....	2,328	1,941	1,436
	-----	-----	-----
Income before income taxes.....	179	6,368	4,544
Provision for (recovery of) income taxes (note 7)..	(2,483)	360	(986)
	-----	-----	-----
Net income.....	\$ 2,662	\$ 6,008	\$ 5,530
	=====	=====	=====
 Earnings per share:			
Basic.....	\$ 0.14	\$ 0.32	\$ 0.31
Diluted.....	\$ 0.13	\$ 0.30	\$ 0.29
 Weighted average number of common shares outstanding (in thousands):			
Basic.....	19,406	18,756	18,027
Diluted.....	19,884	19,922	19,365

See accompanying notes to consolidated financial statements.

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SHAREHOLDERS' EQUITY STATEMENT

GENESIS MICROCHIP INCORPORATED  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(dollar amounts in thousands of U.S. dollars)

	Common Shares		Additional	Share	Cumulative
	Number	Amount	Paid-In Capital	Purchase Loans Receivable	Other Comprehensive Loss
Balances, May 31, 1998	17,534,260	\$66,303	\$ 729	\$(164)	\$(94)
Net income	-	-	-	-	-
Repurchased at cost and cancellation of shareholder note receivable	(230,568)	(1)	(39)	40	-
Issue of common share purchase warrants	-	-	58	-	-
Issued from stock option and stock purchase plans	1,041,401	2,145	157	-	-
Repayment of share purchase loans receivable	-	-	-	124	-
Deferred compensation related to stock options	-	-	388	-	-
Amortization of deferred compensation relate to stock options	-	-	-	-	-

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Balances, March 31, 1999	18,345,093	68,447	1,293	-	(94)
Net income	-	-	-	-	-
Issued from stock option and stock purchase plans	795,389	3,778	-	-	-
Amortization of deferred compensation related to stock options	-	-	-	-	-
Balances, March 31, 2000	19,140,482	72,225	1,293	-	(94)
Net income	-	-	-	-	-
Issued from stock option and stock purchase plans	418,621	2,394	-	-	-
Amortization of deferred compensation related to stock options	-	-	-	-	-
Balances, March 31, 2001	19,559,103	\$74,619	\$1,293	-	\$(94)

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INCORPORATED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(dollar amounts in thousands of U.S. dollars)

	Year Ended March 31 2001 ----	Ye End March 20 --
Cash flows from operating activities:		
Net income.....	\$ 2,662	\$ 6
Adjustments to reconcile net income to cash used in operating activities:		
Amortization.....	3,534	3
Gain on sale of capital assets.....	(66)	
Non-cash compensation expense related to stock options and shares issued.....	86	
Gain on sale of investment.....	(100)	
Deferred income taxes.....	(3,537)	
Change in operating assets and liabilities:		
Accounts receivable trade.....	(8,389)	3
Income taxes recoverable.....	82	
Inventory.....	(5,791)	2
Other.....	(3,167)	1
Accounts payable.....	4,888	
Accrued liabilities.....	(260)	(1
Net cash from (used in) operating activities.....	(10,058)	13
Cash flows from investing activities:		
Additions to capital assets.....	(5,573)	(11
Proceeds on disposal of capital assets.....	3,157	
Other.....	80	

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Cash used in investing activities.....	(2,336)	(11)
Cash flows from financing activities:		
Proceeds from:		
Issue of common shares and common share purchase warrants, net of issue costs.....	2,394	3
Loans payable.....	-	
Repayment of loans payable.....	(90)	(1)
Repayment of share purchase loans.....	-	
Net cash provided by financing activities.....	2,304	2
Effect of currency translation on cash balances.....	(25)	
Increase (decrease) in cash and cash equivalents.....	(10,115)	4
Cash and cash equivalents, beginning of period.....	42,942	38
Cash and cash equivalents, end of period.....	\$ 32,827	\$ 42
Supplemental cash flow information:		
Cash paid for interest.....	\$ -	\$ -
Cash paid for income taxes.....	\$ 1,390	\$ 1
Supplemental disclosure of non-cash operating activities:		
Interest expense.....	\$ -	\$ -
Issuance of warrants.....	\$ -	\$ -
Supplemental disclosure of non-cash investing and financing activities:		
Repurchase of common stock by cancellation of notes receivable.....	\$ -	\$ -
Deferred compensation related to stock options.....	\$ -	\$ -

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

Genesis Microchip Incorporated ("Genesis") designs, develops and markets integrated circuits that receive and process digital video and graphic images.

2. Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of Genesis and its subsidiaries. All material inter-company transactions and balances have been eliminated.

In May 1999, Genesis' Board of Directors approved a change in the fiscal year end to March 31, effective March 31, 1999. Genesis previously reported its results on the basis of a fiscal year of June 1 through May 31.

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### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

### Cash and cash equivalents

All highly liquid investments with an original maturity of three months or less at the date of acquisition are classified as cash equivalents.

### Inventory

Inventory consists principally of finished goods and is stated at the lower of cost (first-in, first-out) or net realizable value.

### Property and Equipment

Property and equipment are stated at cost. Amortization is recorded using the following methods and annual rates over the estimated useful lives of the assets:

Property and equipment	20% to 30% declining balance
Computer software	50% straight line
Leasehold improvements	Straight line over the term of the lease

Genesis 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 statement of operations.

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## GENESIS MICROCHIP INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Revenue recognition

Genesis recognizes revenue from product sales to customers when a contract is established, the price is determined, shipment is made and collectibility is reasonably assured. Genesis' policy on sales to distributors is to defer recognition of sales and related cost of sales until the distributors resell the product. Product returns and allowances are estimated and provided for at the time of sale. To date, Genesis has not experienced any significant product returns.

### Currency translation

The U.S. dollar is the functional currency of Genesis and of its subsidiaries. Transactions of the Company and its subsidiaries originating in foreign currencies are translated into U.S. dollars at exchange rates approximating those at the date of the transaction. Monetary assets and liabilities are translated at the period-end rate of exchange and non-monetary items are translated at historical exchange rates. Exchange gains and losses are included in the consolidated statement of operations for the period.

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### Research and development expenses

Research and development costs are expensed as incurred.

### Investment tax credits

Genesis is entitled to Canadian federal and provincial investment tax credits which are earned as a percentage of eligible current and capital research and development expenditures incurred in each taxation year. Investment tax credits are available to be applied against future income tax liabilities, subject to a ten year carry forward period.

Investment tax credits are classified as a reduction of income tax expense for items of a current nature and a reduction of the related asset cost for items of a long-term nature, provided that Genesis has reasonable assurance that the tax credits will be realized.

### Financial instruments and concentration of credit risk

Financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable, accrued liabilities and loan payable. Genesis determines the fair value of its financial instruments based on quoted market values or discounted cash flow analyses. Unless otherwise indicated, the fair values of financial assets and financial liabilities approximate their recorded amounts.

Financial instruments that potentially subject Genesis to concentrations of credit risk consist primarily of cash equivalents and accounts receivable trade. Cash equivalents consist of deposits with or guaranteed by major commercial banks, the maturities of which are three months or less from the date of purchase. With respect to accounts receivable, Genesis performs periodic credit evaluations of the financial condition of its customers and typically does not require collateral from them. Allowances are maintained for potential credit losses consistent with the credit risk of specific customers, historical trends and other information. Credit losses have been within management's range of expectations.

### Earnings per share

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### GENESIS MICROCHIP INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Basic earnings per share has been calculated by dividing the net income for the period available to common shareholders by the weighted average number of common shares outstanding during that period. Basic earnings per share excludes the dilutive effect of potential common shares. Diluted earnings per share gives effect to all potential common shares outstanding during the period. The weighted average number of diluted shares outstanding is calculated assuming that the proceeds from potential common shares are used to repurchase common shares at the average share price in the period.

