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GSI TECHNOLOGIES USA INC /DE
Form 10QSB
March 24, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(MARK ONE)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended JANUARY 31, 2003.

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-31229

GSI TECHNOLOGIES USA INC.

(Exact name of small business issuer as specified in its charter)

Delaware

65-0902449

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

400 St Jacques Street, Suite 500, Montreal, Quebec H2Y 1S1, Canada

(Address of principal executive offices)

(514) 282-9292

(Issuer's Telephone Number, including Area Code)

Check whether the issuer (1) has filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act of 1934 during the past 12 months (or
for such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.
Yes[] No[]

As of February 28, 2003, there were 26,291,023 shares of the issuer's \$.001 par
value common stock issued and outstanding

Transitional Small Business Disclosure Format (Check one): Yes [] No

INDEX TO FORM 10-QSB

For the Quarter Ended January 31st, 2003

PAGE

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| | |
|--|-------|
| PART I. FINANCIAL INFORMATION | ----- |
| Item 1. Financial Statements (Unaudited) | |
| Balance Sheet as of January 31st, 2003 | 3 |
| Statement of Operations for the Three Months ended January 31, 2003 and 2002 | 4 |
| Statements of Cash Flows for Three Months Ended January 31st, 2003 and 2002 | 5 |
| Notes to Financial Statements for the three Months Ended January 31, 2003. | 6 - 7 |
| Item 2. Management's Discussion and Analysis | 8-14 |
| PART II. OTHER INFORMATION | 17 |
| Item 1. Legal Proceedings | 17 |
| Item 2. Changes in Securities | 17 |
| Item 3. Defaults Upon Senior Securities | 17 |
| Item 4. Submission of Matters to a Vote of Security Holders | 17 |
| Item 5. Other Information | 18 |
| Item 6. Exhibits and Reports on Form 8-K | 18 |

GSI TECHNOLOGIES USA, INC.
BALANCE SHEET
AT JANUARY 31st, 2003
(UNAUDITED)

ASSETS

| | |
|-----------------------------|------------|
| Current Assets | |
| Cash and cash equivalents | \$ 194 329 |
| Receivables, net | 5 014 |
| | ----- |
| Total current assets | 199 343 |
| Property and equipment, net | 67 889 |
| Intangible assets, net | 164 872 |
| Other assets | 31 548 |
| | ----- |
| TOTAL ASSETS | 463 651 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

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| | |
|---|-------------------------|
| Current Liabilities | |
| Accounts payable | 93 579 |
| Notes Payable | 186 377 |
| Investment proceeds liability | 625 785 |
| Other current liabilities | 138 356 |
| | ----- |
| Total current liabilities | 1 044 096 |
| Stockholder's Equity | |
| Common Stock, class A, \$1.00 par value; authorized 5,000,000 shares; issued and outstanding none | - |
| Common Stock, class B, \$.001 par value; authorized 55,000,000 shares; issued and outstanding - 26,291,023 | 26 291 |
| Paid in Capital | 5 243 740 |
| Deficit accumulated during the development stage | (5 850 864) |
| Accumulated other comprehensive income | 388 |
| | ----- |
| Total Shareholder's Equity | (580 445) |
| TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY | \$ 463 651 ===== |

Read the accompanying summary of significant accounting notes to Financial statements, which are an integral part of this financial statement

3

GSI TECHNOLOGIES USA INC
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JANUARY 31st, 2003 AND 2002
(UNAUDITED)

| | Three months ended January 31, | |
|---|-----------------------------------|-----------|
| | 2003 | 2002 |
| | ----- | ----- |
| Revenues | \$ - | \$ 23 750 |
| Cost of Sales | - | 10 634 |
| | ----- | ----- |
| Gross Profit | - | 13 116 |
| Operating Expenses: | | |
| Marketing | 1 383 | 8 361 |
| Salaries and related costs | - | 38 996 |
| Rent | 5 746 | 37 723 |
| Professional fees | 17 234 | 6 572 |
| Consulting | 43 842 | - |
| Depreciation | 1 080 | 973 |
| Amortization | 23 739 | 23 846 |
| Other selling, general and administrative | 19 769 | 28 104 |
| | ----- | ----- |
| Total operating expenses | 112 793 | 144 574 |

