

GSI TECHNOLOGIES USA INC /DE
Form 10-Q
June 14, 2001

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 April 30, 2001.

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 (I.R.S. Employer Identification No.)
incorporation or organization)

2001 McGill College Avenue, Suite 1310, Montreal, Quebec H3A 1G1 Canada

(Address of principal executive offices)

(514) 940-5262

(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 June 14, 2001, there were 21,076,636 shares of the issuer's \$.001 par value common stock issued and outstanding.

Transitional Business Disclosure Format (Check one): Yes No

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

INDEX TO FORM 10-QSB

For the Quarter Ended April 30, 2001

	PAGE

PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Balance Sheet as of April 30, 2001	3
Statement of Operations for the Three and Six Months ended April 30, 2001 and 2000	4
Statements of Cash Flows for Three and Six Months and Since Inception To April 30, 2001 and 2000	5
Notes to Financial Statements for the Six Months Ended April 30, 2001.	6 - 8
Item 2. Management's Discussion and Analysis	9- 16
PART II. OTHER INFORMATION	
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	17
Item 6. Exhibits and Reports on Form 8-K	17

PART I - FINANCIAL INFORMATION

Item 1. Financial statements

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
BALANCE SHEET
AT APRIL 30, 2001

(UNAUDITED)

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

Assets	
Current Assets	
Cash and cash equivalents	\$17,5
Receivables, net (principally related party)	4,025,3
Other current assets	

Total current assets	4,042,8
Property and equipment, net	36,9
Investment in affiliates	244,4
Intangible assets, net	331,0
Other assets	61,1

Total assets	4,716,3 =====
Liabilities and Stockholders' Equity	
Current Liabilities	
Accounts payable	576,3
Defferred Revenue	102,5
Notes Payable (principally related party)	4,136,0
Other current liabilities	100,5

Total current liabilities	4,915,4
Stockholder's Deficit	
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 - 21,076,636	21,0
Paid in Capital	1,964,3
Deficit accumulated during the development stage	(2,184,9
Accumulated other comprehensive income	3

Total Shareholder's Equity	(199,0
Total liabilities and shareholder's equity	\$ 4,716,3 =====

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

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

GSI TECHNOLOGIES USA, INC.
(A COMPANY IN THE DEVELOPMENT STAGE)
STATEMENT OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2001 AND 2000
FROM INCEPTION (JULY 08, 1998 THROUGH APRIL 30, 2001)

(UNAUDITED)

	Three months ended April 30,		Six ende
	2001	2000	2001
Revenues	\$ 126,043	\$ -	\$ 132,293
Cost of Sales	60,343	-	64,093
Gross Profit	65,700	-	68,200
Operating Expenses:			
Marketing	41,143	-	69,838
Management and administrative fees	239,733	178,497	472,223
Salaries and related costs	61,982		108,794
Rent	9,853	24,130	24,636
Financing expense	10,000		10,000
Professional fees	10,255	10,697	21,751
Consulting			
Depreciation	2,600		3,900
Amortization	23,879	23,739	47,688
Travel	29,001	11,986	37,761
Other selling, general and administrative	54,404	28,758	92,985
Total operating expenses	482,850	277,807	889,577
Loss before other income (expense)	(417,150)	(277,807)	(821,376)
Other income (expense):			
Interest income (principally related party)	105,756	8,119	194,462
Interest expense (principally related party)	(106,566)		(193,349)
Equity in net earnings (loss) of affiliates	42,550		219,408
Total other income (expense)	41,740	8,119	220,521
Net Loss	(375,410)	(269,688)	(600,856)
Basic weighted average common shares outstanding	20,788,768	20,185,472	20,689,767

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

Basic Loss per common share \$ (0.0181) \$ (0.0134) \$ (0.0290)
=====

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.
(A COMPANY IN THE DEVELOPMENT STAGE)
STATEMENT OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2001 AND 2000
FROM INCEPTION (JULY 08, 1998) THROUGH APRIL 30, 2001

(UNAUDITED)