### Stock-based compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting of Stock Issued to Employees" and related interpretations, in accounting for its employee stock options because the alternative fair value accounting provided for under Financial Accounting Standards Board, Statement No. 123 ("SFAS 123") "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed

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for use in valuing employee stock options. Under APB 25, deferred compensation is recorded at the option grant date in an amount equal to the excess of the market value of a common share over the exercise price of the option. Compensation expense is recognized over the vesting period of the option. The issuance of shares for consideration that is less than the market value of the shares results in compensation expense equal to the excess of the market value of the shares over the fair value of the consideration received.

### Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period resulting from transactions and other events and circumstances from non-owner sources. For the periods ended March 31, 2001, 2000 and 1999, there is no difference for Genesis between net income and comprehensive income.

### Income taxes

Under the asset and liability method of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"), deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that it is not considered to be more likely than not that a deferred tax asset will be recognized, a valuation allowance is provided.

### Recent accounting pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Hedging Activities" (SFAS No. 138"), which amended SFAS No. 133. SFAS No. 138 must be adopted concurrently with the adoption of SFAS No. 133. The Company will be required to adopt these statements for the year ended March 31, 2002, commencing with the quarter ended

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## GENESIS MICROCHIP INCORPORATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2001. SFAS No. 133 and SFAS No. 138 establish methods of accounting for derivative financial instruments and hedging activities. Because the Company currently holds no derivative financial instruments and the Company does not currently engage in hedging activities, the adoption of SFAS No. 133 and SFAS No. 138 will not have a material impact on the Company's financial condition or results of operations.

### 3. Property and equipment

Property and equipment consist of the following (in thousands):

March 31      March 31



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	2001 ----	2000 ----
Property and equipment.....	\$ 8,878	\$ 9,238
Computer software.....	6,031	4,537
Leasehold improvements.....	3,263	3,610
	-----	-----
	18,172	17,385
Less accumulated amortization.....	(7,766)	(5,870)
	-----	-----
	\$10,406	\$11,515
	=====	=====

4. Loan payable

The loan payable is non-interest bearing and is unsecured. It is payable in annual principal installments by fiscal year as follows (in thousands):

	March 31, 2001 -----
2002.....	\$ 89
2003.....	89
2004.....	89
2005.....	89
2006.....	89
2007 and thereafter.....	54
	-----
	499
Less current portion.....	89
	-----
	\$410
	=====

The fair value of the loan payable was \$ 420,000 at March 31, 2001, and \$481,000 at March 31, 2000, based on the present value of contractual future payments, discounted at the current market rate of interest available to Genesis for similar term and security debt instruments.

5. Shareholders' equity

Special shares

The Board of Directors of Genesis is authorized to issue up to 1,000,000,000 special shares from time to time in one or more series, to fix the number of special shares of such series and to determine the designation, rights (including voting rights, dividend rights, rights of retraction and rights of redemption), privileges, restrictions and conditions attaching to the shares of each such series, without further vote or action by the shareholders. No series of special

shares may have a priority over any other series of special shares with respect to dividends or liquidation rights. The special shares may have voting rights superior to the common shares or other series of special shares and may rank senior to the common shares as to dividends and as to the distribution of assets

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in the event of liquidation, dissolution or winding-up of Genesis.

### Underwriter options

As a condition of the issuance of special and bonus warrants in July 1996, Genesis granted an option to purchase 213,600 common shares at any time prior to July 31, 1998 at an exercise price of CDN\$9.00 (U.S. \$6.18) per share. On June 17, 1998, in lieu of purchasing the entire number of shares for cash, the underwriter chose a cashless exercise alternative, whereby it received 113,252 common shares for no additional cash consideration in complete settlement of the above option on that date.

### 6. Stock option and stock purchase plans

#### 1987 Stock Option Plan

The 1987 Stock Option Plan (the "1987 Plan") was established for the benefit of full-time employees and directors of Genesis and consultants engaged by Genesis. Options granted under the 1987 Plan vest over periods of two to four years and expire from five to seven years from the dates of the grants, unless extended by the Board of Directors. As a result of the establishment of the 1997 Employee Stock Option Plan, no additional options will be granted under the 1987 Plan. Upon exercise, expiration or cancellation of all of the options granted under the 1987 Plan, this plan will be terminated. All options granted under the 1987 Plan are exercisable in Canadian dollars.

