

AVOCENT CORP  
Form 10-Q  
August 06, 2008  
Table of Contents

## 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 27, 2008 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: 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)

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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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes  No

As of July 31, 2008, the number of outstanding shares of the Registrant's Common Stock was 44,795,253.

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Table of Contents

AVOCENT CORPORATION

FORM 10-Q

June 27, 2008

INDEX

	Page(s)
<u>Part I</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>
	<u>Consolidated Statements of Income for the Three and Six Months Ended June 27, 2008 and June 29, 2007</u>
	3
	<u>Consolidated Balance Sheets at June 27, 2008 and December 31, 2007</u>
	4
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 27, 2008 and June 29, 2007</u>
	5
	<u>Notes to Condensed Consolidated Financial Statements</u>
	6-15
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	16-25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risks</u>
	26
<u>Item 4.</u>	<u>Controls and Procedures</u>
	26
<u>Part II</u>	
<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	26
<u>Item 1A.</u>	<u>Risk Factors</u>
	27
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	44
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
	44
<u>Item 6.</u>	<u>Exhibits</u>
	44
<u>Signature</u>	45

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****AVOCENT CORPORATION****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited, in thousands, except per share data)**

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>	<b>June 27, 2008</b>	<b>June 29, 2007</b>
<b>Net sales:</b>				
Products and services	\$ 133,184	\$ 125,407	\$ 250,766	\$ 238,983
Licenses and royalties	25,998	24,818	49,815	44,393
Total net sales	159,182	150,225	300,581	283,376
<b>Cost of sales:</b>				
Products and services	55,857	51,778	102,654	100,872
Licenses and royalties	668	598	1,369	957
Amortization of intangibles related to licenses and royalties	2,768	2,767	5,535	5,450
Total cost of sales (including stock compensation of \$257 and \$500 for the three and six months ended June 27, 2008; \$301 and \$480 for the three and six months ended June 29, 2007)	59,293	55,143	109,558	107,279
Gross profit	99,889	95,082	191,023	176,097
Research and development expenses (including stock compensation of \$1,340 and \$2,355 for the three and six months ended June 27, 2008; \$1,391 and \$2,506 for the three and six months ended June 29, 2007)	24,361	21,189	47,728	42,070
Selling, general and administrative expenses (including stock compensation of \$2,622 and \$5,302 for the three and six months ended June 27, 2008; \$3,411 and \$5,779 for the three and six months ended June 29, 2007)	57,445	52,442	112,564	101,102
Restructuring and retirement expenses (including stock compensation of \$1,904 and \$2,519 for the three and six months ended June 27, 2008)	4,730		7,701	
Amortization of intangible assets	7,617	7,581	15,152	16,543
Total operating expenses	94,153	81,212	183,145	159,715
Income from operations	5,736	13,870	7,878	16,382
Net investment income	671	904	1,568	1,783
Interest expense	(1,810)	(2,268)	(3,647)	(4,502)
Other income (expense), net	(95)	15	360	(302)

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Income before provision (benefit) for income taxes	4,502	12,521	6,159	13,361
Provision (benefit) for income taxes	1,059	(2,479)	1,985	(2,385)
Net income	\$ 3,443	\$ 15,000	\$ 4,174	\$ 15,746
Earnings per share:				
Basic	\$ 0.08	\$ 0.30	\$ 0.09	\$ 0.31
Diluted	\$ 0.08	\$ 0.29	\$ 0.09	\$ 0.31
Weighted average shares used in computing earnings per share:				
Basic	44,731	50,476	45,469	50,607
Diluted	45,378	51,158	46,126	51,457

See notes accompanying these condensed consolidated financial statements.

Table of Contents

**AVOCENT CORPORATION**  
**CONSOLIDATED BALANCE SHEET**

(Unaudited, in thousands, except per share data)