	For the six months ended January 31,		
	2001	2000	A
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ (600,856)	\$ (415,031)	\$
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization	51,588	47,478	
Issuance of stock for contract settlement	5,000	-	
Accrued Interest Expense	193,349	-	
Accrued Interest Income	(194,462)	(12,599)	
Equity in net earnings (loss) of affiliates	(219,048)	-	
Changes in Operating assets and liabilities:			
Receivables and other current assets	(134,472)	70,868	
Other assets	-	-	
Accounts Payable and Accrued Liabilities	189,630	(138,203)	
	(709,271)	(447,487)	
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash provided by/(used in) investing activities			
Loan Receivable, principally related parties	(655,743)	(163,401)	
Purchase of property and equipment	(459)	-	
	(656,202)	(163,401)	

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from:		
Notes payable, principally related parties	50,000	(279,667)
Short term borrowings	1,103,617	-
Sales of common stock	225,000	577,100
	-----	-----
Net cash provided by/(used in) financing activities	1,378,617	297,433
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	-	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	13,144	(313,455)
Cash and cash equivalents, beginning of period	4,404	350,019
	-----	-----
Cash and cash equivalents, end of period	\$ 17,548	\$ 36,564
	=====	=====

Supplemental Schedule of noncash investing and financing activities:

Issuance of note for payment of license rights
 Issuance of shares for license rights
 Issuance of shares for dividend to affiliate

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

5

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

(Unaudited)

APRIL 30, 2001

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

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

financial statements and footnotes thereto included in GSI Technologies USA, Inc.'s 10K-SB 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 effect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - REVENUE RECOGNITION

Revenue from sales of display units are recorded at the time the units are delivered. Revenues from sub-licensing the master licensing agreement are recognized over the term of the sub-licensing agreement.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provide guidance for disclosures related to revenue recognition policies. Management believes that GSI Technologies USA, Inc.'s revenue recognition practices are in conformity with the guidelines of SAB 101.

NOTE 3 - 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.

6

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

(Unaudited)

APRIL 30, 2001

NOTE 4 - 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 \$600,556 for the six months ended April 30, 2001 (unaudited) as well as reporting net losses of \$2,184,961 from inception (July 08, 1998) to April 30, 2001 (unaudited). As reported on the statement of cash flows, the Company incurred negative cash flows from operating activities of \$709,271 for the six months ended April 30, 2001 (unaudited) respectively and has reported deficient cash flows from operating activities of \$1,714,755 from inception (July 08, 1998) (unaudited). To date, these losses and cash flow deficiencies have been

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

financed principally through the sale of common stock (\$1,705,195) and short term borrowings (1,103,617). Continuation of the Company as a going concern is dependent upon obtaining sufficient working capital for its planned activity and the management of the Company has developed a strategy, which it believes will accomplish this objective through additional equity funding, and long term financing, which will enable the Company to operate for coming year.

NOTE 5 - Investment in Affiliates

The Company's investments in affiliates consists of a 25% interest of Groupe Solcom, headquartered in France, which participates in the electronic advertising and interactive information display. The Company accounts for its 25% interest in Group Solcom using the equity method. Condensed financial information for investments in affiliates accounted for under the equity method of accounting are summarized below.

	April 30, 2001	April 30,
Current assets	2,759,077	0
Other assets	3,316,783	0
	-----	-----
	6,075,860	0
Current liabilities	2,202,148	0
Other liabilities	2,977,279	0
Shareholder's equity	896,433	0
	-----	-----
	6,075,860	0
Net Sales	2,803,386	0
Gross profit	2,156,356	0
Net income	877,634	0

7

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

(Unaudited)

APRIL 30, 2001

NOTE 6 - Line of Credit

The Company maintains a line of credit with a foreign financial institution to meet short term working capital needs which allows the Company to borrow up to \$1,150,000 on an unsecured basis at the prime rate of interest (8.50 percent at January 31, 2001) plus 2.50 percent. At April 30, 2001, the Company had borrowed \$1,103,617. This line of credit expires December 01, 2001.