#### 1997 Employee Stock Option Plan

The 1997 Employee Stock Option Plan (the "1997 Employee Plan") provides for the granting to employees of incentive stock options, non-statutory stock options and stock purchase rights for up to 800,000 common shares plus an annual increase to be added on the first day of each fiscal year equal to the lesser of (i) 2,000,000 Shares, (ii) 3.5% of the outstanding shares on such date, or (iii) a lesser amount determined by the Board. The exercise price of incentive stock options granted under the 1997 Employee Plan may not to be less than 100% (110% in the case of any options granted to a person who held more than 10% of the total combined voting power of all classes of shares of Genesis) of the fair market value of the common shares subject to the option on the date of the grant. The term of the options do not exceed 10 years (five years in the case of any options granted to a person who held more than 10% of the total combined voting power of all classes of shares of Genesis) and vest over four years. As of March 31, 2001, there were 201,420 shares available for grant under the 1997 Employee Plan.

#### 1997 Paradise Stock Option Plan

The 1997 Paradise Stock Option Plan (the "Paradise Plan") provided for the granting of Incentive Stock Options (ISOs) to employees of Paradise Electronics Inc., a wholly owned subsidiary of Genesis ("Paradise") and Non-statutory Stock Options (NSOs) to Paradise employees, directors, and consultants. As a result of the merger of Paradise with Genesis, each outstanding option or right to purchase shares of Paradise common stock is exercisable for Genesis common shares, adjusted to reflect the exchange ratio of Genesis common shares for Paradise common stock in the merger. No additional options will be granted

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under the Paradise Plan. Upon exercise, expiration or cancellation of all of the options granted under the Paradise Plan, this plan will be terminated.

### 1997 Non-Employee Stock Option Plan

The 1997 Non-Employee Stock Option Plan (the "Non-Employee Plan") provides for the granting to non-employee directors and consultants of Genesis of options for up to 500,000 common shares. The exercise price of stock options granted under the Non-Employee Plan may not be less than 100% of the fair market value of the common shares subject to the option on the date of the grant. Options granted under the Non-Employee Plan have a term of up to ten years and generally vest over periods of up to two years. As at March 31, 2001, there were 292,375 shares available for grant under the 1997 Non-Employee Plan.

### 2000 Non-Statutory Stock Option Plan

The 2000 Non-Statutory Stock Option Plan (the "the 2000 Employee Plan") provides for the granting to employees, consultants and directors of non-statutory stock options for up to 1,500,000 common shares. The exercise price of stock options granted under the 2000 Employee Plan may not be less than 100% of the fair market value of the common shares subject to the option at the date of grant. The term of the options may not exceed 10 years and generally vest over four years. As at March 31, 2001, there were 104,348 shares available for grant under the 2000 Employee Plan.

### 2001 Non-Statutory Stock Option Plan

The 2001 Non-Statutory Stock Option Plan (the "the 2001 Employee Plan") provides for the granting to employees, consultants and employee directors of non-statutory stock options for up to 1,000,000 common shares. The exercise price of stock options granted under the 2001 Employee Plan may not be less than 100% of the fair market value of the common shares subject to the option at the date of grant. The term of the options may not exceed 10 years and generally vest over four years. As at March 31, 2001, there were 603,000 shares available for grant under the 2001 Employee Plan.

### Employee Stock Purchase Plan

Genesis has established an employee stock purchase plan under which employees may authorize payroll deductions of up to 15% of their compensation (as defined in the plan) to purchase common shares at a price equal to 85% of the lower of the fair market values as of the beginning or the end of the offering period. As at March 31, 2001, 148,288 common shares were available for issuance under this plan.