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| | | |
|--|------------|------------|
| Loss before other income (expense) | (112 793) | (131 458) |
| Other income (expense): | | |
| Interest income (principally related party) | | |
| Interest expense (principally related party) | (11 869) | (4 342) |
| Foreign exchange gain/(loss) | | 8 569 |
| Equity in net earnings (loss) of affiliates | - | - |
| | ----- | ----- |
| Total other income (expense) | (11 869) | 4 227 |
| | ----- | ----- |
| Net Loss | (124 662) | (127 231) |
| | ===== | ===== |
| Basic weighted average common shares outstanding | 26 291 023 | 25 461 917 |
| | ===== | ===== |
| Basic and diluted Loss per common share | \$ (0,00) | \$ (0,00) |
| | ===== | ===== |

Read the accompanying summary of significant accounting notes to Financial statements, which are an integral part of this financial statement

4

GSI TECHNOLOGIES USA, INC.
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED JANAUARY 31st, 2003 AND 2002
(UNAUDITED)

| | For the three months ended January 31, | |
|--|---|--------------|
| | 2003 | 2002 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income (Loss) | \$ (124 662) | \$ (127 231) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 24 819 | 24 819 |
| Issuance of stock for contract settlement | - | 38 996 |
| Accrued Interest Expense | - | 4 060 |
| Changes in Operating assets and liabilities: | | |
| Receivables and other current assets | (5 014) | 26 593 |
| Other assets | (31 548) | |
| Accounts Payable and Accrued Liabilities | 2 699 | 35 979 |
| | ----- | ----- |
| Net cash provided by/(used in) operating activities | (133 706) | 3 215 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash provided by/(used in) investing activities | | |

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| | | |
|--|------------|---------|
| Loan Receivable, principally related parties | - | (8 270) |
| Purchase of property and equipment | (5 667) | - |
| | ----- | ----- |
| Net cash provided by/(used in) investing activities | (5 667) | (8 270) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from: | | |
| Notes payable | (148 460) | - |
| Investment proceeds | 482 162 | - |
| Sales of common stock | - | - |
| | ----- | ----- |
| Net cash provided by/(used in) financing activities | 333 702 | - |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | - | - |
| Net increase (decrease) in cash and cash equivalents | 194 329 | (5 055) |
| Cash and cash equivalents, beginning of period | - | 6 019 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 194 329 | \$ 964 |
| | ===== | ===== |

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

None

5

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(Unaudited)

January 31st, 2003

NOTE 1 -BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of GSI Technologies USA, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. The financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These financial statements should be read in conjunction with the audited financial statements and footnotes thereto included in GSI Technologies USA, Inc.'s 10-KSB as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 - NET EARNINGS (LOSS) PER SHARE

Earnings (Loss) per common share are calculated under the provisions of SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share. SFAS No. 128 requires the Company to report both basic earnings (loss) per share, which is based on the weighted-average number of common shares outstanding during the period, and diluted earnings (loss) per share, which is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. Options and warrants are not considered in calculating diluted earnings (loss) per share since considering such items would have an anti-dilutive effect.

NOTE 3 - GOING CONCERN

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company reported a net loss of \$124,662 for the three months ended January 31, 2003 (unaudited). As reported on the statement of cash flows, the Company incurred negative cash flows from operating activities of \$133,706 for three months ended January 31, 2003 (unaudited). Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital for its planned activity. Additional capital and/or borrowings will be necessary in order for the Company to continue in existence until attaining and sustaining profitable operations. The Company is aggressively pursuing strategic alliances, which will bring a cash infusion, restructuring and forward looking business plan.