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, 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 specializes in broadcasting solutions principally for advertisers and others seeking to extend their reaching power for their commercial and public service messages. Holder of a world-wide license, GSI's proprietary software, hardware, and advanced broadcasting systems respond to their needs. In providing access to its remote control broadcasting capability, we enable users to transmit and receive full-motion video, graphics, and audio on an array of attractive, durable and interactive indoor and outdoor display products.

Results from operations

3 months ending April 30, 2001 and 2000

We are still in the development phase after starting up in 1999. During GSI's second quarter from February 1, 2001 to April 30, 2001, we incurred a loss of \$375,410 or \$0.0181 per share versus \$269,688 or \$0.0134 per share in the same period in 2000. The accumulated deficit to date during the development phase increased to \$2,184,961 or \$0.1779 per share.

Revenues

\$126,043 in revenues were recognized during the quarter, versus nil in the same period in the prior year. This is related to the sale of products, as well as a sub-license sold to Groupe Solcom International France S.A.S. ("Groupe Solcom") giving it commercialization rights for the territory of London, England, Nantes, France and a sub-license sold to GSI Technologies ("GSI Canada") giving it commercialization rights for the territory of Canada. Since inception, revenue totals \$728,702, primarily from product sales.

Cost of revenues and direct operating costs

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

According to the master license agreement with GSI Canada, we owe 60% of the price of any sub-license we sell to a new licensee and this amount is payable to GSI Canada by the end of the calendar quarter in which the sub-license is granted. We have incurred \$60,343 in direct operating cost for the quarter, versus nil in the same quarter in the prior year. Since inception, cost of sales is \$533,509, including \$59,250 in royalties and \$474,259 in product costs.

Operating expenses

During the three months ended April 30, 2001, we incurred \$482,850 in operating expenses versus \$277,807 in the same period in 2000, The increase is attributable primarily to an increase in management fees and salary expense.

Since inception, operating expenses total \$2,632,315 and these costs are primarily associated with the development of the company.

9

Other income

During the three months ending April 30, 2001, \$105,756 in interest was earned mainly on the outstanding loan to GSI Canada, while \$106,566 in interest expense was incurred. This amount includes, \$80,705 for loans from shareholders and affiliated parties, \$25,861 for interest and charges on the short term credit facilities with our principal bank of which, \$9,653 was accrued interest.

Since inception a total of \$271,222 in interest has been earned while \$238,470 in expense has been incurred.

Equity in the net earnings of our European affiliate was \$42,550 for the period versus nil in the same period of 2000. This is discussed further below.

Liquidity and capital resources

At April 30, 2001 we had \$17,548 in cash. Cash used in operating activities during the six months ending April 30, 2001 was \$709,271, which was mainly attributable to the net cash loss from operations plus changes in net operating assets and liabilities.

Cash used in investing activities during the period reflects additional short term loans to GSI Canada in the amount of \$655,743.

Cash provided from financing activities during the period was \$225,000 and includes a private placement in April 2001 in the amount of \$100,000; as well advances through April 30 of \$1,103,617 in short-term bank credit were provided by the Societe Generale, a leading bank in France.

In September, 2000, we entered into formal loan arrangements with a group of existing investors. At April 30, 2001, the total amount of these obligations, including interest, is \$3,029,509. The promissory notes have a maturity date of September 7, 2001, bear interest at the rate of prime plus two per cent and are convertible at any time at the sole discretion of the Company into a certain number of shares for each holder. If converted, interest on the notes is waived. In the event of conversion, the total number of Class B common shares to be issued from treasury would be 2,581,584.

The result of all activities during the six month period ending April 30, 2001 was a net increase of \$13,144 in our cash position.

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

From inception, net cash used in operations has been \$1,714,755. A total of \$3,699,494 has been used in investing activities, while \$5,431,411 has been provided by financing activities, including \$1,705,195 from sales of common stock.

Since the beginning of 2001, we have been refocusing our activities to concentrate on our core business.

