

DOT HILL SYSTEMS CORP
Form 10-Q
November 14, 2011
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UNITED STATES
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 September 30, 2011

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 1-13317

DOT HILL SYSTEMS CORP.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

13-3460176
(I.R.S. Employer
Identification No.)

1351 S. Sunset Street, Longmont, CO
(Address of principal executive offices)

80501
(Zip Code)

(303) 845-3200
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 57,763,922 shares of common stock, \$0.001 par value, outstanding as of October 31, 2011.

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DOT HILL SYSTEMS CORP.

FORM 10-Q

For the Quarter Ended September 30, 2011

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****DOT HILL SYSTEMS CORP.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value data)

| | December 31, 2010 | September 30, 2011 |
|--|----------------------|-----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 45,732 | \$ 45,672 |
| Accounts receivable, net | 35,202 | 24,952 |
| Inventories | 7,340 | 5,192 |
| Prepaid expenses and other assets | 3,540 | 5,275 |
| Total current assets | 91,814 | 81,091 |
| Property and equipment, net | 3,597 | 4,119 |
| Intangible assets, net | 7,581 | 3,093 |
| Goodwill | 4,140 | |
| Other assets | 370 | 404 |
| Total assets | \$ 107,502 | \$ 88,707 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 30,555 | \$ 20,847 |
| Accrued compensation | 3,899 | 3,837 |
| Accrued expenses | 4,171 | 7,590 |
| Deferred revenue | 1,371 | 912 |
| Restructuring accrual | 1,664 | 1,566 |
| Current portion of long-term note payable | 275 | 141 |
| Total current liabilities | 41,935 | 34,893 |
| Long-term note payable | 71 | |
| Other long-term liabilities | 1,118 | 656 |
| Total liabilities | 43,124 | 35,549 |
| Commitments and Contingencies | | |
| Stockholders Equity: | | |
| Preferred stock, \$.001 par value, 10,000 shares authorized, zero shares issued and outstanding at December 31, 2010 and September 30, 2011 | | |
| Common stock, \$.001 par value, 100,000 shares authorized, 55,953 and 57,827 shares issued and outstanding at December 31, 2010 and September 30, 2011, respectively | 56 | 58 |
| Additional paid-in capital | 315,257 | 319,526 |
| Accumulated other comprehensive loss | (3,584) | (3,677) |
| Accumulated deficit | (247,351) | (262,749) |
| Total stockholders equity | 64,378 | 53,158 |

| | | |
|--|------------|-----------|
| Total liabilities and stockholders equity | \$ 107,502 | \$ 88,707 |
|--|------------|-----------|

See accompanying notes to unaudited condensed consolidated financial statements.

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2010 | 2011 | 2010 | 2011 |
| NET REVENUE | \$ 61,586 | \$ 48,071 | \$ 187,053 | \$ 150,424 |
| COST OF GOODS SOLD | 50,291 | 40,029 | 157,964 | 117,085 |
| GROSS PROFIT | 11,295 | 8,042 | 29,089 | 33,339 |
| OPERATING EXPENSES: | | | | |
| Research and development | 7,439 | 9,506 | 23,659 | 26,438 |
| Sales and marketing | 2,592 | 3,768 | 9,332 | 10,450 |
| General and administrative | 2,424 | 2,060 | 7,725 | 6,838 |
| Restructuring charge | 104 | 659 | 1,806 | 655 |
| Goodwill impairment charge | | 4,140 | | 4,140 |
| Total operating expenses | 12,559 | 20,133 | 42,522 | 48,521 |
| OPERATING LOSS | (1,264) | (12,091) | (13,433) | (15,182) |
| OTHER INCOME: | | | | |
| Interest income (expense), net | 6 | (18) | 13 | (29) |
| Other Income (expense), net | (2) | 2 | (17) | 3 |
| Total other income (expense), net | 4 | (16) | (4) | (26) |
| LOSS BEFORE INCOME TAXES | (1,260) | (12,107) | (13,437) | (15,208) |
| INCOME TAX EXPENSE | 9 | 75 | 93 | 190 |
| NET LOSS | \$ (1,269) | \$ (12,182) | \$ (13,530) | \$ (15,398) |
| NET LOSS PER SHARE: | | | | |
| Basic and diluted | \$ (0.2) | \$ (0.22) | \$ (0.26) | \$ (0.28) |
| WEIGHTED AVERAGE SHARES USED TO CALCULATE NET LOSS PER SHARE: | | | | |
| Basic and diluted | 53,529 | 55,186 | 52,778 | 54,755 |
| COMPREHENSIVE LOSS: | | | | |
| Net loss | \$ (1,269) | \$ (12,182) | \$ (13,530) | \$ (15,398) |
| Foreign currency translation adjustment | (76) | (65) | (115) | (93) |
| Comprehensive loss | \$ (1,345) | \$ (12,247) | \$ (13,645) | \$ (15,491) |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**DOT HILL SYSTEMS CORP.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2010 | 2011 |
| Cash Flows From Operating Activities: | | |
| Net loss | \$ (13,530) | (15,398) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 3,024 | 3,910 |
| Provision for Bad Debt Expense | | 203 |
| Adjustment to contingent consideration | (285) | |
| Stock-based compensation expense | 2,314 | 3,995 |
| Long-lived assets impairment charge | | 2,928 |
| Goodwill impairment charge | | 4,140 |
| Changes in operating assets and liabilities, net of effects of business acquisition: | | |
| Accounts receivable | (1,418) | 10,057 |
| Inventories | (3,099) | 2,148 |
| Prepaid expenses and other assets | (59) | (1,751) |
| Accounts payable | 481 | (9,916) |
| Accrued compensation and other expenses | (3,468) | 1,799 |
| Deferred revenue | 208 | (466) |
| Restructuring accrual | (51) | (98) |
| Other long-term liabilities | (651) | (462) |
| Net cash provided by (used in) operating activities | (16,534) | 1,089 |
| Cash Flows From Investing Activities: | | |
| Acquisition, net of cash acquired | (625) | |
| Purchases of property and equipment | (1,105) | (2,079) |