	June 27, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 116,933	\$ 105,183
Investments maturing within one year		5,943
Accounts receivable, less allowance for doubtful accounts of \$2,496 and \$2,481 at June 27, 2008 and December 31, 2007, respectively	111,087	109,851
Other receivables	10,076	10,799
Inventories	27,926	30,103
Other current assets	4,500	4,399
Deferred tax assets, net	2,079	5,928
Total current assets	272,601	272,206
Property and equipment, net	36,991	37,298
Goodwill	584,949	584,949
Other intangible assets, net	148,535	167,982
Deferred tax asset, non-current	21,574	13,297
Other assets	2,484	2,701
Total assets	\$ 1,067,134	\$ 1,078,433
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,227	\$ 20,031
Accrued wages and commissions	28,269	25,072
Accrued liabilities	32,586	30,630
Income taxes payable	11,811	14,950
Deferred revenue, current	59,057	54,738
Total current liabilities	150,950	145,421
Unsecured bank line of credit	130,000	95,000
Deferred revenue, non-current	10,021	11,325
Other non-current liabilities	338	1,025
Total liabilities	291,309	252,771
Commitments and contingencies (see Note 12)		
Stockholders equity:		
Preferred stock, par value \$0.001 per share; 5,000 shares authorized; no shares issued and outstanding		
Common stock, par value \$0.001 per share; 200,000 shares authorized; June 27, 2008 54,375 shares issued and 44,748 outstanding; December 31, 2007 53,910 shares issued and 48,283 outstanding;	54	54
Additional paid-in capital	1,216,299	1,208,674
Accumulated other comprehensive income	4,943	2,130
Accumulated deficit	(214,545)	(218,719)
Treasury stock, at cost; June 27, 2008 9,627 shares; December 31, 2007 5,627 shares;	(230,926)	(166,477)
Total stockholders equity	775,825	825,662

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Total liabilities and stockholders' equity	\$	1,067,134	\$	1,078,433
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See notes accompanying these condensed consolidated financial statements.

Table of Contents

**AVOCENT CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited, in thousands)

	For the six months ended	
	June 27, 2008	June 29, 2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,174	\$ 15,746
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	4,890	4,730
Amortization of intangible assets	21,033	22,208
Stock-based compensation	10,671	8,765
Amortization of premiums (discounts) on investments		(143)
Net loss on disposition of property and equipment	428	222
Excess tax benefit from stock-based compensation	(9)	(848)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(1,367)	16,113
Inventories	2,396	9,559
Other assets	1,324	499
Accounts payable	(899)	(1,498)
Accrued wages and commissions	3,197	(4,685)
Accrued other liabilities and deferred revenue	846	(955)
Income taxes, current and deferred	(7,807)	(12,254)
Net cash provided by operating activities	38,877	57,459
<b>Cash flows from investing activities:</b>		
Purchase of other intangible assets	(1,921)	(3,425)
Purchases of property and equipment	(5,011)	(4,868)
Purchases of investments		(50,681)
Maturities and proceeds from sales of investments	5,942	60,085
Net cash provided by (used-in) investing activities	(990)	1,111
<b>Cash flows from financing activities:</b>		
Borrowings (repayments) under unsecured line of credit, net	35,000	(35,000)
Proceeds from employee stock option exercises	633	3,533
Excess tax benefit from stock-based compensation	9	848
Purchases of treasury stock	(64,449)	(17,931)
Net cash used in financing activities	(28,807)	(48,550)
Effect of exchange rate changes on cash and cash equivalents	2,670	122
Net increase in cash and cash equivalents	11,750	10,142
Cash and cash equivalents at beginning of period	105,183	81,301
Cash and cash equivalents at end of period	\$ 116,933	\$ 91,443

See notes accompanying these condensed consolidated financial statements.





Table of Contents

**AVOCENT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except share data)

Note 1. **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement 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 nor for any future period. 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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, 2007, which is on file with the Securities and Exchange Commission and is available at our website, [www.avocent.com](http://www.avocent.com). The consolidated balance sheet presented in the accompanying condensed consolidated financial statements for December 31, 2007, was derived from the audited financial statements filed in our 10-K for the period ended December 31, 2007, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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. Beginning January 1, 2009 we will switch to reporting our quarterly periods based on three calendar months per quarter.

Our financial statements are consolidated and include the accounts of Avocent Corporation and our wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Note 2. **Inventories**

Inventories consisted of the following at:

<b>June 27, 2008</b>	<b>December 31, 2007</b>
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Raw materials	\$	598	\$	1,394
Work-in-process		377		1,058
Finished goods		26,951		27,651
Inventories	\$	27,926	\$	30,103

Inventories above have been reduced by reserves for excess and obsolete inventories of \$7,288 and \$7,328 as of June 27, 2008 and December 31, 2007, respectively.

Note 3. Equity and Treasury Stock

We issued common stock as a result of stock option exercise activity during the three and six months ended June 27, 2008 and June 29, 2007 as follows:

	For the three months ended		For the six months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Stock option exercises	47,000	50,000	64,000	186,000

Table of Contents

## AVOCENT CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except share data)

We issued common stock as a result of restricted stock unit (RSU) vesting activity during the three and six months ended June 27, 2008 and June 29, 2007 as follows:

	For the three months ended		For the six months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net RSUs issued				
RSU s vested	24,000	19,000	569,000	349,000
Shares withheld for tax	(9,000)	(7,000)	(168,000)	(104,000)
Net RSUs issued	15,000	12,000	401,000	245,000

Share repurchase activity during the three and six months ended June 27, 2008 and June 29, 2007 was as follows:

	For the three months ended		For the six months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Shares repurchased	88,000	100,000	4,000,000	587,000

**RSUs granted** During the first six months of 2008, our Compensation Committee approved the grant of 728,000 time-based and 426,000 market condition-based or performance conditioned-based restricted stock units to our employees, officers and directors (*see note 15*).

