GENESIS MICROCHIP INC /DE
Form 10-K
June 10, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended March 31, 2004

OR

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

Commission file number: 000-33477

GENESIS MICROCHIP INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0584301**
(State of incorporation)	**(IRS employer identification number)**
2150 GOLD STREET	
P.O. BOX 2150	
ALVISO, CALIFORNIA	**95002**
(Address of principal executive offices)	**(Zip Code)**

(408) 262-6599

(Registrant s telephone number)

Securities registered pursuant to section 12(g) of the Act:

Shares of Common Stock, $0.001 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 x 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. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 2004 was approximately $352,466,539 based on the number of shares held by non-affiliates of the registrant as of March 31, 2004, and based on the reported last sale price of common stock on September 30, 2003, which was the last business day of the registrant s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons are affiliates for any other purposes. Shares of stock held by five percent stockholders have been excluded from this calculation as they may be deemed affiliates.

The number of shares outstanding of the issuer s common stock as of March 31, 2004 was 32,652,595.

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Statement regarding forward-looking statements

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 state
We believe that the expectations reflected in the forward-looking statements are reasonable but we cannot assure you that 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®, Genesis Display Perfection, Faroudja®, DCDi® by Faroudja, Faroudja Picture Plus®, Nuon®, SmartSCAN®, RealColor®, Real Recovery, Ultra-Reliable DVI®, Energy Spectrum Management®, and ESM are our trademarks or registered trademarks. This report also refers to the trademarks of other companies.

Available Information

Our Internet address is *www.gnss.com*. We make publicly available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Codes of Ethics

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of our codes of ethics by filing a current report on Form 8-K with the Securities and Exchange Commission disclosing such information or, to the extent permissible, by posting such information on our website, at the address specified above, within the period required by Item 10 of Form 8-K and, as applicable, the listing standards of the Nasdaq National Market.

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PART I

Item 1. *Business:*

Overview

We design, develop and market integrated circuits called display controllers that receive and process digital video and graphic images for viewing on a flat panel display. Our display controllers are typically located inside a flat panel display device, such as a flat panel computer monitor or television. We are currently targeting established display applications such as flat-panel computer monitor, and emerging display applications such as liquid crystal display (LCD) television and digital television.

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 input, resolution, format and frame refresh rate conversion problems while maintaining critical image information and improving perceived image quality. Our display controller products utilize patented algorithms and integrated circuit architectures as well as advanced integrated circuit design and system design expertise.

We began business as a Canadian company in 1987, and changed our domicile to become a Delaware corporation in February 2002. Until 1999 we were focused primarily on developing digital image processing technologies. In May 1999 we acquired a private U.S. corporation, Paradise Electronics, Inc., which, in addition to developing digital image processing technologies, was developing analog and mixed signal communications technologies. We have now combined analog and mixed signal technologies with digital image processing technologies into more comprehensive display controller solutions.

In February 2002, we acquired a public U.S. corporation, Sage, Inc. In addition to bringing additional image processing and mixed signal technologies to address the flat panel monitor market, Sage was developing significant expertise in technologies addressing other emerging display applications, including those technologies acquired during Sage s acquisition of Faroudja, Inc. in June 2000. In March 2002 we acquired the technology assets of VM Labs, Inc. Those technologies include digital video decoding and audio technologies. These acquisitions improved our product offerings for the flat panel monitor market, and our ability to diversify our business into other emerging display markets, such as LCD television.

In March 2003, we entered into an agreement to merge with Pixelworks, Inc., an Oregon corporation. In August 2003, we and Pixelworks agreed to terminate the proposed merger. Under the terms of the agreement, the parties agreed to a mutual release of claims, and Pixelworks agreed to immediately pay us $5.5 million as a reimbursement for our expenses.

We operate through subsidiaries and offices in the United States, Canada, China, India, Japan, South Korea, and Taiwan. Our business is conducted globally, with the majority of our suppliers and customers located in China, Japan, South Korea and Taiwan. For a geographical breakdown of our revenues and long-lived assets, see note 16 to our consolidated financial statements included in Item 8 of this report.

Markets and applications

Our targeted applications include the following:

Flat Panel Computer Monitors. Flat panel computer monitors using liquid crystal displays, or LCDs, are increasingly replacing monitors that use CRTs. For the year ended March 31, 2004, the flat panel computer monitor market represented an estimated 67% of our total revenues. Companies whose flat panel computer monitors incorporate our products include AOC, BenQ, Dell, Fujitsu, Gateway, Hewlett-Packard, IBM, Legend, LiteOn, NEC, Philips, Samsung, Sony, ViewSonic and many other leading brands.

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Consumer Digital Television. We are leveraging our technologies in video image processing to produce products for fast-growing flat panel television and high definition digital television applications. These products may also be designed into other applications such as home theaters, video projectors and DVD players. We have secured a number of design wins with leading manufacturers for these applications, including Dell, Changhong, Eizo, Fujitsu, Hisense, Iiyama, LG, NEC, Philips, Samsung, Sharp, Sony, Toshiba, Vestel and Zenith.

Faroudja Home Theater Systems. We leverage our patented technologies to develop, manufacture and sell a broad portfolio of products catering to the home theater, broadcast and industrial markets. These products include video processors that produce cinema-quality images for large screen applications such as home theaters; plasma packages that combine optimized plasma panels with high performance digital video processors; projector packages and DLP projectors that offer high performance, digital theater projection systems for business and home theater applications, all sold through authorized home theater dealers and installers.

Products

The following table shows our principal integrated circuit product families, and Faroudja home theater systems, at March 31, 2004:

Product Family	Description	Markets
FLI22xx/FLI23xx	Video format conversion and image enhancement processors	CRT TV, flat panel TV, DVD player, video projectors
gm15xx/gm16xx	Graphics/TV video processors for SXGA-WUXGA resolutions	Flat panel monitors, flat panel TV, video projectors
gm21xx	Integrated analog LCD monitor controllers (for XGA and SXGA-resolution monitors)	LCD monitors and other fixed-resolution pixelated displays
gm22xx/gm52xx	Integrated LCD monitor controllers supporting resolutions up to SXGA and UXGA	Multi-function monitors and Entry-level LCD TVs
gm23xx/gm53xx	Integrated LCD monitor controllers supporting resolutions up to SXGA	Multi-function monitors
gm50xx	Dual interface analog and DVI LCD monitor controllers (for XGA to UXGA resolutions) with frame rate conversion	Multi-synchronous LCD monitors and other fixed-resolution pixelated displays
gm51xx	Dual interface Analog and DVI LCD monitor controllers (for XGA and SXGA-resolution monitors)	LCD monitors and other fixed-resolution pixelated displays
gm60xx	Digital TV video processors	CRT TV, Flat Panel TV, Video Projectors
gm7030	Digital CRT interface controller	Digital CRT displays
gmZANx	Analog interface LCD monitor controllers (for XGA-resolution monitors)	LCD monitors and other fixed-resolution pixelated displays
JagASM Jag200	Analog and digital interface LCD monitor controllers (for SXGA to UXGA-resolution monitors)	Multi-synchronous LCD monitors and other fixed-resolution pixelated displays

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Product Family	Description	Markets
Faroudja Home Theater Systems		
DVP1000/1010	Digital Video Processor	HD Projection and fixed-pixel displays. Professional/high-end home theater systems
DVP1500/1510	Digital Video Processor that incorporates DVD Drive	HD Projection and fixed-pixel displays. Professional/high-end home theater systems
DVP4000	Digital Video Processor that incorporates DVD Drive	HD Projection and fixed-pixel displays. Professional/high-end home theater systems
Plasma Packages	42-inch, 50-inch or 61-inch High Definition Plasma monitors packaged and optimized for use with Faroudja digital video processor system	HD Projection and fixed-pixel displays. Professional/high-end home theater systems
Projection Systems	High Definition DLP and DILA projectors packaged and customized for use with Faroudja digital video processor system	HD Projection and fixed-pixel displays. Professional/high-end home theater systems

Research and development

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

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

Product Development Group: focuses on developing standard semiconductor components to service our monitor and computer OEM customers. In addition we develop semiconductor components to serve customers who are designing products for new market applications, such as flat-panel television and other potential mass markets.

Software Engineering Group: develops the software environment required for our products to work within target systems. Software is now embedded in many of our products. The other major role of software engineering is tool development. We provide sophisticated software tools to help our customers develop their applications and customize their software to improve the productivity of those engineers involved in the process of getting their products into production.

As of March 31, 2004, we had 193 full-time employees engaged in research and development. Expenditures for research and development, including non-cash stock-based compensation, were $31.0 million for the year ended March 31, 2004, $33.3 million for the year ended March 31, 2003 and $21.8 million for the year ended March 31, 2002.

Customers, sales and marketing

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 our products. We focus on developing long-term customer relationships with both system manufacturers and equipment manufacturers. Our marketing group includes applications engineers that produce evaluation boards and reference designs for both LCD monitors and flat-panel television applications, thereby providing complete turnkey solutions that facilitate the integration of our products into the end products manufactured by our customers.

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We sell and market our products directly to customers and through regional sales representatives and distributors. Regardless of the sales channels used, we provide our customers with technical support, design assistance and customer service on-site at their facilities and through our offices in the United States, Canada, Japan, South Korea, China, Taiwan, and Singapore. Our sales representatives and distributors also provide ongoing support and service on our behalf. We generally provide a one-year warranty for our integrated circuit products.

We derive a substantial portion of our revenues from a limited number of products. For the year ended March 31, 2004, our top five products contributed 44% of our total revenues.

Our sales are also derived from a limited number of customers, with our largest five customers accounting for 53% of total revenues in fiscal 2004, 55% of total revenues in fiscal 2003 and 53% of total revenues in fiscal 2002.

For the year ended March 31, 2004, two customers, Samsung Electronics Co. and Royal Philips Electronics, N.V., each accounted for more than 10% of our total revenues. For the year ended March 31, 2003, two customers, Samsung Electronics Co. and LG Electronics, Inc., each accounted for more than 10% of our total revenues. For the year ended March 31, 2002, two customers, Samsung Electronics Co. and Top Victory Electronics Co., each accounted for more than 10% of our total revenues. At both March 31, 2004 and 2003, four customers each represented more than 10% of accounts receivable trade. The loss of any significant customer could have a material adverse impact on our business.

We sell our products primarily outside of the United States. For the year ended March 31, 2004, 83% of our revenues were from sales to China, Japan, South Korea and Taiwan, and 6% of our revenues were from customers in the United States.

Additional information on the concentration of our revenues by geography, customers and markets can be found in note 16 to our consolidated financial statements included in Item 8 of this report.

As of March 31, 2004, our sales and marketing force totaled 147 people. This included 56 field applications engineers whose role is to create reference designs and assist our customers to incorporate our integrated circuits into their products.

Manufacturing

Third parties with state-of-the-art fabrication equipment and technology manufacture our products. This approach enables us to focus on product design and development, minimizes capital expenditures and provides us with access to advanced manufacturing facilities. Most of our products use silicon wafers manufactured by Taiwan Semiconductor Manufacturing Corporation, with whom we have a fixed-term sole source arrangement. Currently, our products are being fabricated, assembled or tested by Advanced Semiconductor Engineering, International Semiconductor Engineering Labs, Siliconware Precision Industries Ltd., ST Microelectronics and Taiwan Semiconductor Manufacturing Corporation.

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 that 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. Our devices are produced using 0.25, 0.18 and 0.16 micron process technologies and these geometries will likely be available for the next two to three years. We must manage the transition to new parts from existing parts. We have commitments from our suppliers to provide notice of any discontinuance of their manufacturing processes in order to assist us in managing these types of product transitions.

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All of our products are currently sourced such that we have only one supplier for any one semiconductor die. Based on our current production volumes, this approach of single sourcing is reasonable. As our volumes grow, we intend to secure sufficient fabrication capacity and diversify our sources of supply. Any inability of a current supplier to provide adequate capacity would require us to obtain products from alternate sources. There is a considerable amount of time required to change wafer fabrication suppliers for any single product, as well as substantial costs to bring that supplier into volume production. Should a source of a product cease to be available, we believe that this would have a material adverse effect on our business, financial condition and results of operations. We have no guarantees of minimum capacity from our suppliers and are not liable for minimum purchase commitments.

Quality Assurance

Genesis Microchip strives for continuous quality improvement and consistent delivery of high quality outputs at all stages of product development, manufacturing and delivery. We are an ISO 9001 certified company. We aim to provide reliable, high quality products and services by assigning stringent checks and controls at all stages of product creation and delivery.

Our business model requires use of manufacturing subcontractors. Since we depend heavily on our subcontractors ability to meet our requirements and provide quality products, we must carefully select our subcontractors. We employ detailed processes for supplier qualification, monitoring and review to help ensure quality of our subcontractors deliverables. All our primary manufacturing subcontractors are ISO 9000 certified.

We also focus on continuous process improvement. This improvement is not limited to manufacturing and testing processes. We review our development and product planning processes in an effort to design quality into our products from the start. We also have demanding criteria for various stages of product release. Product is considered fit for release to mass production only when compliance to these criteria is considered satisfactory upon formal cross-functional reviews.

We use data provided by subcontractors as well as our own qualification testing in an effort to ensure that our products are reliable. This testing includes accelerated stress testing at elevated temperatures and voltages, environment testing and many other types of testing using methods which are recognized industry standards. The need for failure analysis may arise during product development or during use by a customer. We perform failure analysis of our devices using in-house and subcontracted facilities. Depending on the failure we use both non-destructive and destructive failure analysis techniques so as to ensure that any decisions to be taken as a result of the failure are informed and based on quantifiable information and data.

We have also taken steps towards addressing environmental concerns. For example, we have qualified lead-free packaging for our products to provide our customers the option of ordering products in lead-free packaging. In addition, we are in the first stage of preparing for ISO 14000 certification, which we currently expect to attain by the end of March 2005.

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 over 130 United States and foreign patents with additional patent applications pending. In addition to the United States, we apply for and have been granted numerous patents in other jurisdictions, including Europe, Canada, Japan, Taiwan and South

Korea. Our patents relate to various aspects of algorithms, product design or architectures. To supplement our proprietary technology, we also license technology from third parties.

We have patents in the areas of scaling and format detection that expire in 2017, which we believe are material to our monitor business. We also believe that these patents are enforceable. However, we do not believe

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that our patents prohibit third parties from competing with us, as other parties may be able to design competing products without relying on our patents. In addition, our ability to enforce our patents is subject to general litigation risks. In protecting our patents, we may need to litigate to assure our patents are not infringed. Litigation can be time-consuming and expensive, and there can be no assurance that we will be successful in any litigation we undertake. In addition, an unfavorable outcome in litigation could result in invalidation of the patents we assert.

Competition

The market in which we operate is intensely competitive and is characterized by technological change, evolving industry standards and rapidly declining average selling prices. We face competition from both large companies and start-up companies, including ATI Technologies, Micronas Semiconductor Holding AG, Media Reality Technologies, Inc., Mstar Semiconductor, Inc., NovaTek Microelectronics, Philips Semiconductors, a division of Philips Electronics N.V., Pixelworks, Inc., Realtek Semiconductor Corp., Silicon Image, Inc., ST Microelectronics, Inc., Topro Technology Inc., Trident Microsystems, Inc. and Trumpion Microelectronics, Inc. In addition, many our of current and potential customers have their own internally developed integrated circuit solutions, and may choose not to purchase solutions from third party suppliers like Genesis. We anticipate that as the market 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.

We believe that the principal competitive factors in our markets are:

- product design features and performance,
- product price,
- image quality,
- 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 delivery schedules in order to reflect changes in their requirements and manufacturing availability. Historically, most of our sales have 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 necessarily a meaningful indicator of our future revenues. We do, however, track revenue and backlog trends on a quarter-to-quarter basis as a means of comparing revenue at a particular date in a quarter to revenue at comparable dates in past quarters.

Employees

As of March 31, 2004, we employed a total of 431 full-time employees, including 193 in research and development, 147 in sales and marketing, 40 in manufacturing operations and 51 in finance, information technology, human resources and administration. We employ a number of temporary and part-time employees and 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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Executive Officers

The following table lists the names and positions held by each of our executive officers as of May 26, 2004:

Name	Age	Position
Eric Erdman	46	Interim Chief Executive Officer and Director
Anders Frisk	48	Executive Vice President
Michael Healy	42	Chief Financial Officer and Senior Vice President, Finance
Tzoyao Chan	51	Senior Vice President, Product Development
Raphael Mehrbians	44	Senior Vice President, Product Marketing
Mohammad Tafazzoli	44	Senior Vice President, Operations
Young Ahn	49	Vice President, Sales
Rajeev Munshi	40	Vice President, Quality Assurance
Ken Murray	53	Vice President, Human Resources
Ava Hahn	31	General Counsel and Secretary

Eric Erdman was named Interim Chief Executive Officer in July 2003. Mr. Erdman has served as a member of our board of directors since May 2003, and previously served as a board member from October 1995 to September 1996. Mr. Erdman served as Chief Financial Officer from March 2002 to February 2004, and previously held the position from December 1997 to February 2002. Mr. Erdman also served as Secretary from June 2002 to October 2003, and from October 1995 to February 2002. In addition, from March 2002 to June 2002, Mr. Erdman served as Assistant Secretary. Mr. Erdman joined Genesis in July 1995 as Director, Finance and Administration and served as Vice President, Finance and Administration from July 1996 to May 1999. Mr. Erdman holds a bachelor s degree in mathematics from the University of Waterloo, and he is a member of the American Institute of Certified Public Accountants and of the Canadian Institute of Chartered Accountants.

Anders Frisk has served as Executive Vice President since October 2003. Mr. Frisk was Chief Operating Officer from January 2003 to October 2003. Mr. Frisk joined Genesis in March 2000 as Vice President, Marketing. Prior to then, he served as Director of Technology Planning with Nokia from February 1998 to March 2000, and as PC Architecture Manager with Fujitsu ICL Computers from April 1991 to January 1998. Mr. Frisk has served on the board of the Video Electronics Standards Association, or VESA, and chaired VESA s Monitor Committee for four years. Mr. Frisk holds a master s degree in electrical engineering from Stockholm s Royal Institute of Technology.

Michael Healy joined Genesis in February 2004 as Chief Financial Officer and Senior Vice President of Finance. Previously, Mr. Healy served as Chief Financial Officer of Jamcracker, Inc., a software and application service provider aggregator, from November 2002 to February 2004. From September 1997 to January 2002, Mr. Healy held senior level finance positions at Exodus Communications, including Senior Vice President of Finance. Prior to then, he held various senior financial management positions at Apple Computer, and was an auditor at Deloitte & Touche. Mr. Healy holds a bachelor s degree in accounting from Santa Clara University and is a Certified Public Accountant. Mr. Healy is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

Tzoyao Chan joined Genesis in May 1999 as the result of the merger with Paradise Electronics. Before joining Paradise in May 1997, Dr. Chan was Director of Engineering at Cirrus Logic, Inc., a semiconductor company. He has also held various engineering and management positions at leading chip-design companies including Bell Labs (now Lucent Technology), Intel Corp, LSI Logic, Chips & Technologies and S3. Dr. Chan holds a Ph.D. in electrical engineering from the University of Arizona.

Raphael Mehrbians has served as Senior Vice President, Product Marketing since September 2003. Mr. Mehrbians joined Genesis in February 2002 as Vice President, LCD Monitor Product Marketing. Mr. Mehrbians served as Director of Marketing for NeoMagic Corporation, a handheld applications processor company, from October 1999 to February 2002. Prior to then, he was Vice President of Product Marketing for Lexar Media, a

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digital storage media company, from April 1997 to October 1999. Mr. Mehrbians also served in various positions including Director of Marketing for Cirrus Logic, Inc., a semiconductor company, from September 1985 to April 1997. Mr. Mehrbians holds a bachelor s degree from the University of Michigan, and a master s degree in electrical engineering from the University of Michigan.

Mohammad Tafazzoli served as Vice President, Operations from June 2000 and was appointed Senior Vice President in May 2004. He was previously the Director of Operations at Genesis and joined the company as a result of the merger with Paradise Electronics. Prior to joining Paradise in 1998, Mr. Tafazzoli was a Senior Manager, Product Engineering for the Graphics Business Unit of Cirrus Logic, Inc., a semiconductor company, from October 1993 to March 1998. Mr. Tafazzoli holds a bachelor s degree in electrical engineering from San Jose State University.

Young Ahn has served as our Vice President, Sales since April 2004. From April 1998 to April 2004, Mr. Ahn served as our country sales manager for Korea. Prior to then, Mr. Ahn served in several managerial positions at Samsung Electronics Co. and its affiliate companies, Samsung Research & Development Center, Samsung Information Systems America and Samsung Electronics America. Mr. Ahn holds a bachelor s degree in electrical engineering from Han-Yang University, and also completed the Samsung Advanced Management Program at the Wharton School of Business at the University of Pennsylvania.

Rajeev Munshi has served as Vice President, Quality Assurance since December 2002. Mr. Munshi joined Genesis in December 2000 as Director of Quality Assurance. From June 2000 to December 2000, Mr. Munshi served as Director of Quality Assurance for ChipPAC, Inc., a provider of semiconductor packaging and test services. From 1997 to December 2000, Mr. Munshi was Director of Quality and Reliability of the Mass Storage Division at Cirrus Logic Inc., a semiconductor company. Mr. Munshi holds a bachelor s degree from Delhi University, India and an M.B.A. from California State University.

Ken Murray joined Genesis in August 2000 as Vice President, Human Resources. He served as Vice President, Human Resources at Chordiant Software from November 1999 to August 2000 and at NeoMagic Corp. from July 1997 to November 1999. From 1984 to July 1997, Mr. Murray served as Vice President, Human Resources for Akashic Memories Corporation, a magnetic media company. Mr. Murray holds a bachelor s degree in business administration from San Jose State University.

Ava Hahn joined Genesis in August 2002 as Corporate Counsel. Since May 2003, she has served as General Counsel, and since October 2003, she has also served as Secretary. In addition, Ms. Hahn was Assistant Secretary from September 2002 to October 2003. From August 2000 to August 2002, Ms. Hahn was Director, Legal Affairs at LuxN, Inc., an optical networking company. Prior to then, Ms. Hahn was an associate attorney with Wilson Sonsini Goodrich & Rosati, P.C. Ms. Hahn holds a bachelor s degree from the University of California at Berkeley and a J.D. from Columbia Law School.

Item 2. ***Properties:***

We lease offices in Alviso and San Jose, California; Thornhill, Ontario, Canada; Bangalore, India; Taipei, Taiwan; Seoul, South Korea; Shenzen, China; Shanghai, China; and Tokyo, Japan. 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. Further information on our lease commitments can be found in note 15 to our consolidated financial statements included in Item 8 of this report.

Item 3. ***Legal Proceedings:***

In April 2001, Silicon Image, Inc. (Silicon Image) filed a patent infringement lawsuit against Genesis in the United States District Court for the Eastern District of Virginia and simultaneously filed a complaint before the United States International Trade Commission (ITC). The complaint and suit alleged that certain Genesis

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products that contain digital receivers infringe various Silicon Image patent claims. Silicon Image was seeking an injunction to halt the sale, manufacture and use of Genesis s DVI receiver products and unspecified monetary damages. In December 2001 Silicon Image formally moved to withdraw its complaint before the ITC and those proceedings have terminated. The trial in the case before the United States District Court for the Eastern District of Virginia was set for January 2003, but the trial was taken off the calendar of the court in December 2002. In July 2003, the district court issued a memorandum opinion, followed by a final judgment in August 2003 and an amended final judgment in December 2003. In its opinion, the district court ruled that Genesis and Silicon Image have settled their disputes based on a Memorandum of Understanding, or MOU, signed on December 18, 2002. The district court s opinion states that the MOU is a binding settlement agreement. The MOU states that Genesis has received a license for the right to use non-necessary claims under the Digital Visual Interface (DVI) Adopters Agreement and allows Genesis to receive a license to the non-necessary claims under the High-Definition Multimedia Interface (HDMI) Adopters Agreement. In addition, the MOU provides that Genesis has been granted a license to expand use of necessary claims in the DVI Adopters Agreement to the consumer electronics marketplace. The district court s opinion states that Genesis will pay Silicon Image a monetary settlement, license fee and running royalties on all DVI and HDMI products. The MOU further states that the companies will promote interoperability of DVI and HDMI. In December 2003, the district court found Genesis in civil contempt for disclosing the MOU to Pixelworks, Inc. during merger discussions with Pixelworks. The amount of the penalty for the contempt finding has not been determined as of the date hereof; however, the estimated amount of the penalty has been reflected in the consolidated financial statements for the quarter ended December 31, 2003. In January 2004, Genesis filed a notice of appeal to the United States Court of Appeals for the Federal Circuit. In March 2004, the district court issued an order regarding the proper disposition of the funds in escrow and the amount necessary to bond the judgment pending appeal. In April 2004, the court also granted Genesis s motion to stay effectiveness of the amended final judgment pending appeal. We recorded a provision for costs associated with this patent litigation in the year ended March 31, 2003, a portion of which was paid in escrow to the court in August 2003 and an additional undisclosed amount was paid to the court as a bond in March 2004. The payments to the court have been accounted for as reductions of the related liability. The future financial impact arising from any appeal or other legal actions related to the dispute is not yet determinable and no other provision has been made in our consolidated financial statements for any future costs associated with this claim.

In March 2002, Genesis filed a patent infringement lawsuit against Media Reality Technologies, Inc. (MRT), SmartASIC Inc., and Trumpion Microelectronics, Inc. (Trumpion) in the United States District Court for the Northern District of California. The complaint alleged that certain MRT, SmartASIC and Trumpion products, which are sold as video/graphics display controllers, infringe various claims of a Genesis U.S. patent. This patent has also been issued in Japan and Korea and is pending in Taiwan. As part of this lawsuit, Genesis is seeking monetary damages and a permanent injunction that bars MRT and Trumpion from making, using, importing, offering to sell, or selling the allegedly infringing products in the United States. In September 2002, Genesis filed a similar patent infringement complaint against the three companies in the United States International Trade Commission (ITC), as discussed below. Except for the counterclaims by MRT discussed below, the Northern District of California case has been stayed pending the outcome of the ITC action and currently remains stayed. In January 2003, Genesis announced a settlement of its litigation against SmartASIC Inc.; the litigation with respect to the other defendants has not been settled. MRT has asserted counterclaims against Genesis, alleging trade secret misappropriation, interference with economic advantage, and unfair practices and competition. Genesis intends to vigorously defend against these claims. In addition, in response to a complaint filed by MRT, the Taiwan Fair Trade Commission is investigating Genesis s alleged violation of the Taiwan Fair Trade Law. The future financial impact of these claims is not yet determinable and no provision has been made in our consolidated financial statements for any future costs or settlements associated with these claims.

In September 2002, Genesis filed a patent infringement complaint against MRT, SmartASIC Inc., and Trumpion in the ITC. The Genesis legal action alleged that MRT, SmartASIC, and Trumpion products infringe Genesis s patented technology. In January 2003, Genesis announced a settlement of its litigation against SmartASIC Inc. Genesis is seeking an order from the ITC to exclude MRT and Trumpion s products and other

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products containing MRT or Trumpion s products from entry into the United States. On October 15, 2002, the ITC voted to institute an investigation into the complaint. In October 2003, the Administrative Law Judge (ALJ) of the ITC issued an initial determination that MRT and Trumpion did not infringe the asserted patent. However, in January 2004, the ITC remanded the case to the ALJ to make new findings under a different interpretation of the patent. On May 20, 2004, the ALJ issued a revised initial determination that MRT and Trumpion infringe the asserted patent.

In March 2003, Genesis filed a second patent infringement complaint against MRT and Trumpion in the ITC. Genesis subsequently amended its complaint to add Mstar Semiconductor, Inc. (Mstar) as a respondent, and withdrew its complaint against Trumpion. The Genesis legal action alleges that Mstar s MST series of products and MRT s Mascot series products infringe Genesis s patented technology. Genesis is seeking an order from the ITC to exclude Mstar s and MRT s products and other products containing MRT or Mstar s products from entry into the United States. In April 2003, the ITC voted to institute an investigation into the complaint. In April 2004, the ALJ issued an initial determination that Mstar infringes one of two the patents asserted against it, and that MRT did not infringe the one patent asserted against it in this case.

On May 21, 2004 the ITC combined both patent infringement cases into one case. The future financial impact of this claim is not yet determinable and no provision has been made in our consolidated financial statements for any future costs or settlements associated with this claim.

In November 2002, a putative securities class action captioned Kuehbeck v. Genesis Microchip et al., Civil Action No. 02-CV-05344, was filed against Genesis, former Chief Executive Officer Amnon Fisher, and Interim Chief Executive Officer Eric Erdman, and amended in July 2003 to include Executive Vice President Anders Frisk (collectively the Individual Defendants) in the United States District Court for the Northern District of California. The complaint alleges violations of Section 10(b) of the Securities and Exchange Act of 1934 (the Exchange Act) and Rule 10b-5 promulgated thereunder against Genesis and the Individual Defendants, and violations of Section 20(a) of the Exchange Act against the Individual Defendants. The complaint seeks unspecified damages on behalf of a purported class of purchasers of Genesis s common stock between April 29, 2002 and June 14, 2002. In April 2004, the court granted Genesis s motion to dismiss the case, but gave the plaintiff leave to amend her complaint. On May 17, 2004, the plaintiff filed an amended complaint. Genesis believes that it has meritorious defenses to this lawsuit and will continue to defend the litigation vigorously. The future financial impact of this claim is not yet determinable and no provision has been made in our consolidated financial statements for any future costs associated with this claim.

An unfavorable resolution of any of these lawsuits could have a material adverse effect on Genesis s business, results of operations or financial condition.

In September 2002, Genesis received a letter from a lawyer representing former executive officer Arun Johary alleging, among other things, that as a combined result of certain decisions not to allow him to sell his shares of Genesis, he suffered a total economic loss of approximately $4.1 million. In April 2003, Mr. Johary filed a demand for arbitration with the American Arbitration Association regarding the same issues raised in his letter. Genesis believes Mr. Johary s claims are without merit. However, Genesis and Mr. Johary settled these claims in November 2003, and this amount was accrued in our consolidated financial statements for the three months ended September 30, 2003.

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 security holders during the fourth quarter of fiscal 2004.

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PART II

Item 5. ***Market for Our Common Stock and Related Stockholder Matters:***

Market information

Our common stock trades on the Nasdaq National Market under the symbol GNSS. We have not listed our stock on any other markets or exchanges. The following table shows the high and low closing prices for our common stock as reported by the Nasdaq National Market:

	High	Low
2002 Calendar Year		
First Quarter	$ 72.51	$ 23.49
Second Quarter	$ 28.40	$ 7.72
Third Quarter	$ 9.31	$ 5.64
Fourth Quarter	$ 21.41	$ 6.40
2003 Calendar Year		
First Quarter	$ 18.15	$ 10.49
Second Quarter	$ 19.02	$ 13.05
Third Quarter	$ 16.40	$ 8.69
Fourth Quarter	$ 19.87	$ 11.25
2004 Calendar Year		
First Quarter	$ 22.53	$ 13.98
Second Quarter (to May 27)	$ 19.99	$ 13.02

As of May 27, 2004, we had approximately 184 common stockholders of record and a substantially greater number of beneficial owners.

Dividend policy

We have never declared or paid dividends on our common stock. 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.

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Item 6. ***Selected Consolidated Financial Data:***

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

	Year Ended March 31				
	2004	2003	2002	2001	2000
Statements of Operations Data:					
Revenues	$ 213,420	$ 194,325	$ 163,370	$ 63,627	$ 53,332
Cost of revenues	127,035	119,410	89,287	32,416	17,021
Gross profit	86,385	74,915	74,083	31,211	36,311
Operating expenses:					
Research and development	30,983	33,275	21,762	17,413	16,065
Selling, general and administrative	39,149	36,231	21,469	15,947	12,364
Amortization of acquired intangibles	10,616	10,627	1,032		
Provision for costs associated with patent litigation	12,630	14,504			
Restructuring			1,858		
In-process research and development			4,700		
Merger-related costs					3,455
Total operating expenses	93,378	94,637	50,821	33,360	31,844
Income (loss) from operations	(6,993)	(19,722)	23,262	(2,149)	4,427
Interest and other income, net	1,725	946	1,463	2,328	1,941
Income (loss) before income taxes	(5,268)	(18,766)	24,725	179	6,368
Provision for (recovery of) income taxes	(1,063)	(4,140)	6,729	(2,483)	360
Net income (loss)	$ (4,205)	$ (14,636)	$ 17,996	$ 2,662	$ 6,008
Earnings (loss) per share:					
Basic	$ (0.13)	$ (0.47)	$ 0.82	$ 0.14	$ 0.32
Diluted	$ (0.13)	$ (0.47)	$ 0.74	$ 0.13	$ 0.30
Weighted average number of shares of common stock outstanding:					
Basic	31,876	31,248	22,025	19,406	18,756
Diluted	31,876	31,248	24,177	19,884	19,922

	March 31				
	2004	2003	2002	2001	2000
Balance Sheets Data:					
Cash, cash equivalents and short-term investments	$ 118,222	$ 113,138	$ 106,564	$ 32,827	$ 42,942
Working capital	147,651	130,831	139,633	53,190	50,661
Total assets	410,726	402,654	428,391	81,446	71,791
Total long-term liabilities, net of current portion			328	410	518
Stockholders equity	386,855	373,833	383,571	70,389	65,247

Results of operations for the fiscal years ended March 31, 2002, March 31, 2003 and March 31, 2004 include the financial impacts of the acquisitions of Sage, Inc. and the assets of VM Labs, Inc. from the dates they were acquired. Both acquisitions occurred in the fourth quarter of the fiscal year ended March 31, 2002, as described in Item 7 below.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations:***

We begin Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with a general discussion of our target markets, the nature of our products, and some of the business

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issues we are facing as a company. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, we discuss our Results of Operations for the year ended March 31, 2004, or fiscal 2004 compared to fiscal 2003 and fiscal 2002, and corresponding quarterly information within those quarters as viewed through the eyes of Management. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in the section entitled Liquidity and Capital Resources.

This MD&A should be read in conjunction with the other sections of this Annual Report on Form 10-K. The various sections of this MD&A contain a number of statements of a forward-looking nature relating to potential future events or to our future financial performance. The forward-looking statements are our targets based on current information and the industry s expectation of future market conditions. They are not predictions of actual performance. You should consider the various factors identified under the caption Risk Factors in evaluating those statements.

Overview

Our Markets

We are focused on developing and marketing image-processing solutions. We design, develop and market integrated circuits that receive and process digital video and graphic images. We also supply reference boards and designs that incorporate our software and proprietary integrated circuits, or chips. Our products are primarily used in displays which contain a large liquid crystal display, or LCD. These displays may be used in desktop monitor applications or LCD televisions.

We generate the majority of our revenue by selling our image-processing solutions to the manufacturers of LCD displays. We outsource the manufacturing of our products to large semiconductor manufacturers, thereby eliminating the need for capital intensive plant and equipment. Our targeted long-term gross profit percentage is in the 40% range. Our most significant cash operating expense is labor, with our workforce employed in research and development of new products and technologies and in marketing, sales, customer support, and distribution of our products.

While we continue to service the increasing demand for flat panel computer monitors, we have sharpened our focus on the rapidly growing demand for flat panel televisions. We also design products that serve both applications, or the so-called multimedia display applications, and it is difficult to distinguish between a monitor with television capability and a television with a PC input. Both of these display devices could use the same Genesis chip. Similarly, we supply certain customers with chips originally designed for a computer monitor that the customer may use as entry-level flat panel television controllers. We assist customers in developing their designs. Typically, a TV design will take more time and support from our field application engineers, increasing our costs during a customer s pre-production period.

The growth in our target markets is finitely limited by the industry s capacity to supply LCD panels or other digital displays. Furthermore, the availability of LCD panels from time to time has been constrained, causing unexpected increases in the cost of LCD panels to our customers, thus resulting in our customers changing their demand expectations for our products. Our products usually represent less than five percent of the average retail cost of a standard 17 LCD TV today, while the cost of the LCD panel within a flat panel computer monitor or LCD TV represents the majority of the cost of the finished product. Consequently, constraints on availability of LCD panels or increases in panel costs can result in reduced demand for our products, and it is very difficult to accurately predict the availability or cost of LCD panels and well beyond our means to control. Conversely, it is the increase in production volumes of larger size LCD panels in new fabrication facilities coming on line over the next two years that is expected to result in lower cost panels and hence lower average selling prices of the end product. We expect this to lead to a significant increase in demand for display controllers.

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Our industry is very competitive and growth industries attract new entrants. The flat panel computer monitor industry is highly competitive. Our average selling prices of monitor display controllers, in spite of increased functionality have declined by approximately 50% over the past two years. We expect the flat panel television industry will be as competitive over time. Our strategy is to maintain market leadership through integration of new features and functions and by providing the highest image quality at a cost-effective price. We believe we are able to deliver the desired feature-rich image quality through relationships with customers, patented technologies, effective chip design, and customer support. While maintaining our leadership in image quality and product feature sets, we strive to maximize profitability by reducing product cost through efficient chip design and driving costs down throughout our supply chain.

While we primarily market and sell our integrated circuits directly to manufacturers, we also sell finished systems, primarily to the high-end display market, under the Faroudja brand. These products are generally sold through retail channels and represent a very small portion of our overall revenue.

Average selling prices to distributors are typically less than average selling prices to direct customers for similar products. Sales to distributors comprise less than 10% of revenue. 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.

Revenue Recognition

We recognize revenue from product sales to manufacturers upon shipment, except when risks and rewards of ownership are not transferred upon shipment. In these cases, revenue is not recognized until physical delivery to the customers premises. For shipments to distributors, we recognize revenue upon the distributors shipment to their end customers, except in certain circumstances where orders are placed with non-cancelable/non-return terms. An example of this would be when last time orders are placed for products at the end of their life cycle. In this situation, revenue would be recognized upon shipment. Reserves for sales returns and allowances are recorded at the time of shipment. To date we have not experienced significant product returns.

Manufacturing and Supply

We generally need to place purchase orders for products before we receive purchase orders from our customers. This is because production lead times for silicon wafers, from which our products are manufactured, can be as long as two months, while many of our customers place orders only one month in advance of their requested delivery date. We have agreements with suppliers in Asia such that we are dependent on the suppliers manufacturing yields. We continue to look at alternative sources of supply to reduce our reliance on key suppliers and reduce lead times, though dual sourcing for specific products is more costly in terms of set-up and yields are typically lower as each manufacturing supplier ramps up production. While we have frequent communication with significant customers to review their requirements, we are restricted in our ability to react to fluctuations in demand for our products and this 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, 2004, we recorded net reserves totaling $771,000, related to inventory where we did not foresee sufficient demand for the on-hand inventory to support the carrying value.

Global Operations

We operate through subsidiaries and offices in several countries throughout the world. Our head office is located in Alviso (Silicon Valley), California. Our research and development resources are located in the United States, Canada and India. The majority of our customers are located in Asia, supported by our sales offices in China, Japan, South Korea and Taiwan. Our third party suppliers are located primarily in Taiwan. Although virtually all of our revenues and costs of revenues are denominated in U.S. dollars, portions of our revenue and operating expenses are denominated in foreign currencies. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies. Any future strengthening of those currencies against the U.S. dollar could negatively impact our operating results by increasing our operating expenses as measured in U.S. dollars. We do not currently engage in any hedging or other transactions intended to manage the risks relating to foreign currency exchange rate fluctuations, other than natural hedges that occur as a result of holding both assets and liabilities denominated in foreign currencies. Our operating expenses are also affected by changes in the rate of inflation in the various countries in which we operate.

Mergers and Acquisitions

Technology companies often use mergers or acquisitions to accelerate development of products, to realize potential synergies or to enter new markets. We have made acquisitions in recent years, as described below.

On February 19, 2002, we acquired all of the outstanding shares of Sage, Inc. (Sage) in exchange for shares of our common stock. Sage, a public company, designed, developed and marketed digital display controllers and Faroudja video processors. In addition to bringing additional image processing and mixed signal technologies to address the flat panel monitor market, Sage was developing significant expertise in technologies addressing other emerging display applications, including those technologies acquired during Sage s acquisition of Faroudja in June 2000. The Sage operations are now fully integrated with Genesis and the first products integrating both Sage and Genesis intellectual property are targeted for production with key customers later in calendar 2004. In connection with our acquisition of Sage, we changed our legal domicile from Nova Scotia, Canada, to Delaware.

In March 2002, we acquired substantially all the assets of VM Labs, Inc. (VM Labs), including all patents, trademarks and other intellectual property. Certain former VM Labs employees were retained to focus on incorporating the acquired technologies into existing and new Genesis display products, and we are continuing to invest in the further development of the acquired technologies. The primary focus for this group of employees is the area of consumer digital television.

We accounted for the acquisitions of Sage and the assets of VM Labs using the purchase method of accounting.

On March 17, 2003, we entered into an Agreement and Plan of Merger with Pixelworks, Inc. In August 2003, Genesis and Pixelworks terminated the proposed merger. Under the termination agreement, each of the parties agreed to a mutual release of claims and Pixelworks agreed to immediately pay Genesis $5.5 million as a reimbursement for our expenses.

Critical accounting policies and estimates

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

Actual results may differ from these estimates under different assumptions or conditions.

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

We record estimated reductions to revenue for customer returns based on historical experience. A customer may only return product if the product is faulty, although in certain circumstances we agree to accept returns if replacement orders are placed for other products. If actual customer returns increase, we may be required to recognize additional reductions to revenue.

We record the estimated future cost of replacing faulty product as an increase to cost of sales. To date we have not experienced significant returns related to quality. If returns increase as a result of changes in product quality, we may be required to recognize additional warranty expense.

We maintain allowances for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We have not suffered any significant loss in this area.

We provide for valuation reserves against our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those we project, additional inventory valuation reserves may be required.

We provide for costs associated with settling litigation when we believe that we have a reasonable basis for estimating those costs. If actual costs associated with settling litigation differ from our estimates, we may be required to recognize additional costs.

Goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations, is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the goodwill might be impaired. The impairment tests are performed in accordance with FASB Statement No. 142, Goodwill and Other Intangible Assets. Accordingly, an impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. This determination is made at the reporting unit level. We have assigned all goodwill to a single, enterprise-level reporting unit. The impairment test consists of two steps. First, we determine the fair value of the reporting unit. The fair value is then compared to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in accordance with FASB Statement No. 141, Business Combinations. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. We perform our annual impairment test on January 1st of each year. We did not record any goodwill impairment charges in fiscal 2004, 2003 or 2002. Goodwill balances may also be affected by changes in other estimates made at the time of acquisitions.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In making this determination we project taxable income by jurisdiction for the next five years based on market assumptions and company plans, and other jurisdictional history. Should we determine that we will not be able to realize all or part of our net deferred tax asset, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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

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RESULTS OF OPERATIONS

REVENUE AND GROSS PROFIT

	Year ended March 31		
	2004	**2003**	**2002**
		(in thousands)	
Total revenue	$ 213,420	$ 194,325	$ 163,370
Gross profit	86,385	74,915	74,083
Gross profit percentage	40.5%	38.6%	45.3%
Revenue by geography:			
United States	$ 13,560	$ 12,760	$ 6,566
China	79,592	36,854	24,503
Japan	16,585	19,836	12,760
South Korea	53,628	77,690	51,411
Taiwan	27,170	32,462	62,857
Rest of world	22,885	14,723	5,273
Total Revenue	$ 213,420	$ 194,325	$ 163,370

Total Revenues: Revenues for the year ended March 31, 2004 increased by 9.8% to $213.4 million from $194.3 million for the year ended March 31, 2003, which in turn represented an increase of 18.9% from $163.4 million for the year ended March 31, 2002. According to some industry reports, unit global demand for LCD monitors grew by approximately 50% throughout calendar 2003 and by 90% throughout calendar 2002. Demand for advanced televisions started to increase in the second half of fiscal 2004. The growth in our revenues reflects the growth in unit demand for our products as we have successfully maintained a leadership position in these rapidly growing markets, though declining average selling prices because of competitive pressures and changes in product mix offset some of the growth in dollar terms. Our annual sequential unit shipments increased 47% in fiscal 2004 to 39.8 million units from 27.0 million units in fiscal 2003, while average selling prices on a blended basis declined by 25% during the same period. Unit shipments increased 57% in fiscal 2003 from 17.2 million in fiscal 2002, while average selling prices declined by 24%.

The majority of our shipments continue to be to customers located in Asia. Within this region, many of our Taiwan customers have set up production facilities in China, and as a result our shipments to China have increased over the last three years. Certain companies in South Korea such as Samsung Electronics and LG Electronics continue to maintain significant market share, and while these companies are our leading customers, we have experienced a decline in volume at Samsung due to competitive pressures.

We continue to maintain considerable market share in the advanced display market and expect to benefit from its continued growth. While revenue continues to be dominated by shipments into flat panel monitor applications, we estimate that revenues from shipments into displays with video capability, such as LCD television, will continue to increase and become a larger proportion of total revenue to over 50% of the total by the end of our next fiscal year. We expect strong competition in all sectors of the market, but declines in average selling prices due to price competition at the low-end of the display controller market are expected to slow down as prices approach cost for many manufacturers and we have less new entrants into the marketplace. As for higher-end display controllers with video capability, there remains considerable opportunity to improve quality and add features at reduced cost through further integration.

While continued revenue growth is one of our key goals, it is important to note that revenue is highly dependent on a number of factors, including, but not limited to, the growth rate of the flat panel monitor and advanced television markets, the rate of decline in product pricing, our ability to maintain design wins with customers, our ability to provide customer support resources, timely new product introductions, supply of products from our third party foundries and general economic and political conditions. Demand for our products may also be affected by the availability and price of LCD panels, or other components used in these display devices. In particular, the supply of larger size LCD panels is expected to be constrained for the foreseeable future based on some industry reports.

Gross Profit: Gross profit for the year ended March 31, 2004 increased by 15.3% to $86.4 million from $74.9 million for the year ended March 31, 2003, which in turn represented an increase of 1.1% from $74.1 million for the year ended March 31, 2002. As a percentage of revenues, gross profit represented 40.5% of revenues for the year ended March 31, 2004, 38.6% for the year ended March 31, 2003, and 45.3% for the year ended March 31, 2002. This trend in gross profit percentage reflects the decline in our manufacturing costs at a faster rate than average selling prices in fiscal 2004, a reversal of the trend from fiscal 2003. During fiscal 2004, we improved our product design and successfully negotiated lower materials and processing cost from our key suppliers. Gross margins were also helped by a stronger mix of video products which have higher ASP and gross margins. Going forward, we expect our mix of products to lead to a sustainable gross margin percentage in this range as shipments into higher margin television applications continue to grow at a faster rate than the lower-end monitor applications. However, we are currently in negotiation with one of our major manufacturing suppliers on pricing. If we experience price increases from this supplier, this may put strain on our ability to maintain gross margins in the second half of fiscal 2005.

While we are targeting longer term gross profit margins in the 40% range, gross profit margins may be higher or lower than expected due to many factors including, but not limited to, competitive pricing actions, changes in estimated product costs or manufacturing yields, price changes from key suppliers, revenue levels, and changes in estimated product mix, many of which are outside of our control.

OPERATING EXPENSES

Management focuses on particular operating expenses in evaluating our financial condition and operating performance. The following table presents these expenses in the form reviewed by Management. Significant trends and fluctuations between periods are addressed in the narrative which follows. In order to evaluate operating performance, Management internally reports operating expenses in categories of a cash, non-cash, and non-recurring nature. Non-cash expenses such as the amortization of intangible assets and the amortization of deferred stock-based compensation are reviewed separately from other operating expenses. Also where past decisions have been made to reorganize our operations, certain comparative expenses are reviewed separately to allow for a more meaningful comparison of current and historical performance. Therefore, in the table below, operating costs related to the VM Labs and restructuring costs are addressed separately so that other expenses are reviewed on a more consistent basis. Management finds this presentation to be a more effective method of assessing current operating performance.

	Year ended March 31					
	2004		2003		2002	
	$000	% of Revenue	$000	% of Revenue	$000	% of Revenue
Research and development	$ 28,090	13.2%	$ 25,609	13.2%	$ 21,252	13.0%
Selling, general and administrative	38,212	17.9	32,784	16.9	21,129	12.9
Amortization of acquired intangibles	10,616	5.0	10,627	5.5	1,032	0.6
Amortization of deferred stock-based compensation	3,830	1.8	6,847	3.5	850	0.5
Provision for costs associated with patent litigation	12,630	5.9	14,504	7.4		
VM Labs operating and other restructuring costs			4,266	2.2	1,858	1.1
In-process research and development expense					4,700	2.9

Total operating expenses	$ 93,378	43.8%	$ 94,637	48.7%	$ 50,821	31.0%

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Research and Development: Research and development expenses include costs associated with research and development personnel, development tools, licensing costs, and prototyping. Research and development expenses for the fiscal year ended March 31, 2004 were $28.1 million, compared with $25.6 million in fiscal 2003 and $21.3 million in fiscal 2002. The 20.7% increase from fiscal 2002 to fiscal 2003 was in part due to additional headcount in connection with the acquisition of Sage, Inc. in February 2002, and employees of VM Labs, Inc. in March 2002. It was also at this time that we began to invest more heavily in the research and development of technologies addressing the advanced television and video markets. While there was only a modest increase of 9.5% in overall spending between fiscal 2003 and fiscal 2004, the mix of spending did change, with less effort directed at lower-end monitor applications, and more focus on multimedia and video applications. While we added resources performing research and development during fiscal 2004, most of the additions were in lower cost geographic locations such as Bangalore and Toronto and thus we were able to increase resources and productivity at lower incremental cost. We expect this trend to continue during fiscal 2005.

These expenses represented 13.2% of revenues in fiscal 2004, 13.2% in fiscal 2003, and 13.0% in fiscal 2002.

Selling, General and Administrative: Selling, general and administrative expenses consist of personnel and related overhead costs for selling, including field application engineers, marketing, customer support, finance, human resources, legal and general management functions and of commissions paid to regional sales representatives. Selling, general and administrative expenses for the fiscal year ended March 31, 2004 were $38.2 million, compared with $32.8 million in fiscal 2003 and $21.1 million in fiscal 2002. Much of the increase over the last two fiscal years reflects the investment in building both the brand value of our products and the infrastructure to support the expected growth in the advanced display market.

We market our DCDi® by Faroudja and other brands directly through trade shows and publications, and indirectly through partnerships with companies that use our products. We believe that in building brand awareness, we will establish a reputation for quality and performance of our products in high-end applications. This may be one of the cornerstones of our success as the consumer electronics market grows and as these displays become more affordable to the end user.

We also provide quality technical support through field application engineers in China, Japan, South Korea and Taiwan. These engineers assist our customers in reaching mass production using our products. We believe that this kind of investment at the early stages of a growing market positions us well to capitalize on the future unit growth that is forecasted for the advanced television market. We expect these costs to continue to increase during fiscal 2005 as we assist customers in preparing for significant production volumes in fiscal 2006 and beyond.

These expenses represented 17.9% of revenues in fiscal 2004, 16.9% in fiscal 2003, and 12.9% in fiscal 2002.

Amortization of Acquired Intangibles and In-Process Research and Development: Amortization of intangible assets acquired in connection with acquisitions of Sage and the VM Labs business was $10.6 million for the year ended March 31, 2004 and 2003. The lower amortization in fiscal 2002 reflects the shorter amortization period, as the assets were acquired part way through the fourth quarter of fiscal 2002. In-process research and development of $4.7 million related to development at Sage at the time of the acquisition that had not reached technical feasibility and had no other alternative use, was expensed upon the closing of the acquisition. We anticipate the amortization of existing acquired intangibles to remain constant at $10.6 million for fiscal 2005, decline to $9.6 million in fiscal 2006, $1.7 million for each of fiscal 2007, 2008 and 2009, and then zero thereafter, assuming no other acquisition activity.

Amortization of deferred stock-based compensation: As part of the accounting for the acquisition of Sage, the intrinsic value of unvested options issued in exchange for previously issued Sage options, totaling approximately $18.4 million, is being amortized to expense over the remaining term of the options, categorized in the statement of operations in accordance with the nature of the service provided by the related employees. In assessing operating performance, management excludes these expenses from other research and development and selling, general and administrative costs. However, in total, the amortization of deferred stock-based compensation expense decreased

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from $6.8 million to $3.8 million in fiscal 2004 compared with fiscal 2003. This is as expected as related underlying options become fully vested and the deferred compensation fully amortized, or because certain options have been cancelled resulting from employees leaving the Company. In this situation, any unamortized deferred stock-based compensation is adjusted through additional paid-in capital. The lower amortization in fiscal 2002 reflects the shorter amortization period, as the Sage acquisition date was February 19, 2002. Assuming there is no other acquisition activity, we anticipate the amortization of deferred stock-based compensation to be approximately $2.6 million for fiscal 2005, $200,000 in fiscal 2006, then zero thereafter.

Costs Associated with Patent Litigation: We have incurred significant costs associated with patent litigation over the past two fiscal years. During the year ended March 31, 2004, we incurred legal costs of $12.6 million associated with ongoing litigation to protect our intellectual property. These costs were primarily payments made to third parties associated with this litigation. In the year ended March 31, 2003, we recognized total costs of $14.5 million, the majority of which was in connection with certain patent litigation brought against us by Silicon Image Inc. More details of the various litigation matters are described in Note 15 to the consolidated financial statements.

VM Labs and other restructuring costs: After acquiring the assets of VM Labs in March 2002, we incurred restructuring costs and costs associated with discontinuing certain ongoing product development projects associated with VM Labs at the time of the acquisition. Because these costs are considered non-recurring, management excludes them from the other operating costs in reviewing the ongoing performance of the operations. These costs, together with the operating costs of the VM Labs operations until the decision was made to discontinue the projects, while still classified as operating costs and presented as such in the consolidated statements of operations, have been presented in the table above on a separate line from other research and development and selling, general and administrative costs.

Total Operating Expenses: Total operating expenses for year ended March 31, 2004 were $93.4 million compared with $94.6 million in fiscal 2003 and $50.8 million in fiscal 2002. In fiscal 2004, higher selling, general and administrative costs were offset by lower amortization of deferred stock-based compensation expenses and lower expenses resulting from discontinuing projects associated with the VM Labs operation. Increases from fiscal 2002 reflect the higher selling, general and administrative costs, the amortization of intangibles related to the Sage acquisition and costs associated with patent litigation.

NON OPERATING INCOME AND EXPENSES

Gain on Sale of Investment: During the third quarter of the year ended March 31, 2004, we sold 36% of our minority investment in a private company for approximately $1.1 million, realizing a gain of $0.7 million. The remaining investment with a carrying value of $0.8 million is included in other long term assets.

Provision for Income Taxes: We recorded an income tax benefit of $1.1 million for the year ended March 31, 2004 and $4.1 million for the year ended March 31, 2003. We recorded a provision for income taxes in 2002 of $6.7 million. Our accounting effective tax rate differs from the expected statutory rates due to several permanent differences including, but not limited to, federal and state research and experimentation tax credits, stock-based compensation expense, foreign exchange fluctuations and differences in tax rates in foreign jurisdictions. The net tax benefit of these items is partially offset by changes in the valuation allowance against net operating loss carryforwards in the United States. Therefore, the effective tax rate for accounting purposes is directly impacted by the mix of earnings between the United States and foreign jurisdictions. A valuation allowance is recorded when it is more likely than not that some portion of the deferred tax assets will not be realized.

As of March 31, 2004, we had generated deductible temporary differences and operating loss and tax credit carryforwards. We have approximately $115 million of operating loss carryforwards to offset future taxable income. The carryforwards expire on various dates through

2023, if not used. Utilization of a portion of net operating losses is subject to an annual limitation due to the ownership change provisions of the Internal Revenue Code of 1986 and similar state provisions.

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We have established a valuation allowance for deferred tax assets related to certain net operating loss carryforwards. A valuation allowance is recorded when it is more likely than not that some portion of the deferred tax assets will not be realized. At March 31, 2004, the valuation allowance totaled $51.3 million and we had $3.4 million of net deferred tax assets on our balance sheet. Accordingly, we may record additional valuation allowances in the future. The benefit of $85 million of operating losses carryforwards, which relate to acquired entities or deductions associated with the exercise of certain stock options, if utilized, will result in an increase to equity or a reduction of goodwill. The timing of when these operating losses arose will impact when they are utilized and hence have an impact on the effective tax rate in the future.

Future income tax provisions will also depend on our effective tax rates and the distribution of taxable income and expenses between taxation jurisdictions, 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, except per share data.