Details of stock option transactions are as follows:

	Number of shares -----	Option price per share -----	Weighted average exercise price per share -----
Balances, May 31, 1998.....	1,904,268	0.17 - 14.00	3.65
Issued.....	1,089,340	0.78 - 31.50	8.33
Exercised.....	(946,935)	0.17 - 16.69	2.04
Cancelled.....	(79,405)	0.17 - 29.93	7.36
	-----		
Balances, March 31, 1999.....	1,967,268	0.17 - 31.50	7.64
Issued.....	1,508,789	15.25 - 27.13	18.89

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Exercised.....	(616,717)	0.17 - 20.81	4.67
Cancelled.....	(342,914)	0.78 - 31.50	12.97
	-----		
Balances, March 31, 2000.....	2,516,426	0.17 - 31.50	13.50
Issued.....	3,190,900	9.25 - 20.56	14.33
Exercised.....	(317,446)	0.17 - 18.13	4.82
Cancelled.....	(1,037,768)	0.78 - 29.93	15.96
	-----		
Balances, March 31, 2001.....	4,352,112	0.17 - 31.50	14.28

There were 1,028,002 options at March 31, 2001, 533,580 options at March 31, 2000, and 481,848 options at March 31, 1999 that had vested and were exercisable, with a weighted average exercise price per share of \$13.39 at March 31, 2001, \$7.54 at March 31, 2000, and \$5.80 at March 31, 1999. All options issued during each period were issued at fair value. The weighted average remaining contractual life of all of the options outstanding at March 31, 2001 was 6.95 years, at March 31, 2000 was 8.45 years, and at March 31, 1999 was 8.12 years.

Genesis recorded no deferred compensation for the years ended March 31, 2001 or March 31, 2000, and \$388,000 for the ten months ended March 31, 1999. The amortization of deferred compensation is charged to operations and is amortized over the vesting period of the options. Amortization of deferred compensation was \$86,000 for the year ended March 31, 2001, \$53,000 for the year ended March 31, 2000, and \$231,000 for the ten months ended March 31, 1999.

SFAS 123 requires the disclosure of pro forma net income and earnings per share as if Genesis had adopted the fair value method as of the beginning of its 1996 fiscal year. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from Genesis' stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. Genesis' calculations were made using the Black-Scholes option pricing model using a dividend yield of 0% and the assumptions noted below in the table.

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Months Ended March 31 1999 ----
Risk-free interest rates.....	4.5%	5.0%	5.0%
Volatility.....	80%	88%	92%
Expected life of option in years..	5	5	5

Had compensation expense been determined based on the fair value of awards at the grant dates in accordance with the methodology prescribed in SFAS 123, Genesis' net income and earnings per share for fiscal 2001 would have decreased by approximately \$10,538,000 or by \$0.54 for basic earnings per share and by \$0.53 for diluted earnings per share. The net income and earnings per share for

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fiscal 2000 would have decreased by approximately \$9,557,000 or by \$0.51 for basic earnings per share and by \$0.49 for diluted earnings per share. The net income and earnings per share for fiscal 1999 would have decreased by approximately \$3,010,000 or by \$0.17 per share for basic earnings per share and by \$0.16 for diluted

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

earnings per share. The effects on pro forma disclosure of applying SFAS 123 are not likely to be representative of the effects on pro forma disclosure in future years.

The weighted average fair values of options granted during fiscal 2001, 2000, and 1999 are \$8.79, \$15.45, and \$10.47, respectively.

7. Income taxes

The provision for income taxes consists of (in thousands):

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Months Ended March 31 1999 ----
Current.....	\$ 1,054	\$1,069	\$ -
Deferred.....	(3,537)	(709)	(986)
	-----	-----	-----
	\$ (2,483)	\$ 360	\$ (986)
	=====	=====	=====

The provision for (recovery of) income taxes differs from the amount computed by applying the statutory income tax rate to income before provision for income taxes. The sources and tax effects of the differences are as follows (in thousands):

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Ma
Basic rate applied to income before provision for (recovery of) income taxes.....	\$ 76	\$ 2,802	
Adjustments resulting from:			
Permanent difference arising from stock option deduction...	(1,200)	(188)	
Non-deductible expenses.....	280	65	
Research and development deductions and investment tax credits.....	(1,071)	(1,212)	
Foreign tax rate differences.....	(472)	-	
Utilization of loss carry-forwards.....	-	-	
Utilization of research and development expenses deferred for income tax purposes.....	-	-	
Change in valuation allowance.....	-	(1,096)	
Other items.....	(96)	(11)	
	-----	-----	