Through our affiliate, GSI Canada, last summer we successfully installed 32 CityColumns as phase one of our pilot project for shopping centres owned by the Ivanhoe Group. Based on the results of this pilot project, we have refined our concept and adjusted our marketing strategy and product development program. Operating as the media operator, GSI Canada has been able to measure the impact of our concept on advertising customers, advertising agencies, and target consumers.

On March 6, 2001, we sold a license to Groupe Solcom for \$1,000,000, payable in 10 annual instalments of \$100,000. Groupe Solcom is owned 75% by GSI Canada and 25% by GSI. Other sales of licenses are planned in the European Community. Other pilot projects have been successfully completed by Groupe Solcom.

During the quarter, Groupe Solcom successfully completed the installation of 80 projection systems for their client, the MCR Multimedia Group, which use the GSI Multimedia Pack to broadcast animated advertising images in the Milano, Italy subway system. The installations have been well received, and Groupe Solcom is now proceeding with phase 2 of the project.

Groupe Solcom has also completed a pilot project with the Societe Generale Bank, installing a network of plasma-screen based DigiColumns. An order for 50 DigiColumns has been received from the bank.

10

Cash requirements of approximately \$400 000 are anticipated during our next fiscal quarter to July 31, 2001, as spending to sustain operations is currently running at \$125 000 per month.

Lending to GSI Canada is now capped at \$4.0 million, an increase of \$500,000 from the previously authorized level. A repayment program has been developed. GSI Canada has commenced a restructuring program, abandoning its activities in the computer business and disposing of or ceasing other non-core activities. GSI Canada is also seeking a buyer of the Ivanhoe network as well as other assets.

We continue to seek additional sources of funding to sustain operations for the long-term. We have engaged a European investment firm to raise up to \$5,000,000 in capital. The Societe Generale, a major France Bank, is providing short-term funding, pending the closing of long-term financing. \$1,103,617 has been drawn through April 30, 2001. The line of credit is available to December 1, 2001 and interest accrues at prime plus 2.5%.

Investment in affiliates

Our 25% share in Group Solcom is reflected as an investment in affiliates on the balance sheet. The value of this investment was \$ 244,408 at April 30

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

versus nil for the same period of 2000. The total revenue generated by Groupe Solcom during the period was \$ 2,803,386, a net increase of \$2,803,386 versus nil at the same period of 2000.

Product sales and distribution and provision of services

Under the master license acquired in October 1999, from our Canadian affiliate, GSI Canada we have access to one of the most advanced technologies currently available in the field of information broadcast and electronic advertising and information interactive display. The term of the license is 5 years to October 26th, 2004 and is automatically renewable for another 5 years at the sole discretion of GSI. The cost was \$800,000, \$200,000 paid in cash in November 1999; the balance in \$600,000 worth of GSI'S common shares.

GSI Canada's R&D department continues to enhance the GSI Multimedia Pack in response to the market tests on installations in Montreal, Paris, and Milano. Now working in our principal office facilities, they have completed the latest version (1.4) of the GSI Multi-Media Pack, and will fully integrate its billing manager module, by August 31st 2001.

Working in conjunction with GSI Canada's R & D department, our New Media division, has fully integrated its E-Commerce Software in order to be able to offer transactional capabilities via our products, further enhancing their potential for acceptance in the fast-evolving market place.

11

The prototype phase has been completed and we are now marketing the following products:

- o Citycolumn: an indoor display unit indoor/advertising unit, with interactive kiosk capability.
- o Transacolumn: an indoor display advertising unit with transactional e-column kiosks and ATM cash machine.
- o Skycolumn: a large outdoor full video advertising LED screen.
- o Projecolumn: an indoor advertising display unit which used a projecting system.
- o Digicolumn: a display kiosk using plasma screens.

Our objective is to ramp up revenues from sales of these products, as well as revenues from broadcasting, production of content, technical support, maintenance, and consulting contracts.

In April 2001, we sold licenses and operating systems to More Group UK, a part of the Adshel Group, a division of Clear Channel International. We are currently installing our broadcasting facilities in London as previously announced on March 5th, 2001. We will be serving the More Group in 2 cities, Bristol and Swindon, in the first phase. Activities in other cities in the UK are in the planning phase. We anticipate that our ongoing association with Adshel will help us to identify the principal media operators in the various countries in Europe, Asia, and the Americas and continue to ramp up our commercial operations.

Our management team has refined our market penetration strategy. The world's large media groups are only beginning to convert from conventional static advertising to full video motion and interactive two-way systems. We are,

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

therefore, concentrating on selling license agreements with large, local media operators. The networking feature of our concept and the variety of our products enables us to customize state-of-the-art applications for reaching consumers-"What do you want to say to your consumer today and where?"

As a pioneer in the advertising media industry, GSI is rapidly gaining experience in the application of all aspects of our concept, ranging from the design of the display products, to the software that drives them to the content advertisers are seeking. Interest in our technology and networking concept is growing, particularly from the suppliers of display equipment. Potential partners have been identified in the fields of telecommunications, banking, ATM services, and the Internet.

Our business development has entered a crucial phase. By signing agreements with Adshel in the outdoor and indoor out of home market, we need to deploy our studio and broadcast installations to support their massive market penetration.

12

Canada

The sale of a sub-license to our affiliate GSI Canada was completed in May 2000 for the territory of Canada. The sale of the license was \$250 000 payable in 10 annual instalments of \$25 000 a year. Primarily in Quebec, GSI Canada has assumed the role of media operator and acquired the right to install its products on sites managed by 3 major property managers (Ivanhoe, SITQ, and Tulon), and a large entertainment complex in Montreal operated by Canderel, a leading Canadian property developer. Negotiations are proceeding with the Government of Quebec for the deployment of our Citycolumn product throughout the Province for government communication purposes. Our affiliate continues to seek financing in order to complete the planned installations.

An agreement was signed with Barco in February 2001 for GSI Canada to collaborate as a Value Added Reseller (VAR). Reflecting Barco's confidence in our technology and deployment concept it calls for GSI to sell the equivalent of \$8 million worth of Barco display products annually.

USA

Through our office in Orlando, Florida, the parks and tourist centres are our primary target. All levels of government have been contacted and strong links established with Florida's "Entreprise Florida" program have been established. Being under the US Department of Commerce umbrella was instrumental in our being able to develop the Milan, Italy market opportunity.

In June 2001, we again participated in the "Entreprise Florida," which organized a commercial mission at the Comdex Trade fair in Mexico.

13

GSI was very well received and the reaction to our technology positive.

The sale of a license agreement in Mexico is in progress, which we anticipate closing by June 30th 2001. Part of our strategy consists in installing a GSI broadcast studio in Mexico City in order to commercialize our technology and products throughout South America. We plan to continue

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

participating on the "Entreprise Florida" Team, in July 2001, in the missions to Argentina, Brazil, and Chile.

Europe

Significant opportunities are being identified in Europe. The appetite in Europe for new technologies favors the development and installation of GSI's hi-tech products and services. Through these opportunities and the progress of our European affiliate, Groupe Solcom, we are responding to increasing customer demand from, amongst others, the major participants in the out-of-home advertising industry and retail stores. Considered the most hospitable environments in Europe at this stage of our development, our focus is on France, England, Italy, and Portugal.

After a successful presentation in August 2000 in the city of Nantes, with our partners Adshel (Clear channel) the French division of Adshel won the tender and announced the implementation of 7 LED screens, 150 Internet kiosks, and 10 multi-media columns for December 2001.

Working in conjunction with the Adshel sales force, GSI is planning to install broadcast systems and a production Center. This project will become a flagship concept for our partners that can be extended to other major cities worldwide. We anticipate the sub-license agreement will be completed shortly. GSI would also benefit from a production contract and fees from the maintenance of the network. We have proposed a 10 year contract.

Groupe Solcom has completed its test project with Societe Generale to deploy a network of plasma screens. Financing is being sought for the first phase of the project to install 50 units.

Other significant opportunities are being pursued in France. In April 2001, Groupe Solcom acquired a second entity, a French company, PROVIDENCE TECHNOLOGIQUE. This company has developed a unique and futuristic touch screen, which can be useful in public sites such as shopping Centers, museums, administrative buildings, etc. This touch screen is managed by versatile and friendly user software named Icos. Groupe Solcom is confident that this integration of the new touch screen with the GSI MULTIMEDIA PACK will be highly advantageous. The commercial representatives and the distributors of Groupe Solcom will do the marketing of this product.

Italy

In January 2001, Groupe Solcom acquired an Italian company, TREDWEB S.R.L., which specialises in the creation of web sites and 3D animation. With this acquisition, the company has successfully penetrated the Italian market and has recruited experts in the field of animation. Supported by the GSI team, a wide-ranging project is underway: the installation of multimedia projectors using the GSI Multimedia Pack to broadcast animated advertising on the walls of the Milan subway system. The team is now in Phase 2 of the project. TREDWEB SRL also has contracts with major companies operating in Italy such as Young & Rubicam, Dlu. BDDO. ALMADEDIA. Touring Club and other large accounts for a turnover of US\$750,000.

Groupe Solcom has also concluded or is in the process of concluding several agreements in Italy with several major companies:

April 21, 2001, with SERENAM srl: This Italian company is doing business in

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

outdoor advertising, mainly in Milan and Rome. It manages both the advertising site and the sale of advertising. The 3 year agreement is to provide SERENAM with 35 LED screens (6mX3m) in the current year, as well as licenses for the GSI MULTIMEDIA PACK and servers. SERENAM is forecasting orders of a minimum of 10 LED screens in the following years.

April 21, 2001, with HGV ADVERTISING srl: This Italian company specializes in the sale of advertising and 3D animation. It has obtained several contracts with supermarkets such as Conad Pianeta, Gabrielli Group, Conad Lazio, Auchan Pescara and This D. Puglia for the implementation of a network of plasma screens in supermarkets. Groupe Solcom has entered into a 6-year agreement for the creation of a joint company named OMNIKEY. This company will realize the implementation of the plasma screens network and the software to enable the broadcasting in supermarkets. The partners plan to implement their network in more than 650 supermarkets in the central area of Italy.

May 17 2001, with PIELLEFFE srl: This Italian company specializes in the management of major projects in Italy. They also developed a impressive contact network at the national level. This company is seeking a partnership with Groupe Solcom for the creation of a joint company to be called W.A.Waiting Advertising. The purpose of this company will be to present tenders for important projects such as the installation of plasma screens for the Telebingos in Italy, for the COOP, the airport of Rome, Bologna, Torino; as well as for the metros of Rome and Naples.

May 28 2001, with INFORMATICA E TELECOMUNICAZIONI (I e T): This Italian company manages and maintains data processing systems and networks in Italy. They are also involved in the research and development of telecommunication solutions. I e T intends to sign an agreement with Groupe Solcom for the installation and the maintenance of the LED screens network and for plasma screens, as well as for the maintenance of the servers for the network. I e T is also interested in acquiring a license from PROVIDENCE TECHNOLOGIQUE to manufacture touch screens in Italy. Research and development works could also be carried out by I e T in their new installations in the suburbs of Rome. I e T is the largest computer company in Italy.

Portugal

May 24, 2001, Groupe Solcom signed an agreement with COMPTA S.A. of Lisbon for the creation of a new company, which will be 50% owned by Groupe Solcom and 50% by COMPTA S.A. The creation of this new company is planned to be completed in June 2001. The partners have already started work on establishing a Multimedia studio in Lisbon and the training of the sale representatives.

COMPTA, through its subsidiary, Spectacolor, is involved in the sale of advertising for the rail trains and already operates dynamic outdoor advertising. The Portugese market is growing rapidly. The COMPTA's group includes many subsidiaries in the field of telecommunication, networking, computer hardware, It also owns a investment company. The COMPTA's group is a leader in Portugal. This agreement with this high-ranging partner is excellent for Groupe Solcom's development prospects in Europe.

