

AVOCENT CORP
Form 10-Q
August 13, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 29, 2001 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period from _____ to _____/

Commission file number: 000-30575

AVOCENT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

91-2032368

(I.R.S. Employer Identification Number)

**4991 Corporate Drive
Huntsville, Alabama**

(Address of Principal Executive Offices)

35805

(Zip Code)

256-430-4000

(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, as amended, 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

As of August 6, 2001, the number of outstanding shares of the Registrant's Common Stock was 44,550,788.

AVOCENT CORPORATION
FORM 10-Q

JUNE 29, 2001

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AVOCENT CORPORATION

CONDENSED CONSOLIDATED INCOME STATEMENTS

(In thousands, except per share data)

	For the three months ended		For the six months ended	
	June 29, 2001	June 30, 2000	June 29, 2001	June 30, 2000
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Net sales	\$ 65,079	\$ 36,447	\$ 138,254	\$ 64,691
Cost of sales	46,008	19,648	83,349	34,239

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Gross profit	19,071	16,799	54,905	30,452
Research and development expenses	6,042	1,672	11,735	3,123
In-process research and development expenses and other acquisition costs			4,570	
Selling, general and administrative expenses	20,613	4,779	40,254	8,836
Amortization of intangible assets	33,377		66,437	
Total operating expenses	60,032	6,451	122,996	11,959
Income (loss) from operations	(40,961)	10,348	(68,091)	18,493
Interest income	1,509	1,072	2,810	1,989
Income (loss) before income taxes	(39,452)	11,420	(65,281)	20,482
Provision for (benefit from) income taxes	(2,597)	3,880	(304)	6,941
Net income (loss)	\$ (36,855)	\$ 7,540	\$ (64,977)	\$ 13,541
Earnings (loss) per share:				
Basic	\$ (0.83)	\$ 0.33	\$ (1.47)	\$ 0.59
Diluted	\$ (0.83)	\$ 0.31	\$ (1.47)	\$ 0.55
Weighted average shares used in computing earnings per share:				
Basic	44,307	23,180	44,147	23,076
Diluted	44,307	24,485	44,147	24,490

See notes accompanying these condensed consolidated financial statements.

AVOCENT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

**June 29,
2001**

**December 31,
2000**

(unaudited)

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ASSETS

Current assets:			
Cash and cash equivalents	\$	58,756	\$ 44,106
Investments maturing within one year		75,638	77,372
Accounts receivable, net		54,498	63,532
Income taxes receivable		1,823	4,487
Other receivables			10,800
Inventories, net		37,943	34,458
Other current assets		2,885	3,029
Deferred tax assets		7,372	5,560
		<u>238,915</u>	<u>243,344</u>
Investments		1,570	3,891
Property held for lease, net		2,004	2,102
Property and equipment, net		23,033	16,062
Intangible assets, net		518,036	549,910
Other assets		656	580
		<u>784,214</u>	<u>\$ 815,889</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable	\$	6,329	\$ 8,869
Accrued wages and commissions		5,668	3,965
Accrued liabilities		16,008	13,523
Income taxes payable		3,053	1,610
		<u>31,058</u>	<u>27,967</u>
Deferred tax liability		29,008	27,742
		<u>60,066</u>	<u>55,709</u>
Stockholders' equity:			
Preferred stock, 5,000 and 1,000 shares authorized, no shares issued and outstanding as of June 29, 2001, and December 31, 2000, respectively			
Common stock, \$0.001 par value; 200,000 shares authorized, 44,532 and 43,820 shares issued and outstanding as of June 29, 2001 and December 31, 2000, respectively		45	44
Additional paid-in capital		920,046	898,410
Accumulated other comprehensive loss		(2,429)	(2,881)
Deferred compensation		(25,826)	(32,682)
Retained deficit		(167,688)	(102,711)
		<u>724,148</u>	<u>760,180</u>
		<u>\$ 784,214</u>	<u>\$ 815,889</u>

See notes accompanying these condensed consolidated financial statements.

AVOCENT CORPORATION

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the six months ended	
	June 29, 2001	June 30, 2000
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities:		
Net income (loss)	\$ (64,977)	\$ 13,541
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,127	393
Amortization of intangible assets	66,437	
Stock-based compensation	9,608	35
Purchased in-process research and development expenses	4,570	
Net loss on sale of investments	14	
Changes in operating assets and liabilities:		
Accounts receivable, net	12,557	1,051
Other receivables	10,800	
Inventories, net	81	3,100
Other assets	(1,444)	264
Accounts payable	(4,506)	(2,504)
Accrued wages and commissions	848	2,335
Accrued liabilities	1,263	785
Income taxes, current and deferred	(1,351)	(1,878)
	<u>101,004</u>	<u>3,581</u>
Total adjustments		
	<u>36,027</u>	<u>17,122</u>
Cash flows from investing activities:		
Purchase of Equinox Systems Inc., net of cash and investments	(31,725)	
Purchases of property and equipment	(2,451)	(209)
Purchases of investments	(46,599)	(60,613)
Maturities of investments	31,047	37,093
Proceeds from sales of investments	20,145	
Deferred acquisition costs		(2,554)
	<u>(29,583)</u>	<u>(26,283)</u>
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	45,000	--
Repayment of short-term debt	(45,000)	--
Proceeds from employee stock plans	8,305	9,873
	<u>8,305</u>	<u>9,873</u>

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Net cash provided by financing activities	8,305	9,873
Effect of exchange rate changes on cash and cash equivalents	(99)	--
Net increase in cash and cash equivalents	14,650	712
Cash and cash equivalents at beginning of period	44,106	15,786
Cash and cash equivalents at end of period	\$ 58,756	\$ 16,498

See notes accompanying these condensed consolidated financial statements.

AVOCENT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited, in thousands)

Note 1. Basis of presentation

Avocent Corporation (Avocent) was formed from the merger of Apex Inc. (Apex) and Cybex Computer Products Corporation (Cybex) on July 1, 2000 when both Apex and Cybex merged with wholly owned subsidiaries of Avocent. The merger has been accounted for as a purchase of Cybex by Apex. Avocent s condensed consolidated income statement and condensed consolidated statement of cash flows for the three and six months ended June 30, 2000 include only Apex s historical results. Avocent s condensed consolidated income statement and condensed consolidated statement of cash flows for the three and six months ended June 29, 2001 include the results of Apex, Cybex, and Equinox Systems Inc. (Equinox), which was acquired January 3, 2001. Avocent s condensed consolidated balance sheet as of June 29, 2001 includes the consolidated financial position of Apex, Cybex, and Equinox. Avocent s condensed consolidated balance sheet as of December 31, 2000 includes the consolidated financial position of Apex and Cybex. Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles and 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. The results of operations for these periods are not necessarily indicative of the results expected for the full fiscal year or for any future periods. 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2000, which is on file with the Securities and Exchange Commission.

We report our annual results based on years ending December 31. We report our quarterly results for the first three interim periods based on 13 week periods ending on Fridays and for the fourth interim period ending on December 31.

Our financial statements are consolidated and include the accounts of Avocent and its wholly owned subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

Note 2. Inventories

Inventories consisted of the following at:

June 29, 2001	December 31, 2000
(unaudited)	

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Raw materials	\$	18,664	\$	10,712
Work-in-process		4,338		7,379
Finished goods		14,891		16,367
	\$	37,943	\$	34,458

We recorded a non-recurring, before tax benefit, charge of \$11.7 million for excess and obsolete inventories in the second quarter of 2001. This write-down was made to reduce inventories to replacement value and to levels necessary to support current sales demand.

Note 3. Stock options and deferred compensation

Deferred compensation We recorded \$41,165 of deferred compensation related to Cybex employee stock options at the time of the merger. Additionally, we recorded \$2,752 of deferred compensation related to the Equinox employee stock options at the time of the acquisition. The deferred compensation is being amortized over the vesting period of the options for which it was recorded.

Stock option exercises Options to purchase 712 shares of our Common Stock were exercised during the six months ended June 29, 2001.

Note 4. Accumulated other comprehensive loss

We record unrealized gains and losses on our foreign currency translation adjustments and unrealized holding gains or losses on our available-for-sale securities as accumulated other comprehensive income (loss), which is included as a separate component of stockholders' equity. For the six months ended June 29, 2001, total other comprehensive income amounted to \$452. As of June 29, 2001, total accumulated other comprehensive loss was (\$2,429).

Note 5. Earnings per share

	For the three months ended		For the six months ended	
	June 29, 2001	June 30, 2000	June 29, 2001	June 30, 2000
Net income (loss)	\$ (36,855)	\$ 7,540	\$ (64,977)	\$ 13,541
Weighted average shares used in computing basic earnings per share	44,307	23,180	44,147	23,076
Dilutive effect of employee stock options after application of the treasury method		1,305		1,414
Weighted average shares used in computing diluted earnings per share	44,307	24,485	44,147	24,490

Note 6. Segment Reporting

Our reportable segments are based on our method of internal reporting which is disaggregated operationally. Our three reportable segments, Redmond, Washington, Huntsville, Alabama, and Shannon, Ireland, are evaluated based on gross profit. Selling, general, and administrative costs, as well as research and development, interest income/expense, and provision for taxes, are reported on an entity-wide basis only. The Huntsville and Shannon locations were previously Cybex entities; therefore, the segment reporting presented below includes only financial data for the three and six months ended June 29, 2001 for these locations.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies included in our Annual Report to the extent such policies affect the reported segment information. The operational distributions of our revenues and gross margin for our reportable segments for the three and six months ended June 29, 2001 and June 30, 2000 are as

follows:

Note 6. Segment Reporting (*continued*)

	For the three months ended		For the six months ended	
	June 29,	June 30,	June 29,	June 30,
	2001	2000	2001	2000
Net sales:				
Redmond	\$ 22,734	\$ 36,447	\$ 43,229	\$ 64,691
Huntsville	37,887	--	76,153	--
Shannon	11,812	--	29,782	--
Inter-segment	(7,354)	--	(10,910)	