**RSUs accelerated** During the three and six months ended June 27, 2008, we accelerated 131,000 and 163,000 RSUs, respectively, in relation to our restructuring program (*see Note 13*).

#### Note 4. Accumulated Other Comprehensive Income

We record unrealized gains and losses on our foreign currency translation adjustments, unrealized gains and losses on derivatives accounting for as cash flow hedges, and unrealized holding gains or losses on our available-for-sale securities, net of tax, as accumulated other comprehensive income, which is included as a separate component of stockholders' equity. Comprehensive income for the six months ended June 27, 2008 and June 29, 2007 is as follows:

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	Six months ended	
	June 27, 2008	June 29, 2007
Net income	\$ 4,174	\$ 15,746
Unrealized gains on investments		73
Unrealized gains on cash flow hedges	446	355
Foreign currency translation adjustment	2,367	190
Total comprehensive income	\$ 6,987	\$ 16,364

As of June 27, 2008 and December 31, 2007, total accumulated other comprehensive income was \$4,943 and \$2,130, respectively.

Table of Contents

## AVOCENT CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except share data)

Note 5. Earnings Per Share (*share data in thousands*)

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<b><u>For the three months ended June 27, 2008</u></b>			
<b>Basic EPS</b>			
Net income available to common stockholders	\$ 3,443	44,731	\$ 0.08
<b>Effect of Dilutive Securities</b>			
Stock options and unvested restricted stock awards		647	
<b>Diluted EPS</b>			
Net income available to common stockholders and assumed conversions	\$ 3,443	45,378	\$ 0.08
<b><u>For the three months ended June 29, 2007</u></b>			
<b>Basic EPS</b>			
Net income available to common stockholders	\$ 15,000	50,476	\$ 0.30
<b>Effect of Dilutive Securities</b>			
Stock options and unvested restricted stock awards		682	
<b>Diluted EPS</b>			
Net income available to common stockholders and assumed conversions	\$ 15,000	51,158	\$ 0.29
<b><u>For the six months ended June 27, 2008</u></b>			
<b>Basic EPS</b>			
Net income available to common stockholders	\$ 4,174	45,469	\$ 0.09
<b>Effect of Dilutive Securities</b>			
Stock options and unvested restricted stock awards		657	
<b>Diluted EPS</b>			
Net income available to common stockholders and assumed conversions	\$ 4,174	46,126	\$ 0.09
<b><u>For the six months ended June 29, 2007</u></b>			
<b>Basic EPS</b>			
Net income available to common stockholders	\$ 15,746	50,607	\$ 0.31
<b>Effect of Dilutive Securities</b>			
Stock options and unvested restricted stock awards		850	
<b>Diluted EPS</b>			
Net income available to common stockholders and assumed conversions	\$ 15,746	51,457	\$ 0.31

Anti-dilutive options to purchase common stock outstanding and anti-dilutive RSUs were excluded from the calculations above. Anti-dilutive options and anti-dilutive RSUs totaled 4,451 and 4,169 for the three and six months ended June 27, 2008, respectively. Anti-dilutive options and anti-dilutive RSUs totaled 2,203 and 2,207 for the three and six months ended June 29, 2007, respectively.

Note 6. Segment Reporting

In the first quarter of 2008, we dissolved our Desktops Solutions Business Unit (DS) and transferred some of its personnel and a portion of its technology into Management Systems. DS results were previously reported within our Other Business Units segment. The related revenue and expenses of DS has not been material to our consolidated results, and this business unit was dissolved rather than being merged into another business unit. Accordingly, we will continue to report historical results for DS within our Other Business Units segment. In addition, no goodwill was allocated to this business unit and all related intangible assets were fully amortized prior to the dissolution of the business unit. Accordingly, there was no related write-off of goodwill or write-down of intangible assets as a result of the dissolution of this business unit. Costs associated with the dissolution of DS are included in retirement and restructuring expenses for the first quarter of 2008 (see Note 13).

Table of Contents

**AVOCENT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, in thousands, except share data)

We evaluate the performance of our segments based on revenue and operating income, which is calculated before corporate and unallocated costs, amortization of intangibles, acquired in-process research and development expense, and stock compensation costs. We do not track or use assets by segment as a measure of performance, therefore, we have not presented assets by segment. The following is a presentation of information for our two reportable segments, Management Systems and LANDesk: