

GIGAMEDIA LTD  
Form 20-F/A  
December 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D. C. 20549

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**FORM 20-F/A**  
**Amendment No. 1**

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

For the fiscal year ended December 31, 2005

Commission File Number: 000-30540

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**GIGAMEDIA LIMITED**

(Exact name of registrant as specified in its charter)

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**REPUBLIC OF SINGAPORE**

(Jurisdiction of incorporation or organization)

**14<sup>th</sup> Floor, 122 TUNHWA NORTH ROAD, TAIPEI, TAIWAN, R.O.C.**

(Address of principal executive offices)

**Registrant's telephone number, including area code**

**886-2- 8770-7966**

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**Securities registered or to be registered pursuant to Section 12(b) of the Exchange Act:**

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Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares	The NASDAQ Stock Market LLC

Securities registered or to be registered pursuant to Section 12(g) of the Exchange Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**50,343,642 ordinary shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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**USE OF CERTAIN TERMS**

In this annual report, all references to (i) we, us, our, our Company or GigaMedia are to GigaMedia Limited and, unless the context requires otherwise, its subsidiaries, (ii) Shares are to ordinary shares of our Company, (iii) CESL are to Cambridge Entertainment Software Limited (previously known as Grand Virtual International Limited), a company incorporated under the laws of British Virgin Islands, (iv) Hoshin GigaMedia are to Hoshin GigaMedia Center, Inc., a company incorporated under the laws of Taiwan, Republic of China, ( R.O.C. ), and (v) FunTown are to our online casual games business operated through Hoshin GigaMedia and FunTown World Limited, a company incorporated under the laws of the British Virgin Islands. All references in this annual report to U.S. dollar, \$ and US\$ are to United States dollars and all references to NT dollar and NT\$ are to New Taiwan dollars.

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**EXPLANATORY NOTE**

This amendment ( Amendment No. 1 ) to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed with the U.S. Securities and Exchange Commission (the SEC ) on June 28, 2006 (the Original Report ), is being filed for the purpose of making the following changes in the Original Report pursuant to comments we received from the Staff of the SEC:

Amending the subsection entitled Our Licensee in Item 4(B) on page 24 to enhance the disclosure regarding our software licensee, UIM;

Clarifying Note 4 to our Consolidated Financial Statements by adding a breakdown of major assets and liabilities which comprised the music distribution business at the date of disposal;

Filing the Report of Independent Registered Public Accounting Firm by PricewaterhouseCoopers, which was inadvertently omitted from the Original Report; and

Filing Exhibit 15.2 Consent of GHP Horwath, which was inadvertently omitted from the Original Report.

In addition, we are including in this amendment currently dated certifications by our Chief Executive Officer and our Chief Financial Officer, and an updated consent of PricewaterhouseCoopers, our independent auditors.

Except as expressly set forth above, this Amendment No. 1 speaks as of the filing date of the Original Report (June 28, 2006) and does not, and does not purport to, amend, update or restate the information in any other item of the Original Report, and should not be understood to mean that any other statements contained therein are true and complete as of any date subsequent to June 28, 2006

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements that involve risks and uncertainties. These statements include certain projections and business trends that are forward-looking within the meaning of the U.S. Private Securities Litigation Reform Act 1995. These statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, may, will similar words, and include the following statements:

We believe that our cross-marketing relationships with certain well-known companies will increase the recognition of our online game brands.

To cope with competition, we aim to develop new features and services that we think our players will pay for and enjoy.

We do not believe that any potential merger or acquisition that we may be engaged in would alter our goal of preserving sufficient cash and cash equivalents to fund future operations; and

We believe that our existing cash, cash equivalents, marketable securities and expected cash flow from operations will be sufficient to meet our capital expenditure, working capital, cash obligations under our existing lease arrangements, and other requirements through 2006.