	Three months ended							
	Mar. 2004	**Dec. 2003**	**Sep. 2003**	**Jun. 2003**	**Mar. 2003**	**Dec. 2002**	**Sep. 2002**	**Jun. 2002**
Revenues	$ 54,872	$ 56,498	$ 48,163	$ 53,887	$ 54,780	$ 51,682	$ 46,304	$ 41,559
Cost of revenues	33,022	34,146	29,108	30,759	31,127	32,623	30,169	25,491
Gross profit	21,850	22,352	19,055	23,128	23,653	19,059	16,135	16,068
Operating expenses:								
Research and development	8,461	7,417	8,029	7,076	7,288	7,972	8,973	9,042
Selling, general and administrative	10,323	9,515	9,995	9,316	9,479	8,942	9,113	8,697
Amortization of acquired intangibles	2,654	2,654	2,654	2,654	2,654	2,654	2,654	2,665
Provision for costs associated with patent litigation	3,047	3,529	3,454	2,600	2,906	10,192	1,019	387
Total operating expenses	24,485	23,115	24,132	21,646	22,327	29,760	21,759	20,791
Income (loss) from operations	(2,635)	(763)	(5,077)	1,482	1,326	(10,701)	(5,624)	(4,723)
Interest and other income, net	276	977	301	171	14	430	279	223
Income (loss) before income taxes	(2,359)	214	(4,776)	1,653	1,340	(10,271)	(5,345)	(4,500)
Provision for (recovery of) income taxes	(420)	35	(938)	260	321	(3,244)	(754)	(463)
Net income (loss)	$ (1,939)	$ 179	$ (3,838)	$ 1,393	$ 1,019	$ (7,027)	$ (4,591)	$ (4,037)
Earnings (loss) per share:								

Basic	$ (0.06)	$ 0.01	$ (0.12)	$ 0.04	$ 0.03	$ (0.22)	$ (0.15)	$ (0.13)
Diluted	$ (0.06)	$ 0.01	$ (0.12)	$ 0.04	$ 0.03	$ (0.22)	$ (0.15)	$ (0.13)
Weighted average number of shares of common stock outstanding:								
Basic	32,543	31,948	31,723	31,289	31,386	31,306	31,238	31,062
Diluted	32,543	33,201	31,723	32,800	32,815	31,306	31,238	31,062

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Most of our revenues come from sales of semiconductors to manufacturers of flat panel displays, including flat panel monitors. In the June 2002 quarter, the price of LCD panels increased substantially which reduced demand for flat panel monitors and, in turn, for our products. Sales of semiconductor products to manufacturers of flat panel computer monitors are extremely price competitive. While we experienced significant increases in our unit volumes in the period June 2002 to March 2004, declines in average selling prices, or ASPs, partially offset revenue growth in that time period. Gross margins have varied from quarter to quarter depending on changes in product mix and the difference in rates of decline of ASPs compared to average product costs.

Research and development expenses have varied from quarter to quarter primarily due to fluctuations in staff levels and the timing of non-recurring engineering charges related to new product development. In addition, since the March 2002 quarter, these expenses have increased as a result of greater staff levels, resulting from our acquisition of Sage and the hiring of former employees of VM Labs. Selling, general and administrative expenses have varied from quarter to quarter primarily due to increases in staffing levels for sales and customer support activities, and sales commissions. Costs associated with patent litigation have varied from quarter to quarter depending on the level of activity related to specific legal proceedings and the timing of provision for potential settlements. More details of the legal proceedings are described in Item 3 of this report.

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 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 to 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 product that 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.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

	31-Mar-04	31-Mar-03
Cash and short term investments	$ 118,222	$ 113,138
Working capital	$ 147,651	$ 130,831
Current ratio	7.19	5.70
Receivables days outstanding	46	42
Inventory days	53	64

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We believe that our financial condition remains strong. At March 31, 2004, cash and short-term investments totaled $118.2 million up from $113.1 million at March 31, 2003 and $111.4 million at March 31, 2002. Our current ratio increased to 7.19 at March 31, 2004 from 5.70 at March 31, 2003. Prior to changes in working capital balances, we generated $10.7 million of cash from operations during fiscal 2004, compared with $5.4 million in fiscal 2003 and $33.7 million during fiscal 2002. We have no debt and we expect to continue to generate cash from operations during fiscal 2005. After changes in working capital balances, net cash used in operating activities was $0.7 million for the year ended March 31, 2004 compared with cash generated from operating activities of $16.3 million for fiscal 2003 and $16.7 million for fiscal 2002.

Working capital uses of cash included increases in accounts receivable and inventory, and a decrease in accrued liabilities. Accounts receivable increased by $2.7 million from March 31, 2003 to March 31, 2004. The day s sales outstanding also increased from 42 days at March 31, 2003 to 46 days at March 31, 2004. This increase reflects the timing of shipments during the period and the impact of extending payment terms to certain key customers, a trend which is expected to continue as we compete with the terms offered by our competition and as our key customers feel pressure from their own customers to provide more favorable payment terms. Also, as our customers become more established in China, we are becoming more comfortable with extending credit. Our credit policy is to offer credit to customers only after careful examination of their creditworthiness. Our payment terms range from cash in advance of shipment, to payment sixty days after shipment. For fiscal 2004, our three largest customers accounted for approximately 36% of revenue, compared with 45% in fiscal 2003 and 40% in fiscal 2002. Additionally, the top three customers accounted for 42% of accounts receivable at March 31, 2004 and 52% at March 31, 2003. Inventory levels increased by 30% during fiscal 2004. This increase reflects the short supply of inventory on hand at March 31, 2003 and the timing of receipt of inventory during the fourth quarter of fiscal 2004. Average days of inventory during the year ended March 31, 2004 were 53 days compared to 64 days for the year ended March 31, 2003. The average inventory levels and the impact on inventory turns is the result of a number of dynamic activities including the accuracy of customer s forecasts, expected panel supplies, and pricing considerations and is not necessarily an indication of what inventory turns might be in the future. Accrued liabilities decreased by $6.7 million to $11.5 million at March 31, 2004, from $18.2 million at March 31, 2003 primarily due to the payments made related to the Silicon Image judgment as described in Note 15 to the consolidated financial statements.

Net cash used in investing activities was $106.3 million during the year ended March 31, 2004. This included the net purchases of short-term investments of $99.0 million and capital spending of $9.4 million, offset in part by the reimbursement of previously deferred costs associated with the terminated Pixelworks merger. This compared to $5.1 million used in investing activities in the year ended March 31, 2003, and $19.4 million provided by investing activities in fiscal 2002. Fiscal 2002 was the year we acquired Sage, including $34.2 million of cash and short-term investments, and VM Labs assets for $13.6 million.

Net cash provided by financing activities in year ended March 31, 2004 was $13.1 million. This represented funds received for the purchase of shares under the terms of our stock option plans and employee stock purchase plan. In fiscal 2003, we used $4.6 million in net cash for financing activities, including $3.1 million to repurchase common stock, and $7.3 million to settle an outstanding lease liability, as described in Note 9 to the consolidated financial statements. In fiscal 2002 we received $37.9 million in proceeds received on exercise of stock options pursuant to our employee stock option and employee stock purchase programs.

Contractual Obligations

As of March 31, 2004, our principal commitments consisted of obligations outstanding under operating leases. These commitments include leases for two premises in the United States, located in San Jose and Alviso, California, two in China and one location in each of Canada, India, Japan, South Korea and Taiwan. In addition we have obligations under operating leases for equipment. The aggregate minimum annual payments required under our lease obligations, excluding expected sub-lease income, by fiscal year are as follows, in thousands of dollars:

Payments Due By Fiscal Year

	Total	2005	2006 and 2007	2008 and 2009	2010 and beyond
Operating Leases	$ 12,234	$ 3,385	$ 6,390	$ 2,438	$ 21

Our lease agreements expire at various dates through calendar 2009.

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Purchase orders or contracts for the purchase of raw material and other goods and services have not been separately disclosed. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders for manufacturing are based on our current needs and are fulfilled by our vendors within short time horizons. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. We also enter into contracts for outsourced services; however, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

Further information on lease obligations and commitments can be found in note 15 to our consolidated financial statements.

Off-Balance Sheet Arrangements

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

Capital commitments

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

RISK FACTORS

A number of our statements in this report, including those concerning our anticipated revenues, gross profit margins, amortization of intangibles and stock-based compensation, liquidity and business strategy, are forward looking and subject to various risks and uncertainties. The following factors may have a harmful impact on our business:

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

Our historical revenues and operating results have varied significantly from quarter to quarter due to a number of factors, including:

Fluctuation in demand for our products;

Fluctuations in supply or demand for other components included in flat panel displays;

Changes in the mix of products sold;

Timing of new product introductions by us or our competitors;

Degree of market acceptance of our products and the displays into which our products are incorporated;

Increased competition and competitive pricing pressures;

Changes in product costs or manufacturing yields or available production capacity at the fabrication facilities;

Seasonality in demand for our products or our customers displays;

Costs and outcome of legal proceedings; and

The evolving and unpredictable nature of the markets for our customers display products that incorporate our products.

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

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Our success will depend on the growth of the market for flat panel televisions and LCD monitors

Our ability to generate revenues will depend on the growth of the market for liquid crystal display, or LCD, televisions, flat panel computer monitors, and digital televisions. Our continued growth will also depend upon emerging markets for consumer electronics markets such as HDTV and home theater. The potential size of these markets and the timing of their development are uncertain and will depend in particular upon:

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

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

We have had significant management turnover, and may not be able to retain or attract the key personnel we need to succeed

We have had significant turnover in our management team, including the position of Chief Executive Officer. Our current chief executive is an Interim Chief Executive Officer and we are in the process of an executive search for this position.

In addition, we cannot assure you that we will be able to attract and retain other key employees, including senior management and executive positions. If we cannot attract and retain these key employees, our business would be harmed, particularly if the departure of any key employee results in a business interruption or if we are not successful in preserving material knowledge of our departing employees.

A large percentage of our revenues come from sales to a small number of 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 53% of our revenues, and for our largest customer 15%, for the fiscal year ended March 31, 2004. 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.

If we are unable to introduce new products with higher average selling prices, our financial results may suffer

Average selling prices for our flat panel monitor products have declined. When average selling prices decline, our revenues decline unless we are able to sell more units, and our gross margins decline unless we are able to reduce our manufacturing and/or other supply chain costs by a commensurate amount or introduce new higher-priced products to offset the declining price of existing products. Our operating results suffer when gross margins decline. We must introduce new products with higher average selling prices in order to counteract the decline in prices for our existing product line.

The sales of our products are highly concentrated and our products may not continue to be accepted in the advanced display industry

Our sales are derived from a limited number of products. Two of our products accounted for 23% of our revenues for the fiscal year ended March 31, 2004. There were no other products accounting for more than ten percent of our revenues. We expect that a small number of products will continue to account for a large amount of our revenues.

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Our success in the advanced display market, which includes flat panel computer monitors, as well as LCD and digital televisions, home theater, DVD, 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 this market will depend upon demand for the functionality provided by our products and their pricing. 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.

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 advancements is lengthy and will require us to accurately anticipate technological innovations and market trends. Developing and enhancing these products is time-consuming, costly and complex. There is a risk that these developments and enhancements will be late, fail to meet customer or market specifications, and will not be competitive with other products using alternative technologies that offer comparable functionality. 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

The market in which we operate is intensely competitive and is characterized by technological change, evolving industry standards and rapidly declining average selling prices. We compete with both large companies and start-up companies, including ATI Technologies, Micronas Semiconductor Holding AG, Media Reality Technologies, Inc., Mstar Semiconductor, Inc., Novatek Microelectronics, Oplus Technologies, Ltd., Philips Semiconductors, a division of Philips Electronics N.V., Pixelworks, Inc., Realtek Semiconductor Corp., Silicon Image, Inc., ST Microelectronics, Inc., Trident Microsystems, Inc., Trumpion Microelectronics, Inc. and Zoran Corporation. In addition, many of our current and potential customers have their own internally developed integrated circuit solutions, and may choose not to purchase solutions from third party suppliers like Genesis.

As the market for our products continues to develop, our current customers may increase reliance on their own internally developed solutions, and competition from diversified electronic and semiconductor companies will intensify. Some competitors, which may include our own customers, 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. Also, the federal district court for the Eastern District of Virginia has issued an amended final judgment which states that we have received a license from Silicon Image, Inc. for certain of their DVI and HDMI patents, and must pay Silicon Image royalties on all of our DVI and HDMI products. This amended final judgment, if not overturned on appeal, could hinder our ability to compete with unlicensed competitors that are not required to pay royalties on competing products.

Our future operating results are highly dependent upon how well we manage our business

Our future operating results will depend in large part on how well we manage our business, including our ability to:

- Develop profitable products and meet milestones by accurately forecasting revenues and costs and allocating resources effectively;

Develop strategies to protect our brands and to realize their potential value;

Manage our inventory levels by accurately predicting sales volumes;

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- Maximize our gross margins by negotiating favorable yet competitive prices with customers, and by leveraging volume to reduce costs with our suppliers;
- Develop effective selling tools; and
- Monitor and manage expenses.

Any failure by us to effectively manage our business could have a material adverse effect on our results of operations.

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

We have been issued patents and have pending United States and foreign patent applications. 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. 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. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. In particular, we have brought patent infringement suits against third parties. An unfavorable outcome in these suits could result in invalidation of the patents we assert in these suits.

Patent litigation we bring against others may damage customer relationships

We may need to enforce our intellectual property rights against customers, which could make it impossible to enforce those rights without damaging our relationship or cause us to lose business in other areas.

Intellectual property infringement suits brought against us may significantly harm our business

We have been defending claims brought against us by Silicon Image, Inc., alleging that certain of our products that contain digital receivers infringe various Silicon Image patent claims. On December 19, 2003, the court issued its amended final judgment in the proceeding, which such judgment is being appealed; see Part I, Item 3, Legal Proceedings. This lawsuit or any future lawsuits could subject us to permanent injunctions preventing us from selling selected products or incurring significant monetary damages. Based on our revenue for the year ended March 31, 2004, approximately 36% of our revenues could be impacted by this patent litigation.

We may become subject to additional intellectual property litigation in the future. In addition, intellectual property lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. 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;

- Attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all;

- Incur substantial settlement costs; 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 may lose our customers or be required to make payments to them in connection with patent infringement litigation

Our customers typically buy our components and integrate them into their products for resale. As a result of patent infringement litigation, our customers may decide to stop buying from us to ensure that their products do not include infringing components, even if the patent litigation is ultimately decided in our favor. Any such action could have a material adverse effect on our revenues and market share. In addition, from time to time, we enter into agreements with our customers that may contain indemnification provisions in connection with sales of our components that are the subject of patent litigation. If one of our customers incurs a loss because of a patent infringement suit brought against them or us, we may be required, under those agreements or otherwise, to reimburse those customers for their loss. Any such indemnification obligations could result in significant payments by us that would have a material adverse effect on our financial position.

We may become subject to judgments for securities class action suits

We are a defendant in a securities class action suit. We believe that we have meritorious defenses to the claims in the securities class action suit as well as adequate insurance coverage to cover any likely unfavorable outcome. However, this or any future securities class action suit could subject us to judgments in excess of our insurance coverage and could harm our business. In addition, this kind of lawsuit, regardless of its outcome, is likely to be time-consuming and expensive to resolve and may divert management time and resources.

The processes used to manufacture our semiconductor products are periodically retired

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 that 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. Our devices are mainly 0.25 and 0.18 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 existing parts. We have commitments from our suppliers to provide notice of any discontinuance of their manufacturing processes in order to assist us in managing these types of product transitions.

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, including related software, could increase our costs, cause customer claims, and delay our product shipments

Although we test our products, including related software, 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 or software bugs 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. Most of our products use silicon wafers manufactured by Taiwan Semiconductor Manufacturing Corporation, with whom we have a fixed-term sole source arrangement, the loss of which could result in a material increase in the price we must pay for silicon wafers. None of our products are fabricated by 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;
- Increased manufacturing cost to us in the event that manufacturing capacity becomes constrained;
- 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 or cause us to incur costs to obtain adequate and timely supply of products.

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

Most of our outside foundries, 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. Foundries located in Taiwan were responsible for most of our semiconductor product revenue for the fiscal year ended March 31, 2004. Customers located in Taiwan were 13% of our revenue for the fiscal year ended March 31, 2004. 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.

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 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 were 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

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. This cycle may be even longer

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as we enter the television market. 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 the United States, which creates additional business risks

A large portion of our revenues will come from sales to customers outside of the United States, particularly to equipment manufacturers located in South Korea, China, Japan and Taiwan. For the fiscal year ended March 31, 2004, sales to regions outside of the United States represented 94% of revenues. For that same period, sales to China and South Korea alone constituted 37% and 25%, respectively, 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;
- Political and economic instability;
- Exposure to litigation or government investigations in these countries;
- Longer payment periods;
- Ability to enforce contracts or payment terms;
- Potentially adverse tax consequences;
- Export license requirements; and

Unexpected changes in diplomatic and trade relationships.

Because our sales are denominated in 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.

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

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

Unexpected changes in, or impositions of, legislative or regulatory requirements,

Delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions,

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- Imposition of additional taxes and penalties,
- The burdens of complying with a variety of foreign laws, and
- Other factors beyond our control, including acts of terrorism, which may delay the shipment of our products, impair our ability to travel or our ability to communicate with foreign locations.

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

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.

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

Our products are incorporated into flat panel displays. Because the market for flat panel displays is characterized by numerous new product introductions, our operating results may vary significantly from quarter to quarter. Our customers also experience seasonality in the sales of their products, which affects their orders of our products. Typically, the second half of the calendar year represents a disproportionate percentage of sales for our customers due to the holiday shopping period for these products, and therefore, a disproportionate percentage of our sales. Also, our sales in the first quarter of the calendar year may be lower as a result of the Chinese New Year holiday in Asia. We expect these sales fluctuations to continue for the foreseeable future.

We have grown rapidly, which strains our management and resources

We have experienced significant growth, which places 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, including our sales force; 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.

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

Our information technology systems could suffer a sudden breakdown as a result of factors beyond our control, such as earthquakes, insecure connections or problems with our outside consultants who provide

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information technology services to us. If our information technology systems were to fail and we were not able to gain timely access to adequate alternative systems or back-up information, this could have a negative impact on our ability to operate and manage our business and to report results in a timely manner. Also, any breach of our information systems by an unauthorized third party could result in our confidential information being made public or being used by a competitor, which could have a material adverse effect on our ability to realize the potential of our proprietary rights.

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

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 or technologies, such as our acquisitions of Sage and the assets of VM Labs. The recent acquisitions and potential future acquisitions involve numerous risks, including the following:

- We may experience difficulty in assimilating the acquired operations and employees,
- We may be unable to retain the key employees of the acquired operations,
- The acquisitions may disrupt our ongoing business,
- We may not be able to incorporate successfully the acquired technologies and operations into our business and maintain uniform standards, controls, policies and procedures, 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 recent or potential future acquisitions will be successful and will not adversely affect our business, operating results or financial condition. We must also maintain our ability to manage growth effectively. Failure to manage growth effectively and successfully integrate acquisitions made by us could materially harm our business and operating results.

General economic conditions may reduce our revenues and harm our business

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

Terrorist acts and acts of war may seriously harm our business, revenues, costs, expenses and financial condition

Terrorist acts or acts of war, wherever located around the world, may cause damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers and customers, which could significantly impact our revenues, expenses and financial condition. The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that have created many economic and political uncertainties, some of which may materially harm our business and results of operations. The long-term effects on our business of the September 11, 2001 attacks are unknown. The potential for future terrorist attacks, the national and international responses to terrorist attacks, hostilities in the Middle East, including Iraq, and other acts of war or hostility, especially in the Korean peninsula, have created economic and political uncertainties, which could

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adversely affect our business and results of operations in ways that cannot be predicted. In addition, as a company with headquarters and significant operations located in the United States, we may be impacted by actions against the United States. We are uninsured for losses and interruptions caused by terrorist acts and acts of war.

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 outside of the United States, primarily in Canada and in India and to a lesser extent China, Japan, South Korea and Taiwan. Although virtually all of our revenues and costs of revenues are denominated in U.S. dollars, portions of our revenue and operating expenses are denominated in foreign currencies. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies. Any future strengthening of those currencies against the U.S. dollar could negatively impact our operating results by increasing our operating expenses as measured in U.S. dollars. We do not currently engage in any hedging or other transactions intended to manage the risks relating to foreign currency exchange rate fluctuations, other than natural hedges that occur as a result of holding both assets and liabilities denominated in foreign currencies. 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, 2004, a near-term 10% appreciation or depreciation in the U.S. dollar relative to a pool of our foreign currencies would not have a material effect on our operating results or financial condition.

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Item 8. ***Financial Statements and Supplementary Data:***

Financial Statements Table of Contents

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Selected Quarterly Financial Data is incorporated by reference from Quarterly results of operations on page 22 in Item 7 above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Genesis Microchip Inc.

We have audited the accompanying consolidated balance sheets of Genesis Microchip Inc. as of March 31, 2004 and 2003 and the related consolidated statements of operations, stockholders equity and cash flows for each of the years in the three-year period ended March 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). 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 that our audits 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 Genesis Microchip Inc. as of March 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Chartered Accountants

Toronto, Canada

April 23, 2004, except for Note 15, as to which the date is May 21, 2004

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GENESIS MICROCHIP INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	March 31, 2004	March 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,241	$ 113,138
Short-term investments	98,981	
Accounts receivable trade, net of allowance for doubtful accounts of $422 in 2004 and $493 in 2003	28,325	25,587
Inventory (note 5)	18,503	14,269
Prepaids and other	6,472	5,697
Total current assets	171,522	158,691
Property and equipment (note 6)	17,257	12,770
Acquired intangibles (notes 4 and 7)	26,731	36,933
Goodwill (notes 4 and 8)	189,152	189,579
Deferred income taxes (note 13)	3,402	
Other (note 18)	2,662	4,681
Total assets	$ 410,726	$ 402,654
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,848	$ 8,640
Accrued liabilities	11,503	18,164
Income taxes payable	2,520	722
Loan payable		334
Total current liabilities	23,871	27,860
Long-term liabilities:		
Deferred income taxes (note 13)		961
Total liabilities	23,871	28,821
Stockholders equity (notes 3, 4 and 10):		
Capital stock:		
Preferred stock:		
Authorized 5,000 preferred shares, $0.001 par value		
Issued and outstanding none at March 31, 2004 and at March 31, 2003		
Common stock:		
Authorized 100,000 common shares, $0.001 par value		
Issued and outstanding 32,653 shares at March 31, 2004 and 31,184 shares at March 31, 2003	32	31
Additional paid-in capital (note 13)	395,837	382,587
Cumulative other comprehensive loss	(94)	(94)
Deferred stock-based compensation (note 4)	(2,833)	(6,809)
Deficit	(6,087)	(1,882)

Total stockholders equity	386,855	373,833
Total liabilities and stockholders equity	$ 410,726	$ 402,654
Commitments and contingencies (note 15)		

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Year Ended March 31, 2004	Year Ended March 31, 2003	Year Ended March 31, 2002
Revenues	$ 213,420	$ 194,325	$ 163,370
Cost of revenues (1)	127,035	119,410	89,287
Gross profit	86,385	74,915	74,083
Operating expenses:			
Research and development (2)	30,983	33,275	21,762
Selling, general and administrative (3)	39,149	36,231	21,469
Amortization of acquired intangibles (note 4)	10,616	10,627	1,032
Provision for costs associated with patent litigation (note 15)	12,630	14,504	
Restructuring (note 12)			1,858
In-process research and development (note 4)			4,700
Total operating expenses	93,378	94,637	50,821
Income (loss) from operations	(6,993)	(19,722)	23,262
Interest and other income:			
Interest income	1,062	1,538	1,536
Gain on sale of investment	663		
Imputed interest on lease liability		(592)	(73)
Interest and other income, net	1,725	946	1,463
Income (loss) before income taxes	(5,268)	(18,776)	24,725
Provision for (recovery of) income taxes (note 13)	(1,063)	(4,140)	6,729
Net income (loss)	$ (4,205)	$ (14,636)	$ 17,996
Earnings (loss) per share (note 14):			
Basic	$ (0.13)	$ (0.47)	$ 0.82
Diluted	$ (0.13)	$ (0.47)	$ 0.74
Weighted average number of common shares outstanding (note 14):			
Basic	31,876	31,248	22,025
Diluted	31,876	31,248	24,177
(1) Amount excludes amortization of acquired developed product technology included in amortization of acquired intangibles	$ 7,700	$ 7,700	$ 865
(2) Amount includes amortization of deferred stock-based compensation	$ 2,893	$ 5,420	$ 510
(3) Amount includes amortization of deferred stock-based compensation	$ 937	$ 1,427	$ 460

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Shares			Cumulative	Deferred		
			Additional	Other	Stock-	Retained	Total
			Paid-In	Comprehensive	Based	Earnings/	Stockholders
	Number	Amount	Capital	Loss	Compensation	(Deficit)	Equity
Balances, March 31, 2001	19,559	$ 74,619	$ 1,293	$ (94)	$ (187)	$ (5,242)	$ 70,389
Net income						17,996	17,996
Effect of reorganization (note 3)		(74,600)	74,600				
Acquisition of Sage Inc. (note 4)	8,819	9	273,360		(18,370)		254,999
Issued under stock option and stock purchase plans	2,755	3	37,876				37,879
Tax benefits associated with non-qualified stock option exercises and disqualifying dispositions			1,338				1,338
Amortization of deferred stock-based compensation					970		970
Balances, March 31, 2002	31,133	$ 31	$ 388,467	$ (94)	$ (17,587)	$ 12,754	$ 383,571
Net loss						(14,636)	(14,636)
Finalization of number of shares issued in connection with the acquisition of Sage Inc.	(215)		(5,363)				(5,363)
Repurchase of common stock	(400)	(1)	(3,126)				(3,127)
Issued under stock option and stock purchase plans	666	1	5,927				5,928
Tax benefits associated with non-qualified stock option exercises and disqualifying dispositions			613				613
Amortization of deferred stock-based compensation					6,847		6,847
Reversal of deferred stock-based compensation related to terminations			(3,931)		3,931		
Balances, March 31, 2003	31,184	31	382,587	(94)	(6,809)	(1,882)	373,833
Net loss						(4,205)	(4,205)
Issued under stock option and stock purchase plans	1,469	1	13,396				13,397
Deferred stock-based compensation related to terminations			119		(119)		
Amortization of deferred stock-based compensation					3,830		3,830
Reversal of deferred stock-based compensation related to terminations			(265)		265		

Balances, March 31, 2004	32,653	$ 32	$ 395,837	$ (94)	$ (2,833)	$ (6,087)	$ 386,855

See accompanying notes to consolidated financial statements.

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GENESIS MICROCHIP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended March 31, 2004	Year Ended March 31, 2003	Year Ended March 31, 2002
Cash flows from operating activities:			
Net income (loss)	$ (4,205)	$ (14,636)	$ 17,996
Adjustments to reconcile net income (loss) to cash used in operating activities:			
Depreciation and amortization	5,053	5,570	3,228
Amortization of acquired intangibles	10,616	10,627	1,032
In-process research and development			4,700
Non-cash restructuring expenses			600
Non-cash stock-based compensation	3,830	6,847	970
Deferred income taxes	(4,363)	(3,609)	5,018
Gain on sale of investment	(663)		
Other	427	621	144
Change in operating assets and liabilities, net of amounts acquired:			
Accounts receivable trade	(2,738)	6,739	(12,201)
Investment taxes recoverable			1,029
Inventory	(4,234)	5,777	(5,590)
Other	(775)	(612)	(5,577)
Accounts payable	1,208	(5,678)	6,328
Accrued liabilities	(6,661)	4,490	(1,586)
Income taxes payable	1,798	151	571
Net cash provided by (used in) operating activities	(707)	16,287	16,662
Cash flows from investing activities:			
Purchase of short-term investments	(129,055)	(3,034)	
Proceeds on sales and maturities of short-term investments	30,074	7,836	2,257
Additions to property and equipment	(9,417)	(6,549)	(3,519)
Proceeds on disposal of property and equipment			169
Cash and short-term investments acquired on purchase of Sage Inc. (note 4)			34,283
Acquisition of VM Labs assets (note 4)			(13,600)
Deferred merger-related costs (note 18)	2,502	(2,502)	
Other	(357)	(900)	(225)
Net cash provided by (used in) investing activities	(106,253)	(5,149)	19,365
Cash flows from financing activities:			
Proceeds from issue of common stock	13,397	5,927	37,879
Repurchase of common stock		(3,127)	
Repayment of loan payable	(334)	(83)	(89)
Principal repayments against lease liability (note 8)		(7,282)	(87)

Net cash provided by (used in) financing activities	13,063	(4,565)	37,703
Effect of currency translation on cash balances		1	7
Increase (decrease) in cash and cash equivalents	(93,897)	6,574	73,737
Cash and cash equivalents, beginning of year	113,138	106,564	32,827
Cash and cash equivalents, end of year	$ 19,241	$ 113,138	$ 106,564
Supplemental cash flow information:			
Cash received for interest	$ 1,068	$ 1,538	$ 1,536
Cash paid for income taxes	$ 1,502	$ 313	$ 719
Supplemental disclosure of non-cash investing and financing activities:			
Deferred stock-based compensation (note 4)	$ (265)	$ (3,931)	$ 18,370
Capital stock (note 3)	$	$	$ 74,600
Additional paid-in capital (notes 3 and 4)	$ 119	$ (5,363)	$ (74,600)

See accompanying notes to consolidated financial statements.

GENESIS MICROCHIP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are in thousands, except per share data)

1. Nature of operations

Genesis Microchip Inc. (Genesis or the Company) 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.

Critical accounting policies and estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, prepaid expenses, intangible assets, income taxes, warranty obligations, litigation and other contingencies. Genesis bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Genesis believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. The Company records estimated reductions to revenue for customer returns based on historical experience. If actual customer returns increase, the Company may be required to recognize additional reductions to revenue. We record the estimated future cost of replacing faulty product as an increase to cost of sales. If warranty returns increase as a result of changes in product quality, we may be required to recognize additional warranty expense. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of Genesis customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company provides for valuation reserves against its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory valuation reserves may be required. Genesis provides for costs associated for patent litigation when management believes there is a reasonable basis for estimating those costs. If actual costs associated with patent litigation differ from estimates, additional provision may be required. Genesis performs impairment tests on the carrying value of intangible assets and goodwill. These tests are based on numerous assumptions as to potential future results of the business that are considered to be reasonable at the time those assumptions are made. If any of these assumptions later prove to be incorrect or if management changes its assessment as to their reasonability because of changing business conditions, an impairment charge may be recorded. Genesis records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Should Genesis determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

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GENESIS MICROCHIP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts are in thousands, except per share data)

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. Cash equivalents of $182,000 and $86,228,000 as of March 31, 2004 and 2003, respectively, consist primarily of money market funds and commercial paper.

Short-term investments

All of our short-term investments are categorized as available-for-sale at the balance sheet date, and have been presented at fair value, which approximates amortized cost. When material, any temporary difference between the cost and fair value of an investment would be presented as a separate component of stockholder s equity. Short-term investments at March 31, 2004 consist entirely of corporate notes and bonds.

Accounts receivable

Accounts receivable are recorded based on the selling price of the item sold and are recorded at the time of shipment. An allowance for doubtful accounts is determined based on our historical and industry experience. The following table presents a roll forward of the allowance for doubtful accounts for the indicated periods:

	Year Ended March 31, 2004	Year Ended March 31, 2003	Year Ended March 31, 2002
Balance as of beginning of year	$ 493	$ 391	$ 78
Provision	20	120	317
Charge offs	(91)	(18)	(4)
Balance as of end of year	$ 422	$ 493	$ 391

Inventory

Inventory consists of finished goods and work-in-process and is stated at the lower of standard cost (approximates actual cost on first-in, first-out basis) or market value, being net realizable value. A reserve against inventory for obsolescence or unmarketable inventory is estimated based upon assumptions about future demand and market conditions.

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

	Year Ended March 31, 2004	Year Ended March 31, 2003	Year Ended March 31, 2002
Balance as of beginning of year	$ 3,630	$ 2,376	$ 1,710
Charged to cost of revenues	771	2,137	666
Charge offs	(1,158)	(883)	
Balance as of end of year	$ 3,243	$ 3,630	$ 2,376

No significant inventory write-offs were recorded, other than the above amounts.

GENESIS MICROCHIP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts are in thousands, except per share data)

Property and equipment

Property and equipment are stated at cost or fair value at the date of acquisition. 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	20% to 100% 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 statements of operations.

Goodwill and acquired intangibles

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142) which requires goodwill to be tested for impairment under certain circumstances, and written down when impaired, rather than being amortized as previous standards required. Furthermore, SFAS 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless their lives are determined to be infinite. Acquisitions completed during the year ended March 31, 2002 were accounted for in accordance with SFAS 142.

Intangible assets are comprised of acquired core technology, acquired developed product technology, patents, trademarks and trade names. Patents are amortized on a declining-balance basis at a rate of 10% while all other intangible assets are amortized on a straight-line basis over four to seven years. Goodwill represents the excess purchase price over the fair value of net assets acquired and has not been amortized, but is tested for impairment annually.

In arriving at the balances for goodwill arising out of the acquisitions of Sage, Inc. (Sage) and the assets of VM Labs, Inc. (VM Labs), estimates were made at the time of the acquisitions as to the fair values of assets purchased and liabilities assumed, including the lease liability for vacated premises. Adjustments to those estimates during the years ended March 31, 2004 and 2003 have resulted in a change in the reported amount of goodwill.

Goodwill is not subject to amortization and is tested annually for impairment, during the fourth quarter of each fiscal year, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value.

Asset impairments

The Company adopted SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets, effective April 1, 2002. The adoption of SFAS 144 has not had an impact on the Company s consolidated financial position or results of operations. As required by SFAS 144 management reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount including associated intangible assets of the operation.

If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is

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GENESIS MICROCHIP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(tabular amounts are in thousands, except per share data)

determined based on discounted cash flows or appraised values, depending upon the nature of the assets. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented in the appropriate asset and liability sections of the balance sheet.

Revenue recognition

Genesis generates revenues primarily from sales of semiconductor products. To date, revenues from royalties or other sources have been insignificant.

Genesis recognizes revenue from semiconductor 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 revenues and related cost of revenues until the distributors resell the product. To date, sales to distributors have not been significant and there have been no significant product returns.

Warranty program