7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward looking statements.

This report contains forward-looking statements that are based on the Company's beliefs as well as assumptions made by and information currently available to the Company. When used in this report, the words "believe," "expect," "anticipate," "estimate," and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions, including without limitation, the overall strength of the national securities markets, the Company's present financial condition and the risks and uncertainties concerning the availability of additional capital as and when required, technological changes, increased competition, international war and terrorism and general economic conditions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. The Company cautions potential investors not to place undue reliance on any such forward-looking statements, all of which speak only as of the date made.

OVERVIEW

GSI Technologies USA (GSI USA) specializes in offering broadcasting solutions principally for out home advertising, such as electronic billboards, interactive advertising kiosks and any type of animated electronic screens with full video capabilities. GSI USA's software enable users to transmit pin point animated information contact as well as receive full motion video, graphics and audio

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files. GSI's software and concept allows advertisers to reach more consumers on a daily basis and permits its clients to measure the impact of their ads by interacting with the consumer.

RESULTS FROM OPERATIONS

3 months ending January 31, 2003 and 2002

During GSI's first quarter from November 1st, 2002 to January 31st, 2003, GSI USA incurred a loss of \$124,662 versus a loss of \$127,231 in the same period in 2001.

REVENUES

ZERO in revenue was recognized during the current year quarter, versus \$23,750 for the same period in the prior year. This is related to sub-licensing agreements realized over the respective terms.

COST OF REVENUES AND DIRECT OPERATING COSTS

According to the master license agreement with GSI Canada, GSI USA owns 60% of the price of any sub-license it sells to a new licensee. This amount is payable to GSI Canada by the end of the calendar quarter in which the sub-licensee is granted its sub-license. GSI USA has incurred ZERO in direct operating cost for the current quarter, versus 10,634 for the same quarter in the prior year.

OPERATING EXPENSES

During the three months ended January 31, 2003, GSI USA has incurred \$112,793 in operating expenses versus 144,574 for the same period in 2001. The decrease was mainly attributable to lower rent due to relocation of our corporate office

LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2003 GSI USA had \$194,329 in cash. Cash used in operating activities during the three months ending January 31, 2003 was 133,706, which was mainly attributable to the net cash loss from operations plus changes in net operating assets and liabilities.

Cash used by investing activities during the period reflects additional short-term loans to GSI Canada in the amount of \$5,667, which was used for the purchase of business equipment

Net Cash provided from financing activities during the period was 333,702.

The result of all activities during the three-month period ending January 31, 2002 was a net decrease of \$194,329 in our cash position.

MANAGEMENT DISCUSSION AND ANALYSIS

GSI USA TECNOLOGY DIRECTIONS

The Company has terminated the previous relationship with our affiliate 3529-363 Canada Inc., 'GSI Canada', due to their inability to provide the technology and

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services required pursuant to the terms of the Master Licensing Agreement. We have legally informed the management of 3529-363 Canada Inc. through the trustee of the following: Due to material breach of several clauses of the Master Licensing Agreement dated October 1999 and the inability to provide services and support as stipulated in the agreement, for more than one year, GSI Technologies USA Inc. has decided to terminate the contract and relationship.

GSI Technologies USA Inc. has entered into relationship with LTS Networks, a Corporation specialized in Network management and R&D software development. The Corporation has given LTS a mandate to develop an entirely new family of digital distribution products from the ground up. GSI USA over the past couple of years has acquired experience in serving digital network operators through various pilot projects, therefore we believe our specifications will serve our customers more adequately. Furthermore, we currently anticipate offering the first phase of our products by the beginning of May 2003.

We have received significant interest from potential customers as well as building our relationship with a client, Clear Channel International. We believe we have made great strides in restructuring the Company and we have completed a large part of our rebuilding phase with the goal of offering our customers and shareholders a corporation with value based upon its own proprietary technology.

The markets' appetite for digital signage's solution has increased considerably and many media operators are seeking to find a management solution that will give them the best value for their investment.