On February 26th 2001, we announced our intent to acquire the remaining 75% of Groupe Solcom that is owned by GSI Canada by way of cash and a share exchange. This proposed transaction was conditional on the approval of our shareholders and regulatory authorities, due diligence, and the obtaining of the necessary financing. We were not able to raise the required financing.

On May 16 2001, GSI's Board received a formal offer from Groupe Solcom to acquire all GSI's outstanding shares including stock options and warrants. We anticipate that before June 30, 2001, the Board will receive the full tender

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

package, including a fairness opinion and a valuation package from external auditors.

15

After receiving the required documentation, the Board will provide its recommendations to GSI's shareholders. A majority vote of the company's shareholders is required. Groupe Solcom also presented an offer to the shareholders of GSI Canada.

The offer consists of the following:

- Six (6) shares for every outstanding common share (including all stock options) of GSI Canada, a privately-held corporation;
- One (1) share of common stock for every two (2) outstanding shares of GSI's Class B Common Stock (including all issued and outstanding warrants and stock options);

Concurrently, Groupe Solcom, announced it intends to file a registration statement with the US Securities and Exchange Commission (the "SEC") and apply to NASDAQ to have its shares quoted. This transaction is conditional on:

- Satisfactory due diligence by Groupe Solcom, GSI Canada, and GSI;
- Formal evaluations of Groupe Solcom, GSI Canada, and GSI;
- The approval of all regulatory authorities including the SEC and Quebec Securities Commission;
- A fairness opinion;
- Approval by the Board of Directors of GSI Canada and GSI;
- Approval by GSI Canada's and GSI's shareholders representing a minimum of 66.66% of the outstanding shares of GSI Canada and GSI.

The main objective is to unify the enterprise in order to offer global results to all shareholders and stakeholders.

16

PART II - OTHER INFORMATION

Item 1. Legal proceedings

Legal proceeding

On December 15, 2000, we signed an agreement with the Quebec Securities Commission to conform to filing requirements for any sales of shares to residents of the Province. Our President also agreed that the sale of any shares directly by himself or shares owned by companies in which he has an interest would be in conformity with the filing requirements in the jurisdiction of Quebec.

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

We remain party to one proceeding initiated by another party, a Mr. Jacques Biron, against GSI Canada, GSI, our President, and others in the Superior Court of the Province of Quebec, District of Montreal. An amount of \$98,766 in Canadian dollars has been claimed for our alleged failure to pay a commission and consequent damages relating to negotiations with GSI Canada for an acquisition. We have retained legal counsel in Montreal, Mr. Marc Cote of Labelle, Boudrault, Cote & Associates, who advises that, in his opinion, Mr. Biron's case against the company is without merit; that he has no right in law to sue GSI Technologies USA Inc.

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

On April 18, 2001, J. Michel de Montigny resigned as Chairman of the Board of GSI, to allow him to concentrate on business development internationally. Mr. de Montigny remains CEO and President of the Corporation, and member of the Board.

The Board of directors nominated unanimously Mr. Rene Arbic as the new Chairman. Mr. Arbic is President of Bridgepoint International Inc., joined the Board of directors. He is 47. On retiring in 1997 after a 25-year career in operations and sales with Bell Canada and Stentor, the former Canadian alliance of telecommunications carriers, he launched a successful telecommunications-consulting firm. He then co-founded Bridgepoint International, a rapidly growing innovator in the field of shared networking facilities, voice and data switching, and local technical support. Bridgepoint Centers are currently in operation in Montreal, Toronto, Calgary and Vancouver as well as in New York and Los Angeles. The Company is now listed on the Toronto Stock Exchange and plans to expand in internationally.

Item 6. Exhibits and reports on Form 8-K

The following exhibits are contained in this 10-QSB:

None.

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

Edgar Filing: GSI TECHNOLOGIES USA INC /DE - Form 10-Q

undersigned thereunto duly authorized.

Dated: June 14, 2001

GSI TECHNOLOGIES USA INC.

By: /s/ Michel de Montigny

Michel de Montigny
Chief Executive Officer