AVOCENT CORP
Form 10-Q
August 11, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2004 or

o	**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.

ý Yes o No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended).

ý Yes o No

As of August 4, 2004, the number of outstanding shares of the Registrant s Common Stock was 49,249,763.

AVOCENT CORPORATION

FORM 10-Q

July 2, 2004

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Item 1. Financial Statements

AVOCENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	For the three months ended July 2, 2004	For the three months ended June 27, 2003	For the six months ended July 2, 2004	For the six months ended June 27, 2003
Net sales	$ 87,796	$ 70,612	$ 173,881	$ 141,774
Cost of sales	37,196	29,927	73,179	61,492
Gross profit	50,600	40,685	100,702	80,282
Research and development expenses	11,226	7,654	20,654	14,466
Acquired in-process research and development expense	21,720		28,210	
Selling, general and administrative expenses	22,037	18,124	42,372	34,783
Amortization of intangible assets	6,412	6,156	11,174	12,312
Total operating expenses	61,395	31,934	102,410	61,561
Income (loss) from operations	(10,795)	8,751	(1,708)	18,721
Net investment income	1,046	1,281	2,297	2,507
Net realized investment losses	(104)	(123)	(168)	(210)
Other expense, net	(98)	(114)	(148)	(419)
Income (loss) before income taxes	(9,951)	9,795	273	20,599
Provision for income taxes	3,441	2,450	5,122	5,087
Net income (loss)	$ (13,392)	$ 7,345	$ (4,849)	$ 15,512
Earnings (loss) per share:				
Basic	$ (0.27)	$ 0.16	$ (0.10)	$ 0.34
Diluted	$ (0.27)	$ 0.16	$ (0.10)	$ 0.33
Weighted average shares used in computing earnings per share:				
Basic	49,065	45,917	48,958	45,671
Diluted	49,065	47,361	48,958	47,026

See notes accompanying these condensed consolidated financial statements

AVOCENT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share data)

	July 2, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,294	$ 76,492
Investments maturing within one year	141,176	146,900
Accounts receivable, net	48,688	45,011
Income taxes receivable	366	415
Other receivables, net	395	225
Inventories, net	22,025	21,324
Other current assets	3,224	4,251
Deferred tax assets	6,644	4,616
Total current assets	300,812	299,234
Investments	69,884	82,884
Property held for lease, net	1,428	1,526
Property and equipment, net	39,624	38,473
Goodwill	262,798	206,037
Other intangible assets, net	43,880	31,889
Other assets	950	720
Total assets	$ 719,376	$ 660,763
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,665	$ 10,034
Accrued wages and commissions	8,355	9,120
Accrued liabilities	17,502	16,866
Income taxes payable	12,274	6,702
Total current liabilities	44,796	42,722
Deferred tax liabilities	9,950	10,884
Total liabilities	54,746	53,606
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized, no shares issued and outstanding as of July 2, 2004 and December 31, 2003, respectively		
Common stock, $0.001 par value; 200,000 shares authorized, 49,212 and 47,350 shares issued and outstanding as of July 2, 2004 and December 31, 2003, respectively	49	47
Additional paid-in capital	1,048,417	982,218
Accumulated other comprehensive income (loss)	(166)	227
Deferred compensation	(4,929)	(1,443)
Accumulated deficit	(378,741)	(373,892)
Total stockholders equity	664,630	607,157
Total liabilities and stockholders equity	$ 719,376	$ 660,763

See notes accompanying these condensed consolidated financial statements.

AVOCENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	For the six months ended July 2, 2004	For the six months ended June 27, 2003
Cash flows from operating activities:		
Net income (loss):	$ (4,849)	$ 15,512
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	2,993	2,350
Amortization of intangible assets	11,174	12,312
Stock-based compensation	2,864	3,225
Acquired in-process research and development expenses	28,210	
Amortization of premiums on investments	2,101	1,645
Net loss on sales of investments	168	210
Income tax benefit from exercise of stock options	2,256	4,787
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable, net	(3,465)	(2,242)
Other receivables, net	(17)	608
Inventories, net	(555)	3,895
Other assets	1,636	123
Accounts payable	(3,840)	1,519
Accrued wages and commissions	(1,659)	(1,237)
Accrued liabilities	(60)	(49)
Income taxes, current and deferred	(4,415)	(4,002)
Net cash provided by operating activities	32,542	38,656
Cash flows from investing activities:		
Purchase of OSA, net of cash received (1)	(47,179)	
Purchase of Crystal Link, net of cash received (1)	(3,311)	
Purchases of property and equipment	(3,690)	(10,393)
Purchases of investments	(108,898)	(116,235)
Maturities and proceeds from sales of investments	124,836	70,687
Net cash used in investing activities	(38,242)	(55,941)
Cash flows from financing activities:		
Repayment of debt assumed at the acquisition of Crystal Link	(1,798)	
Proceeds from employee stock option exercises	7,803	13,851
Proceeds from employee stock purchase plan	1,371	657
Net cash provided by financing activities	7,376	14,508
Effect of exchange rate changes on cash and cash equivalents	126	120
Net increase (decrease) in cash and cash equivalents	1,802	(2,657)
Cash and cash equivalents at beginning of period	76,492	61,699
Cash and cash equivalents at end of period	$ 78,294	$ 59,042

