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

FORM 10-Q

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

For the quarterly period ended March 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 0-28472

DIGITAL VIDEO SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0333728

(I.R.S. Employer Identification Number)

688 W. Dana Street

Mountain View, CA 94041

(Address of principal executive offices, including zip code)

(650) 564-9699

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

The number of shares of Common Stock outstanding as of April 27, 2001, was 6,312,487.

Digital Video Systems, Inc.
FORM 10-Q Index

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Digital Video Systems, Inc.
Condensed Consolidated Balance Sheet
(in thousands)
(Unaudited)

March 31,
2001

December 31,
2000

Assets:		
Current assets:		
Cash and cash equivalents.....	\$2,649	\$ 2,032
Restricted cash.....	3,335	3,154
Accounts receivable, net.....	2,239	2,903
Inventories.....	8,692	10,050
Prepaid expenses and other current assets.....	1,951	2,996
Notes receivable - current (related party).....	945	1,265
Total current assets.....	19,811	22,400
Property and equipment, net.....	2,334	2,006
Investment in Shanghai.....	678	411
Notes receivable - non-current (related party).....	998	988
Intangible assets.....	1,299	1,395
Other assets.....	2,926	2,798
Total assets.....	\$28,046	\$30,008
Liabilities and Stockholders' Equity:		
Current liabilities:		
Line of credit.....	\$8,688	\$11,164
Current portion of long term debt.....	128	90
Accounts payable.....	6,476	5,929
Accrued liabilities.....	3,672	2,586
Notes payable - related party.....	--	69
Other Payable.....	263	139
Total current liabilities.....	19,227	19,977
Long term liabilities:		
Long term liabilities - long term debt.....	385	451
Other long term liabilities.....	--	1,109
Total liabilities.....	19,612	21,537
Minority interest.....	1,658	1,788
Stockholders' equity:		
Preferred Stock.....	--	--
Common stock.....	1	1
Additional paid-in capital.....	69,684	69,020
Cumulative translation adjustments.....	231	631
Deferred compensation.....	(113)	(131)
Accumulated deficit.....	(63,027)	(62,838)
Total stockholders' equity.....	6,776	6,683
Total liabilities and stockholders' equity.....	\$28,046	\$30,008

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Revenue:		
Net revenue.....	\$16,432	\$14,725
Cost of revenue.....	14,439	12,638
Gross margin.....	1,993	2,087
Operating expenses:		
Research and development.....	421	590
Sales and marketing.....	500	176
General and administrative.....	923	2,391
Acquired in-process research and development.....	--	--
Total operating expenses.....	1,844	3,157
Income (loss) from operations.....	149	(1,070)
Interest income (expense).....	(172)	--
Other income (expense).....	(199)	483
Loss before minority interest and income taxes.....	(222)	(587)
Income tax provision.....	(97)	(13)
Loss before Minority interest.....	(319)	(600)
Minority interest.....	130	(150)
Net loss.....	\$ (189)	\$ (750)
Basic net loss per share.....	\$(0.04)	\$(0.17)
Diluted net loss per share.....	\$(0.04)	\$(0.17)

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net income.....	\$(189)	\$(750)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest.....	(130)	150
Depreciation and amortization.....	(199)	582
Purchased in-process research and development.....	--	(125)

Gain on sale to related party.....	--	87
Stock options compensation expense.....	18	134
Changes in operating assets and liabilities:		
Accounts receivable.....	664	(536)
Inventories.....	1,358	2,985
Prepaid expenses and other current assets.....	1,045	186
Other assets.....	(128)	(1,290)
Accounts payable.....	547	(1,423)
Accrued liabilities.....	1,086	(494)
Other payable.....	124	396
Other long-term liabilities.....	(1,109)	--
Net cash provided by (used in) operating activities...	3,087	(98)
Cash flows from investing activities:		
Acquisition of property and equipment.....	(32)	(63)
Investment in Shanghai.....	(267)	117
Proceeds from intangible assets.....	--	(129)
Net cash used in investing activities.....	(299)	(75)
Cash flows from financing activities:		
Proceeds of common stock.....	664	(10)
Proceeds from exercise of options.....	--	316
Proceeds from short-term loan.....	--	1,460
Repayment of notes payable.....	(97)	729
Repayment of line of credit.....	(2,476)	--
Payments on notes receivable.....	320	--
Net cash (used in) provided by financing activities...	(1,589)	2,496
Effect of exchange rate changes.....	(401)	(212)
Net increase (decrease) in cash and cash equivalents..	798	2,111
Cash and cash equivalents at beginning of period.....	5,186	4,169
Cash and cash equivalents at end of period.....	\$5,984	\$6,280
Supplemental disclosure of non cash transaction:		
Interest paid.....	\$45	\$209

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of DVS include the accounts of the Company and its subsidiaries. The statements have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited

financial statements included in the Company's Annual Report on Form 10-KSB for the nine-month period ended December 31, 2000.

In the opinion of the management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the interim periods presented. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for any other interim period or the full fiscal year ending December 31, 2001. All significant inter-company balances and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include impairment write-downs of fixed assets and intangibles and the level of accounts receivable and inventory reserves. Actual results could differ from those estimates.

Note 2 - Net Loss Per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the periods. Diluted net income (loss) per share is computed using the weighted average number of common and potentially dilutive common shares during the periods, except those that are anti-dilutive. Basic and diluted net income per share is calculated as follows (in thousands):

	Three Months Ended March 31,	
	2001	2000
Net loss.....	\$ (189)	\$ (750)
Weighted average common shares outstanding(1).....	4,833	4,363
Dilutive stock options and warrants.....	0	0
Total fully diluted shares.....	4,833	4,363
Basic net loss per share.....	\$ (0.04)	\$ (0.17)
Diluted net loss per share.....	\$ (0.04)	\$ (0.17)

- At March 31, 2001 and 2000, respectively, 1,143,645 and 1,143,645 shares of common stock in escrow were excluded from the calculation of basic and diluted earnings per share. At March 31, 2001 and 2000, respectively, warrants to purchase 4,203,571 and 4,203,571 shares of common stock were excluded from the calculation of diluted income/loss per share because their effect is anti-dilutive.

Note 3 - Comprehensive Income

The components of comprehensive income, net of tax, are as follows (in thousands):

Three Months Ended
March 31,

	----- 2001	2000 -----
Net loss.....	\$(189)	\$(750)
Cumulative foreign currency translation adjustments.....	(401)	(213)
Comprehensive income.....	\$(590)	\$(963)
	=====	=====

Accumulated other comprehensive loss presented on the accompanying consolidated condensed balance sheet consists of the cumulative foreign currency translation adjustments.

Note 4 - Inventories

Inventories consisted of the following (in thousands)

	March 31, 2001 -----	December 31, 2000 -----
Inventories:		
Raw materials.....	\$4,412	\$3,513
Work in process.....	2,229	4,800
Finished goods.....	2,452	2,134
Total inventory.....	9,093	10,447
Less inventory reserves....	(401)	(397)
Net inventory.....	\$8,692	\$10,050
	=====	=====

Note 5 - Other

A foreign investment income tax credit is available to offset 80% of income taxes on the company's subsidiary and net operating loss carryforwards are available to offset current US taxable income.

Intangible assets consisted of the following (in thousands):

March 31, December 31,

	2001	2000	---
Good Will.....	\$ 654	\$ 655	
Intangible Assets of Acquired Businesses.....	2,400	2,400	
Purchased Licenses.....		500	
Total Intangible Assets.....	3,054	3,555	
Less: Accumulated Amount.....	(1,755)	(2,160)	
	\$1,299	\$1,395	
	=====	=====	

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the nine-month period ended December 31, 2000 and the condensed consolidated financial statements and notes thereto included herein for the three months ended March 31, 2001.

This document contains forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Act of 1995 that involve risks and uncertainties, including, without limitation, statements with respect to the Company's strategy, proposed sales of the Company's products, the markets for the Company's products, and the development of the Company's products. The Company's actual results may differ materially from those described in these forward-looking statements due to a number of factors, including, but not limited to, the uncertainty of market acceptance of DVD-ROM drives, DVD loaders and other Company products, planned growth of the Company's operations, dependence on a limited number of suppliers of certain components used in the Company's operations, risks associated with rapid technological change and obsolescence and product development, conducting business in foreign countries, such as China and South Korea, the competitive market for the Company's products and other factors described in the Form 10-KSB for the nine-month period ended December 31, 2000, or in other documents the Company filed from time to time with the Securities and Exchange Commission. A significant portion of the Company's revenue and net income is derived from international sales, particularly from customers based in Asia. Fluctuation of the U.S. dollar against foreign currencies and changes in local regulatory or economic conditions, among other things, could adversely affect operating results.

Results of Operations

In the quarter ended March 31, 2001, the Company continued to focus on its core products based on its DVD intellectual property portfolio. The continued focus on these operations has resulted in certain improvements in operating results as compared with the same period a year ago which are presented in the table below (in thousands):

	Three Months Ended March 31,	
	2001	2000
Revenue.....	\$16,432	\$14,725
Gross profit.....	1,993	2,087
Income (loss) from operations.....	149	(1,070)

Revenue for the quarter ended March 31, 2001 increased to \$16.4 million, a 12% increase from \$14.7 million recorded for the quarter ended March 31, 2000. Gross profit was \$2.0 million for the quarter ended March 31, 2001, as compared to \$2.1 million of the same quarter last year. As previously disclosed, the results of the first quarter of a calendar year typically reflects a reduction in demand for our products due in part to the Chinese New Year when most factories in China shut down operations during the two to three weeks holiday season. Income from operations for the quarter ended March 31, 2001 was \$0.1 million, as compared with losses of \$1.1 million in the same quarter of the previous year. More detailed discussion and comparison of the results is presented below.

For the Three Months Ended March 31, 2001 Compared to the Three Months Ended March 31, 2000

The following table sets forth for the periods indicated certain income and expense items expressed as a percentage of the Company's total revenue for the three months ended March 31, 2001 compared to the three months ended March 31, 2000. See Condensed Consolidated Statements of Operations.

	Percent of Revenue	

	Three Months Ended March 31,	
	2001	2000

Revenue	100.0%	100.0%
Gross margin.....	12.1%	14.1%
Research and development.....	2.6%	4.0%
Sales and marketing.....	3.0%	1.2%
General and administration.....	5.6%	16.2%
Acquired in process R & D.....	0.0%	0.0%
Income (loss) from operations.....	0.9%	(7.3%)
Net loss.....	(1.1%)	(5.1%)

	Three months ended March 31, (in thousands)		% Change

	2001	2000	

Consolidated revenue.....	\$16,432	\$14,725	12%

Total revenue increased by \$1.7 million, or 12%, for the three months ended March 31, 2001 compared with the three months ended March 31, 2000. International revenue, consisting primarily of sales of DVD loaders in China, represented over 90% of revenue for the quarter ended March 31, 2001. The Company expects that international sales will continue to constitute a significant portion of its revenue in future periods.

	Three months ended March 31, (in thousands)		% Change

	2001	2000	

Gross profit.....	\$1,993	\$2,087	-4.5%
as a percentage of revenue.....	12.1%	14.1%	

Gross profit was \$2.0 million for the quarter ended March 31, 2001, compared to \$2.1 million for the corresponding quarter of 2000. Gross profit as a percentage of total revenue decreased from 14.1% to 12.1% due to increased market competition.

	Three months ended March 31, (in thousands)		% Change

	2001	2000	

Research and development.....	\$421	\$590	-29%
as a percentage of revenue.....	2.6%	4.0%	

Research and development expenses consist primarily of personnel and equipment prototype costs required for the Company's product development efforts. Research and development spending in this quarter was 2.6% of revenue, as compared with 4.0% for the corresponding quarter of 2000.

Three months ended

	March 31, (in thousands)		% Change
	2001	2000	
Sales and marketing.....	\$500	\$176	184%
as a percentage of revenue.....	3.0%	1.2%	

Sales and marketing expenses consist primarily of personnel and consulting costs related to the sales process and the marketing of the Company's products, as well as sales commissions and expenses related to promotion activities. In preparation for expected growth and increased competition, sales and marketing expenses for the three month period ended March 31, 2001 increased in dollar terms as well as in terms of percentage of revenue, as compared with the corresponding quarter of 2000.

	Three months ended March 31, (in thousands)		% Change
	2001	2000	
General and administrative.....	\$923	\$2,391	-61%
as a percentage of revenue.....	5.6%	16.2%	

General and administrative expenses consist of administrative salaries and benefits, insurance, facility leases, fees for legal and accounting services, investor relations and other related costs. The general and administrative expenses of this quarter decreased significantly from the corresponding period of 2000. This decrease in absolute dollars and as a percentage of revenue reflects the company's continuing efforts to control its overhead costs. There was a bonus accrual for \$0.5 million as of December 31, 2000 at DVS Korea. This amount was reversed as of March 31, 2001.

Liquidity and Capital Resources

The Company had working capital at March 31, 2001 of \$0.6 million as compared with working capital of \$0.1 million at March 31, 2000.

Net cash generated by operating activities was \$3.1 million for the three months ended March 31, 2001 as compared to \$0.1 million used by operating activities in the three months ended March 31, 2000. Cash generated by operating activities was primarily the result of a reduction of inventory by \$1.4 million and the decrease in prepaid expenses and other current assets in the amount of \$1.0 million. Cash was primarily used for the \$1.1 million reduction in other long-term liabilities.

Net cash used in investing activities was \$0.3 million for the three months ended March 31, 2001, which consisted of the acquisition of property and equipment and the investment in Shanghai joint venture.

Net cash used in financing activities was \$1.6 million for the three months ended March 31, 2001. The cash provided by financing activities in this period totaled \$1.0 million, consisting of \$0.7 million proceeds from the sale of common stock and \$0.3 million from the payment of notes receivable. The cash used in financing activities was primarily \$2.5 million used for repayments on the line of credit.

The Company has lines of credit with several Korean banks, with a total borrowing limit of approximately \$12 million. The Company also has approximately \$20 million as payment guarantees for letters of credit. The operations of DVS Korea are expected to generate cash sufficient to fund continued growth and to provide funds to the US headquarters through royalty payments and the distribution of dividends. In addition, the Company has been receiving payments from OPLI on certain notes. Additional credit facilities

are expected to be provided by partners in China for the operations of the joint venture. We believe that our available cash, cash equivalents, investments, the proceeds from recent stock offerings and our bank line of credit will be sufficient to meet our operating expenses and capital requirements through the next twelve months. Our future liquidity and cash requirements will depend on numerous factors, including the introduction of new products and future sales of our products.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Due to our international sales and manufacturing activities, we are exposed to risks associated with foreign exchange rate fluctuations. These exposures could negatively impact our operating results and financial condition. Our sales activities are primarily dominated in U.S. dollars. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and therefore reduce the demand for our products. Such a decline in demand could reduce our revenues and result in operating losses. In addition, a downturn in the Korean and Chinese economy could impair the value of our investment in our current and expected operations in Korea and China. An impairment in the value of DVS Korea Co., Ltd., in which we have an 80% interest, may result in a significant write off, or cause us to expense some or all of our approximately \$4 million initial investment. We have approximately a \$0.7 million investment in the joint venture in China. A downturn in the Chinese economy could impair the value of some or all of this investment.

Fluctuations in interest rates could increase any interest expense owed on the line of credit or affect interest earnings on our cash and cash equivalents. We believe that the effect, if any, of reasonably possible near term changes in interest rates on our financial position, results of operations and cash flows would not be material, and currently we do not engage in hedging activities to limit this type of interest rate exposure.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in legal actions arising in the ordinary course of business, such as those matters reported in the Form 10-KSB for the nine-month period ended December 31, 2000, which the Company filed with the Securities and Exchange Commission on April 17, 2001.

While we have accrued certain amounts for the estimated legal costs associated with defending these matters, there can be no assurance that these cases and other third party assertions will be resolved without costly litigation, in a manner that is not adverse to our financial position, results of operations or cash flows or without requiring royalty payments in the future which may adversely impact gross margins. No estimate can be made of the possible loss or possible range of loss associated with the resolution of these contingencies.

Item 2. Changes in Securities and Use of Proceeds

In November 2000, the Company's Board of Directors authorized management to raise up to \$2 million through the sale of the Company's Common Stock. On March 26, 2001, the Company sold shares of its Common Stock to certain management level employees at the Company's offices in the United States as well as those in its Korean subsidiary. The proceeds received in the quarter ended March 31, 2001 were \$0.7 million. The issuance of these securities was deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) or Regulation D, or other applicable exemption of such Securities Act as transactions by an issuer not involving any public offering. The recipients of securities in this financing represented their intentions to acquire securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in this transaction. All recipients had adequate access, through their relationships with the Company, to information about the Company and its business.

The Company's Class A and Class B Warrants expired on May 9, 2001. The Company issued an aggregate of 10,975,000 and 7,475,000 Class A and Class B Warrants, respectively, in connection with its initial public offering and a follow-on public offering in 1996. None of the Class A or Class B Warrants had been exercised as of May 9, 2001.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

Not Applicable.

SIGNATURE

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

Date: May 15, 2001

DIGITAL VIDEO SYSTEMS, INC.

By:

/s/ Mali Kuo _____

Mali Kuo

*Co-Chairman of the Board and
Chief Executive Officer*

(PRINCIPAL EXECUTIVE OFFICER)

/s/ Lin-Lin Zhou _____

Lin-Lin Zhou

President and Acting Controller

*(PRINCIPAL FINANCIAL AND
ACCOUNTING OFFICER)*