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.....	(2,483)	360
Unrecognized benefit of losses		
carried forward.....	-	-
	-----	-----
	\$ (2,483)	\$ 360
	=====	=====

Pretax income from foreign operations was \$4,730,000 for the year ended March 31, 2001, \$427,000 for the year ended March 31, 2000, and \$2,790,000 for the ten months ended March 31, 1999.

Significant components of Genesis' deferred tax assets are as follows (in thousands):

	March 31	
	2001	2000
	-----	-----
Net operating loss carryforwards.....	\$ 6,857	4,282
Investment tax credit carryforwards.....	1,737	1,035

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Deferred interest charges.....	1,492	1,492
Issue costs.....	554	983
Merger related costs.....	405	621
Other.....	110	(795)
	-----	-----
Net deferred tax asset.....	11,155	7,618
Less valuation allowance.....	(4,594)	(4,594)
	-----	-----
	\$ 6,561	\$ 3,024
	=====	=====

There is no change in the valuation allowance during the year ended March 31, 2001. The valuation allowance increased by \$462,000 during the year ended March 31, 2000, primarily as a result of not recognizing the benefit of net operating losses. The valuation allowance decreased by \$2,640,000 during the ten months ended March 31, 1999 primarily as a result of utilization of net operating losses and research and development expenses deferred for income tax purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the 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. Management considers projected future taxable income uncertainties related to the industry in which Genesis operates and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, Genesis would need to generate future taxable income of approximately \$29,000,000 prior to the expiration of the net operating loss carryforwards in the years 2008 to 2015. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not Genesis will realize the benefits of these deductible differences, net of the existing valuation allowances.

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8. Earnings per share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation as required by SFAS 128 (in thousands, except per share amounts):

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Months Ended March 31 1999 ----
Numerator for basic and diluted net income per share:			
Net income.....	\$ 2,662 =====	\$ 6,008 =====	\$ 5,530 =====
Denominator for basic net income per share:			
Weighted average common shares....	19,406 =====	18,756 =====	18,027 =====
Basic net income per share.....	\$ 0.14 =====	\$ 0.32 =====	\$ 0.31 =====
Denominator for diluted net income per share:			
Weighted average common shares....	19,406	18,756	18,027
Stock options and warrants.....	478	1,166	1,338
	-----	-----	-----
Shares used in computing diluted net income per share.....	19,884 =====	19,922 =====	19,365 =====
Diluted net income per share.....	\$ 0.13 =====	\$ 0.30 =====	\$ 0.29 =====

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Commitments and contingencies

Lease commitments

Genesis leases premises in Ontario and California under operating leases that expire on May 31, 2009 and July 31, 2003, respectively. In addition, certain equipment is leased under non-cancellable operating leases expiring in various years through 2003. Future minimum lease payments by fiscal year are as follows (in thousands):

	Amount -----
2001.....	\$ 2,204
2002.....	2,141
2003.....	2,067
2004.....	2,022
2005.....	2,043
Thereafter.....	3,338
	-----

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\$13,815

=====

Rental expense was \$2,211,000 for the year ended March 31, 2001, \$1,187,000 for the year ended March 31, 2000, and \$651,000 for the ten months ended March 31, 1999.

Supply agreements

Genesis purchases products from several suppliers but no single product is purchased from more than one supplier. Should a source of products cease to be available, management believes that this would have a material adverse effect on Genesis' business, financial condition and results of operations. Under the terms of the supply agreements, Genesis has no guarantees of minimum capacity from its suppliers and is not liable for minimum purchase commitments.

10. Segment information

Genesis operates and tracks 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 divided into two major categories; flat panel monitors and other.