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(1) Supplemental disclosure In addition to the cash paid at the respective closings, we issued 106 shares of our common stock valued at $3,500 to Crystal Link shareholders and 1,229 shares of our common stock valued at $45,831

to OSA shareholders. The issuance of common stock was recorded as non-cash consideration for the acquisition.

See notes accompanying these condensed consolidated financial statements.

AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands)

Note 1. Basis of 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 three and six months ended July 2, 2004 and June 27, 2003. 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, 2003, which is on file with the Securities and Exchange Commission. The balance sheet presented in the accompanying financial statements for December 31, 2003, was derived from the audited financial statements filed in our 10-K for the period ended December 31, 2003.

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 Corporation and our wholly owned subsidiaries. Significant inter-company transactions and balances have been eliminated in consolidation.

Note 2. Inventories

Inventories consisted of the following at:

	July 2, 2004	December 31, 2003
Raw materials	$ 4,788	$ 4,155
Work-in-process	418	659
Finished goods	16,819	16,510

Inventories, net	$ 22,025	$ 21,324

Inventories above have been reduced by reserves for excess and obsolete inventories of $3,620 and $4,020 as of July 2, 2004 and December 31, 2003, respectively.

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 of Apex and Cybex on July 1, 2000, $2,752 of deferred compensation related to the Equinox employee stock options at the time of the acquisition on January 3, 2001 and $6,350 of deferred compensation related to the OSA employee stock options at the time of the acquisition on April 6, 2004. The deferred compensation is being amortized over the vesting period of the options for which it was recorded. Amortization of deferred compensation totaled $2,143 for the three months ended July 2, 2004 and $1,610 for the three months ended and June 27, 2003. Amortization of deferred compensation totaled $2,864 for the six months ended July 2, 2004 and $3,225 for the six months ended June 27, 2003.

Stock option exercises Shares of our common stock issued as a result of option exercises totaled 436 shares during the six months ended July 2, 2004 and 973 shares during the six months ended June 27, 2003. Total proceeds received from these option exercises were $7,803 for the six months ended July 2, 2004 and $13,851 for the six months ended June 27, 2003. Common stock issued under our Employee Stock Purchase Plan totaled 89 shares during the six months ended July 2, 2004 and 51 shares during the six months ended June 27, 2003. Total proceeds received from the shares issued under the ESPP were $1,371 for the six months ended July 2, 2004 and $657 for the six months ended June 27, 2003.

Note 4. Accumulated Other Comprehensive Income

We record, net of tax, 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. Comprehensive loss for the first six months of 2004 of $5,242 consists of $4,849 of net loss, $519 of unrealized losses on investments (net of deferred income taxes) and $126 of foreign currency translation gain (net of deferred income taxes). Comprehensive income for the first six months of 2003 of $16,619 consists of $15,512 of net income, $987 of unrealized gains on investments (net of deferred income taxes) and $120 of foreign currency translation gain (net of deferred income taxes). As of July 2, 2004 and December 31, 2003, total accumulated other comprehensive income (loss) was ($166) and $227, respectively.

Note 5. Earnings (loss) per Share

		Income (Numerator)	Shares (Denominator)		Per-Share Amount
For the three months ended July 2, 2004					
Basic EPS					
Net loss available to common stockholders	$	(13,392)	49,065	$	(0.27)
Effect of Dilutive Securities					
Stock options					
Diluted EPS					
Net loss available to common stockholders and assumed conversions	$	(13,392)	49,065	$	(0.27)
For the three months ended June 27, 2003					
Basic EPS					
Net income available to common stockholders	$	7,345	45,917	$	0.16
Effect of Dilutive Securities					
Stock options			1,444		
Diluted EPS					
Net income available to common stockholders and assumed conversions	$	7,345	47,361	$	0.16
For the six months ended July 2, 2004					
Basic EPS					
Net loss available to common stockholders	$	(4,849)	48,958	$	(0.10)
Effect of Dilutive Securities					
Stock options					
Diluted EPS					
Net loss available to common stockholders and assumed conversions	$	(4,849)	48,958	$	(0.10)
For the six months ended June 27, 2003					
Basic EPS					
Net income available to common stockholders	$	15,512	45,671	$	0.34
Effect of Dilutive Securities					
Stock options			1,355		
Diluted EPS					
Net income available to common stockholders and assumed conversions	$	15,512	47,026	$	0.33