These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Our actual results may differ materially from those expressed or implied by these forward-looking statements as a result of risk factors and other factors noted throughout this annual report, including those described under Item 3D, Risk Factors and those detailed from time to time in other filings

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with the U.S. Securities and Exchange Commission (the Commission). We undertake no obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. Given this level of uncertainty, you are advised not to place undue reliance on such forward-looking statements.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****Exchange Rates**

Our consolidated financial statements have historically been reported in New Taiwan dollars. Effective January 1, 2004, we adopted the U.S. dollar as our reporting currency because operations denominated in U.S. dollars have represented an increasing portion of our business following the acquisition of our entertainment software business. Comparative financial information has been recast as if the U.S. dollar had been used as our reporting currency for the periods ended and as of December 31, 2001, 2002 and 2003.

The financial information for the periods presented has been translated from NT dollars to U.S. dollars based on the following exchange rates:

	2001	2002	2003	2004	2005
Year-end	34.95	34.75	33.97	31.71	32.85
Weighted-average	33.83	34.55	34.40	33.41	32.19

Assets and liabilities in our balance sheet denominated in non-U.S. dollars are translated into U.S. dollars using year-end exchange rates. Income and expense items in our statement of operations denominated in non-U.S. dollars are translated into U.S. dollars using the weighted-average exchange rates. See Note 1 of our consolidated financial statements for additional information. Certain other operating financial information denominated in non-U.S. dollars, not included in our consolidated financial statements and provided in this annual report, is translated using weighted-average exchange rates.

**A. Selected Financial Data**

The selected consolidated balance sheet data as of December 31, 2004 and 2005 and the selected consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003, and the selected consolidated statement of operations data for the years ended December 31, 2001 and 2002 have been derived from our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003, which are not included in this annual report. The audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 were stated in NT dollars. We have converted certain information in such financial statements into U.S. dollars for inclusion in this annual report for the convenience of investors using the exchange rates provided under Exchange Rates above. The consolidated financial statements have been prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The selected consolidated financial data set forth below should be read in conjunction with Item 5 Operating and Financial Review and Prospects and the consolidated financial statements and the notes to those statements included elsewhere in this annual report. The profit and loss statements for the years ended December 31, 2001, 2002, 2003, and 2004 have been restated to reflect the results of our music distribution business, which was sold in September 2005, as discontinued operations. Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the result of operation or shareholders' equity as previously reported.

**Table of Contents****For the Years Ended December 31,**

(in thousands except for income/loss per share amounts)

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>STATEMENT OF OPERATIONS DATA:</b>					
<b>OPERATING REVENUES</b>					
Software licensing and online entertainment revenues	0	0	0	11,434	22,511
Internet access revenues	11,522	18,493	18,829	20,960	21,408
Other revenues	625	773	684	450	268
<b>Total</b>	<b>12,147</b>	<b>19,266</b>	<b>19,513</b>	<b>32,844</b>	<b>44,187</b>
<b>COSTS AND EXPENSES</b>					
Operating costs	(53,021)	(19,955)	(16,115)	(16,109)	(17,383)
Product development and engineering expenses	(3,147)	(1,865)	(1,211)	(2,513)	(3,562)
Selling and marketing expenses	(8,442)	(4,095)	(2,432)	(6,310)	(10,777)
General and administrative expenses	(6,375)	(4,155)	(5,162)	(5,657)	(7,892)
Bad debt expenses	(1,190)	(869)	(128)	220	(207)
Impairment loss on intangible assets	0	(2,334)	0	0	0
Impairment loss on property, plant and equipment	0	0	(1,557)	0	0
<b>Total</b>	<b>(72,175)</b>	<b>(33,273)</b>	<b>(26,605)</b>	<b>(30,369)</b>	<b>(39,821)</b>
Income (loss) from operations	(60,028)	(14,007)	(7,092)	2,475	4,366
Income (loss) from continuing operations	(53,542)	(10,617)	(9,799)	1,253	6,490
Income (loss) from discontinued operations	0	(7,849)	(4,296)	429	(154)
<b>Net income (loss)</b>	<b>(53,542)</b>	<b>(18,466)</b>	<b>(14,095)</b>	<b>1,682</b>	<b>6,336</b>
<b>Income (loss) per share (in dollars)</b>					
<b>Basic:</b>					
Income (loss) from continuing operations	(1.07)	(0.21)	(0.20)	0.02	0.13
Income (loss) from discontinued operations	0	(0.16)	(0.08)	0.01	0
<b>Net income (loss)</b>	<b>(1.07)</b>	<b>(0.37)</b>	<b>(0.28)</b>	<b>0.03</b>	<b>0.13</b>
<b>Diluted:</b>					
Income (loss) from continuing operations	(1.07)	(0.21)	(0.20)	0.02	0.12
Income (loss) from discontinued operations	0	(0.16)	(0.08)	0.01	0
<b>Net income (loss)</b>	<b>(1.07)</b>	<b>(0.37)</b>	<b>(0.28)</b>	<b>0.03</b>	<b>0.12</b>

**As of December 31,**

(in thousands)

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	2001	2002	2003	2004	2005
	US\$	US\$	US\$	US\$	US\$
<b>BALANCE SHEET DATA:</b>					
Current assets	175,476	82,812	77,709	67,726	70,204
Property, plant and equipment-net	20,188	21,264	15,636	15,056	10,747
Intangible assets-net	361	6,964	6,199	8,372	2,704
Total assets	230,688	135,138	119,792	125,977	113,519
Total shareholders' equity	224,468	104,169	90,363	95,971	100,648
Capital stock amount (common shares)	15,565	15,565	15,565	15,565	15,626
Number of issued shares (basic, in thousands)	50,154	50,154	50,154	50,154	50,344
Dividend declared per share (in dollars)	0	0	0	0	0



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**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Related to Our Business**

**Our limited operating history as an entertainment software provider and an online casual games business operator, and the unproven long-term potential of those business models make evaluating our business and prospects difficult**

We acquired our entertainment software business, CESL, in April 2004 and our online casual games business, FunTown, in January 2006. We launched new poker software products in 2004, which generated approximately 2 percent of CESL's total revenues in 2004 and 18 percent of CESL's total revenues in 2005. In addition, the senior management teams of our different businesses and our employees have worked together at our Company for only a relatively short period of time.

As a result, we have a limited relevant operating history as an entertainment software developer and an online casual games operator for you to evaluate. It is also difficult to evaluate our prospective business, because we may not have sufficient experience to address the risks frequently encountered by companies using new and unproven business models and entering new and rapidly evolving markets, including the online gaming and online casual games markets. These risks may include our potential failure to:

retain existing customers or attract new customers;

license, develop, or acquire additional online games that are appealing to consumers;

anticipate and adapt to changing consumer preferences;

adapt to competitive market conditions;

respond to technological changes or resolve unexpected service interruptions in a timely manner;

adequately and efficiently operate, upgrade and develop our transaction and service platforms; or

maintain adequate control of our expenses.

If we are unsuccessful in addressing any of the risks listed above, our business and financial condition will be adversely affected.

**Our businesses face intense competition, which may adversely affect our revenues, profitability and planned business expansion**

We face competition from many competitors, and we expect to face additional competition from potential competitors, including those with:

significantly greater technological, financial, sales and marketing resources;

larger customer bases and longer operating histories;

greater name recognition; and

more established relationships with distribution partners, advertisers, content and application providers and/or other strategic partners.

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COMPETITION IN THE ENTERTAINMENT SOFTWARE AND INTERNET GAMING BUSINESSES. The Internet entertainment software industry is characterized by rapid technological change and we face significant and intense competition from online entertainment software design houses and application service providers. Given the relatively low barriers to entry into the software industry and the increasing popularity of Internet-based businesses, there are a large number of potential competitors from many different segments of software and Internet industries. Traditional entertainment service providers, many of which have significant financial resources, might expand and provide Internet-based entertainment services. Such Internet service providers and other entertainment service providers may also develop and offer the underlying software solutions and tools to others in direct competition with us. Ultra Internet Media, S.A. ( UIM ), a provider of Internet gaming services, is the sole licensee of our entertainment software business. Although we do not have any ownership interest in UIM, we consolidate its assets, liabilities and results of operations in our financial statements and are entitled to fees from UIM based upon its revenues. Accordingly, we are exposed to competition in the Internet gaming industry, which is also characterized by low barriers to entry, rapid technological change and ever-changing consumer preferences.

Furthermore, some of our competitors and competitors of UIM are more established, enjoy greater market recognition, are substantially larger and have substantially greater resources and distribution capabilities than we do. There is no assurance that we or UIM will be able to compete successfully with existing and future competitors, which could have a material adverse effect on our business, financial condition or results of operations. See Item 4 Information on the Company Entertainment Software Business Competition for additional information.

COMPETITION IN THE ONLINE CASUAL GAMES BUSINESS. Our main competitors in the online casual games business are casual games operators in Greater China, including Shanda Interactive Entertainment Ltd. ( Shanda ), Nineyou (Shanghai Everstar Online Entertainment Co., Ltd.), Tencent Holdings Limited, Ourgames.com (Beijing Globalink Computer Technology Co., Ltd.) and Chinagames.net.

We expect more companies to enter the online casual games industry in Greater China and a wider range of casual games to be introduced to the Greater China market, given the relatively low entry barriers to the online casual games industry. Our competitors vary in size and include large companies such as Shanda, many of which have significant financial, marketing and game development resources as well as name recognition. We may not be able to devote adequate resources to designing, developing or acquiring new games, undertaking extensive marketing campaigns, adopting aggressive pricing policies, paying high compensation to game developers or compensating independent game developers to the same degree as a number of our competitors may be able to do. We cannot assure you that we will be able to compete successfully against any new or existing competitors. In addition, the increased competition we anticipate in the online casual games industry may reduce the number of our users or growth rate of our user base, reduce the average number of hours played by our users, or cause us to reduce usage fees. All of these competitive factors could have a material adverse effect on our business, financial condition or results of operations.

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COMPETITION IN THE BROADBAND ISP BUSINESS. Our main competitors in the consumer broadband Internet service provider ( ISP ) business are fixed-line service providers and other ISPs in Taiwan that offer asymmetrical digital subscriber line ( ADSL ) broadband services, including Chunghwa Telecom's HiNet, the overwhelmingly dominant provider of broadband services; Taiwan Fixed Network, a fixed-line service provider; and Seednet, SoNet and Asia Pacific Online, which are all ISPs. Our competitors also include cable-based Internet access companies that have developed their own cable-based services and market those services to cable operators and those that are seeking to contract with cable operators to bring their services into geographic areas that are not covered by an exclusive relationship between our Company and our cable partners. Our corporate ISP business faces competition from fixed-line service providers, including Chunghwa Telecom, Taiwan Fixed Network, NCIC's Sparq and Asia Pacific Online. In recent years, we have experienced a reduction in the number of our new consumer subscribers and our total consumer subscribers. The primary basis of competition in the Internet access business industry is price. We can offer no assurance that we will be able to attract new subscribers or retain existing subscribers, as a result of which our revenues may decline. Due to this intense competition, there may be a limited market opportunity for our broadband access services. We cannot assure you that we will be successful in achieving widespread acceptance of our services before our competitors offer services similar to our current or prospective offerings, which might preclude or delay purchasing decisions by potential subscribers or cause us to lose our existing subscribers. All of these competitive factors could have a material adverse effect on our business, financial condition or results of operations.

### **Our business could suffer if we do not successfully manage current growth and potential future growth**

We are pursuing a number of growth strategies, including leveraging our customer base to develop additional sources of revenues and exploring opportunities to expand into new online entertainment business segments. Some of these strategies relate to new services or products for which there are no established markets in Taiwan or China, or relate to services or products in which we lack experience and expertise. We cannot assure you that we will be able to deliver new products or services on a commercially viable basis or in a timely manner, or at all.