Retail outlets and public facilities have begun to recognize the significance of their potential of reaching large numbers of viewers on a daily basis. They are beginning to realize that they can increase their own revenue base by offering information content about their services as well as generating revenues through recurring advertising revenues.

We believe our turn key solution has all the necessary tools to meet the new emerging needs of the industry.

We have initiated and are pursuing discussions with potential partners for new equity and strategic alliances. We anticipate results during the first half of 2003.

In July 2002, we completed a letter of Intent with a California based corporation specializing in Internet market content. The agreement calls for the client to install a network of full motion video plasma screens in approximately 200 preferred locations in the United States. As of year-end, we have been informed that our client has succeeded in sign up over 100 locations and anticipates starting installation during March 2003. We have negotiated a 10 year licensing agreement starting when the Network begins its operations. Network management and content production contract are currently been negotiated.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In March 2002, a former Director and Officer along with another former employee of the Company obtained a judgment against the Company in the amount of \$140,000.00 USD. The management of our corporation has successfully concluded an out of court settlement for \$20,000.00 CDN, approximately \$13,400.00 USD. The Company has obtained a signed settlement and release agreement from the plaintiffs.

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ITEM 2. CHANGES TO AUTHORIZED SHAREHOLDERS' CAPITAL

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Late filing 10-K : On February 4th, 2002, we became delinquent because we were late filing our annual 10-KSB report. On March 5th, 2002, we were temporarily delisted from the OTCBB. On March 8th, 2002, we filed our 10-KSB report for the period ending October 31, 2001. Since then, we have filed all of our reports on time. We are currently responding to comments from the NASD pursuant to the fling of our Form C2-11 in Fall 2002. We anticipate obtaining approval from regulatory authorities shortly.

On May 2002, GSI entered into a loan agreement with private party for a sum of \$330,000.00 USD, at bearing interest of prime rate + 2%.

In Fall 2002, GSI completed a loan agreement with a private investment corporation for a bridge loan of \$300,000.00 USD, which could become an equity investment by spring 2003, conditional to due diligence and approval of regulatory authorities. These funds were utilized to resolve pending issues with payables under governance of a law firm.

On December 2002, GSI entered into a loan agreement with private individual for an amount of \$320,000.00 USD which could be converted into equity, subject to approval of regulatory authorities.

In end of December 2002, GSI entered into an agreement with LTS Networks to eventually participate in the share capital structure of the corporation. Subject to complete due diligence and standard accounting policies, we anticipate closing by end of next quarter.

As of February 7, 2003 Mr. Ren Arbic resigned from his position as Chief Executive Officer of GSI Technologies USA Inc. Our board directors is currently evaluating candidates for his replacement.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

The following exhibits are contained in this 10-QSB:

None.

CERTIFICATION

I, Ren Arbic, hereby certifies that:

1. I have reviewed this quarterly report on Form 10-QSB of GSI Technologies USA Inc.;

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2. Based on my knowledge, this report does not contain any untrue statement of a material fact, or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial position, results of operations, and cash flows of the issuer as of, and for, the periods presented in this report.
4. I am responsible for establishing and maintaining disclosure controls and procedures for the issuer and have:
 - (i) Designed such disclosure controls and procedures to ensure that material information relating to the issuer is made known to me, particularly during the period in which the periodic reports are being prepared;
 - (ii) Evaluated the effectiveness of the issuer's disclosure controls and procedures as of January 31, 2003; and
 - (iii) Presented in the report our conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;
5. I have disclosed, based on my most recent evaluation, to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function):
 - (i) All significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and
 - (ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and
6. I have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/r/ Rene Arbic

Rene Arbic, Chairman of the Board

14

SIGNATURES

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

Dated: March 24, 2003

GSI TECHNOLOGIES USA INC.

By: /s/ Marie El-Ahmar Eid

Marie El-Ahmar Eid
Secretary of the Board