Revenues by major product category were as follows:

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Months Ended March 31 1999 ----
Flat panel monitors.....	\$45,928	\$36,788	\$26,374
Other.....	17,699	16,544	11,364
	-----	-----	-----
	\$63,627	\$53,332	\$37,738
	=====	=====	=====

Other revenue includes \$1,030,000 of sub-lease rental income for the year ended March 31, 2001. No rental income was earned during the year ended March 31, 2000, nor the ten months ended March 31, 1999.

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GENESIS MICROCHIP INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Geographic revenue information is based on the shipment destination. Long-lived assets include property, plant and equipment as well as intangible assets including unamortized patent costs. Property, plant and equipment information is based on the physical location of the asset and the end of each fiscal period while the intangibles are based on the location of the owning entity.

Revenues from unaffiliated customers by geographic region were as follows:

	Year Ended March 31 2001 ----	Year Ended March 31 2000 ----	Ten Months Ended March 31 1999 ----



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United States.....	\$ 9,519	\$11,288	\$ 7,535
Japan and Asia.....	49,508	40,139	28,576
Canada.....	3,050	624	300
Other.....	1,550	1,281	1,327
	-----	-----	-----
	\$63,627	\$53,332	\$37,738
	=====	=====	=====

Net long-lived assets by country were as follows:

	March 31	
	2001	2000
	----	----
United States.....	\$ 4,896	\$ 3,000
Canada.....	6,052	9,000
	-----	-----
	\$10,948	\$12,000
	=====	=====

For the year ended March 31, 2001, no customer accounted for more than 10% of total revenues. For the year ended March 31, 2000, one customer accounted for 10% of total revenues. For the ten months ended March 31, 1999, two customers accounted for 16% and 12% of total revenues, respectively. At March 31, 2001, one customer represented 10% of accounts receivable trade. At March 31, 2000, two customers represented 16% and 10% of accounts receivable trade, respectively.

11. Subsequent Event

On April 24, 2001, Silicon Image, Inc., announced that it had filed a patent infringement lawsuit against the Company in the United States District Court for the Eastern District of Virginia and had filed a complaint before the International Trade Commission of the United States Government. The complaint and suit allege that certain Genesis products infringe various claims of one of Silicon Image's patents. Genesis believes the lawsuit to be baseless and without merit, and intends to defend it vigorously. The financial impact of these claims is not yet determinable, and no provision has been made in the consolidated financial statements for any costs associated with these claims.

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Genesis Microchip Inc.  
Selected Quarterly Financial Information  
(Unaudited)

	Three Months Ended				
	Mar.	Dec.	Sep.	Jun.	Mar.
	2001	2000	2000	2000	2000
	-----	-----	-----	-----	-----
Revenues.....	\$ 18,471	\$ 17,304	\$ 15,040	\$ 12,812	\$ 10,605
Cost of revenues.....	14,762	7,697	5,603	4,354	3,492

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Gross profit.....	3,709	9,607	9,437	8,458	7,113
Operating expenses:					
Research and development.....	4,156	4,792	4,417	4,048	4,149
Selling, general and administrative.....	5,372	3,833	3,553	3,189	2,988
Merger related costs.....	--	--	--	--	--
Total operating expenses.....	9,528	8,625	7,970	7,237	7,137
Income (loss) from operations.....	(5,819)	982	1,467	1,221	(24)
Interest and other income.....	433	642	739	514	459
Income (loss) before income taxes.....	(5,386)	1,624	2,206	1,735	435
Provision for (recovery of) income taxes.....	(2,540)	(354)	241	170	(74)
Net income (loss).....	\$ (2,846)	\$ 1,978	\$ 1,965	\$ 1,565	\$ 509
Net income (loss) per share					
Basic.....	\$ (0.15)	\$ 0.10	\$ 0.10	\$ 0.08	\$ 0.03
Diluted.....	\$ (0.15)	\$ 0.10	\$ 0.10	\$ 0.08	\$ 0.03
Shares used to compute basic net income (loss) per share.....	19,524	19,378	19,294	19,215	19,081
Shares used to compute diluted net income (loss) per share.....	19,524	19,860	19,963	19,858	19,991

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE:

Not applicable.

PART III

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ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS:

The information required by this item with respect to our directors and executive officers and the filing of reports under Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from our 2001 Proxy Statement. The information for this item can be found under the captions, "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance of the Securities Exchange Act of 1934."

ITEM 11. EXECUTIVE COMPENSATION:

The information required by this item is incorporated by reference from our 2001 Proxy Statement. The information for this item can be found under the caption, "Compensation and Other Information Concerning Officers."

ITEM 12. SECURITY OWNERSHIP OF PRINCIPAL OWNERS AND MANAGEMENT:

The information required by this item is incorporated by reference from our 2001 Proxy Statement. The information for this item can be found under the caption, "Share Ownership by Our Directors, Officers and Principal Shareholders."

ITEM 13. SIGNIFICANT RELATIONSHIPS AND TRANSACTIONS WITH DIRECTORS, OFFICERS OR

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## PRINCIPAL SHAREHOLDERS:

The information required by this item is incorporated by reference from our 2001 Proxy Statement. The information for this item can be found under the caption, "Transactions with our Directors, Officers and Principal Shareholders."

## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K:

(a) Documents filed with this report:

#### 1. Consolidated Financial Statements.

The following consolidated financial statements and related auditors' report are incorporated in Item 8 of this report.

- . Auditors' Report.
- . Consolidated Balance Sheets at March 31, 2001 and 2000.
- . Consolidated Statements of Operations for the years ended March 31, 2001 and March 31, 2000, and for the ten months ended March 31, 1999.
- . Consolidated Statements of Shareholders' Equity for the years ended March 31, 2001 and March 31, 2000, and for the ten months ended March 31, 1999.
- . Consolidated Statements of Cash Flows for the years ended March 31, 2001 and March 31, 2000, and for the ten months ended March 31, 1999.
- . Notes to Consolidated Financial Statements
- . Selected Quarterly Financial Information

#### 2. Consolidated Financial Statement Schedules.

The schedule listed in the Consolidated Financial Statement Schedule Index is filed as part of this report on Form 10-K.

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All other financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements and Notes thereto which are included herein.

#### 3. Exhibits.

The exhibits listed in the Exhibit Index are filed as a part of this report on Form 10-K.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended March 31, 2001.

## SIGNATURES

The following authorized person has signed this report on our behalf, as required by Section 13 or 15(d) of the Securities Exchange Act of 1934.

GENESIS MICROCHIP INCORPORATED

Date: June 29, 2001

By: /s/ Eric Erdman

-----  
Eric Erdman  
Chief Financial Officer and Secretary

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This report has been signed by the following persons in the capacities and on the dates indicated as required by the Securities Exchange Act of 1934.

Name	Title	Date
/s/ Alexander S. Lushtak		
Alexander S. Lushtak	Chairman	June
/s/ Amnon Fisher		
Amnon Fisher	President and Chief Executive Officer	June
/s/ Eric Erdman		
Eric Erdman	Chief Financial Officer and Secretary	June
/s/ James E. Donegan		
James E. Donegan	Director	June
/s/ George A. Duguay		
George A. Duguay	Director	June
/s/ Lawrence G. Finch		
Lawrence G. Finch	Director	June

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/s/ Jeffrey Diamond		
Jeffrey Diamond	Director	June 29, 2001

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### CONSOLIDATED FINANCIAL STATEMENT SCHEDULE INDEX

Schedule Number	Description
II	Valuation and Qualifying Accounts

### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

	Balance, beginning of period	Charged to Cost of Sales	Deductions	Balance, end of period

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	\$000	\$ 000	\$000	\$ 000
-----				
Inventory Obsolescence Reserve				
-----				
March 31, 1999	390	-	-	390
-----				
March 31, 2000	390	550	-	940
-----				
March 31, 2001	940	1,254	484	1,710
-----				

EXHIBIT INDEX

Exhibit Number	Description
-----	-----
21	Subsidiaries
23	Consent of KPMG, LLP dated June 29, 2001