Our growth to date has placed, and our anticipated further expansion of our operations will continue to place, a significant strain on our management, systems and resources. In addition to training and managing our workforce, we will need to continue to develop and improve our financial and management controls and our reporting systems and procedures, including those of acquired businesses. We cannot assure you that we will be able to efficiently or effectively manage the growth of our operations, and any failure to do so may limit our future growth and materially and adversely affect our business, financial condition and results of operations.

### **Our business strategy, which contemplates growth through acquisitions and strategic investments, exposes us to significant risks**

As a component of our growth strategy, we intend to continue to enhance our business development, including our game content offerings, by acquiring other businesses that complement our current online businesses, represent related but new lines of business that may be appropriate areas of expansion, or that we believe may benefit us in terms of user base, product or content offering. We also intend to make selective strategic investments. We will continue to examine the merits, risks and feasibility of potential transactions, and expect to search for additional acquisition opportunities in the future.

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Such search and examination efforts and any related discussions with third parties, may or may not lead to future acquisitions and investments. Our reported financial results may be affected by any such acquisitions and/or investments, including any acquisitions or dispositions undertaken by us in anticipation of or in connection with any such acquisitions and/or investments. Our ability to grow through such acquisitions and investments will depend on the availability of suitable acquisition candidates at an acceptable cost, our ability to reach agreement with acquisition candidates or investee companies on commercially reasonable terms, the availability of financing to complete larger acquisitions or investments and our ability to obtain any required governmental approvals. In addition, the benefits of an acquisition or investment transaction may take considerable time to develop and we cannot assure you that any particular acquisition or investment will produce the intended benefits.

Furthermore, the identification and completion of any transactions may require us to expend significant management and other resources. Any transaction may require that we expend a significant portion of our cash reserves and/or issue a substantial amount of new equity, which could adversely affect our financial condition and liquidity and result in significant dilution of shareholders' interests. The impact of dilution may restrict our ability to consummate further acquisitions. We may also incur debt and losses related to the impairment of goodwill and other intangible assets upon or following the acquisition of another business, which could negatively impact our results of operations. For example, we wrote off goodwill associated with our music distribution business in the amount of US\$7.0 million in 2002 and US\$0.7 million in 2003, which reduced our profitability in both years. Any write-off of goodwill in the future may have a negative impact on our financial results.

Additional risks associated with acquisitions include the following:

It may be difficult to assimilate the operations and personnel of an acquired business into our own business;

Management, information, and accounting systems of an acquired business would be different from our current systems and would need to be successfully integrated;

Our management must devote its attention to assimilating the acquired business, which diverts attention from other business concerns;

Suppliers, vendors and/or distributors may renegotiate or cancel contracts with us following the acquisition of a business;

We may enter markets in which we have limited prior experience. For example, in April 2006, we acquired a minority stake in T2CN Holding Limited ( "T2CN" ), an online casual sports game operator in China, and intend to develop our casual games business in China in combination with T2CN. However, we are not presently active in T2CN's business and have limited experience in its line of business; and

We may lose some of our key employees or key employees of an acquired business.

**We have a history of losses and cannot assure you that we will not incur substantial losses in future periods**

We incurred net losses in each of our previous fiscal years except 2004 and 2005, in which we recorded net income of US\$1.7 million and US\$6.3 million, respectively. Our losses were primarily the result of the substantial costs incurred in operating our broadband Internet access and music distribution businesses and declining revenues from our music distribution business. We may incur substantial losses in the future.

**Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business**

We regard our copyrights, service marks, trademarks, trade secrets, patents and other intellectual property as critical to our success. Unauthorized use of the intellectual property, whether owned by us or licensed to us, could adversely affect our business and reputation.



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We rely on trademark, patent and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use the intellectual property used in our business without authorization.

The validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and evolving. In particular, the laws and enfo