Anti-dilutive options to purchase common stock outstanding were excluded from the calculations above. For the three and six months ended July 2, 2004, options to purchase 7,907 shares of common stock were outstanding but were not included in the computation of diluted net loss per share as inclusion of these options would have been anti-dilutive. Anti-dilutive options totaled 1,930 and 2,450 for the three and six months ended June 27, 2003, respectively.

Note 6. Sales by Geographic Region

We have evaluated, and will periodically re-evaluate, our business in light of the segment reporting requirements prescribed by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* We have determined that we should report our operations as a single operating segment. However, we supplementally report sales by geographic region, as well as by customer type. Following is a presentation of sales by geographic region and by customer type for the three and six months ended July 2, 2004 and June 27, 2003:

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2004	**June 27, 2003**	**July 2, 2004**	**June 27, 2003**
Net sales:				
United States	$ 52,860	$ 44,170	$ 104,050	$ 86,491
Rest of the World	34,936	26,442	69,831	55,283
	$ 87,796	$ 70,612	$ 173,881	$ 141,774

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2004	**June 27, 2003**	**July 2, 2004**	**June 27, 2003**
Net sales:				
Branded	$ 49,990	$ 38,883	$ 100,699	$ 76,872
OEM	37,806	31,729	73,182	64,902
	$ 87,796	$ 70,612	$ 173,881	$ 141,774

We sell our products internationally to customers in several countries. Sales to customers in the Netherlands, including the European distribution facility for one of our OEM customers, accounted for 11% of sales in the first six months of 2004. Sales to customers in the United Kingdom, including the European distribution facility for one of our OEM customers, accounted for 13% of sales in the first six months of 2003. No other country accounted for more than 10% of sales in the first six months of either 2004 or 2003.

As of July 2, 2004, long-lived assets totaled $347,730, which includes $334,804 held in the U.S. and $12,926 held outside of the U.S. As of December 31, 2003, long-lived assets totaled $277,925, which includes $267,048 held in the U.S. and $10,877 held outside of the U.S.

Note 7. Forward Contracts

We use forward contracts to reduce our foreign currency exposure related to the net cash flows from our international operations. The majority of these contracts are short-term contracts (three months or less) and are marked-to-market each quarter and included in trade payables, with the offsetting gain or loss included in other income (expense) in the accompanying consolidated statements of operations. As of July 2, 2004 and December 31, 2003, we had no open forward contracts.

Note 8. Acquisitions of OSA Technologies, Inc. and Crystal Link Technologies

OSA Technologies, Inc.

On April 6, 2004, we acquired the outstanding stock of OSA Technologies, Inc. (OSA). OSA is headquartered in San Jose, California and has additional offices in Shanghai, China and Taipei, Taiwan. OSA has developed embedded manageability firmware and software using Intelligent Platform Management Interface (IPMI) solutions. The acquisition of OSA will enhance our position in the embedded management market and OSA s embedded management solutions for the IPMI market complements our core KVM business and builds upon prior acquisitions. The results of OSA s operations have been included in the consolidated financial statements since the date of acquisition.

The acquisition was recorded under the purchase method of accounting, and the purchase price was allocated based on the fair value of the assets acquired and liabilities assumed. In accordance with generally accepted accounting principles, purchased research and development costs allocated to patent-pending technology were capitalized and will be amortized over the respective estimated useful lives. The remaining amounts of purchased research and development were expensed upon the closing of the transaction. The goodwill recorded as result of the acquisition will not be amortized but will be included in our annual review of goodwill for impairment. Additionally, the goodwill recorded is not tax deductible. The excess of the fair value over the intrinsic value of the unvested OSA options and the fair value of the vested OSA options at the date of consummation have been included in the purchase consideration. A summary of the total purchase consideration, excluding cash received, is as follows:

Cash paid for outstanding shares	$	51,685
Value of common stock issued for outstanding shares		45,831
Value of stock options assumed		2,526
Acquisition costs		1,113
Total purchase consideration	$	101,155

We funded the acquisition through available cash and by the issuance of 1,229 shares of Avocent common stock. The common stock, valued at approximately $45,831, was recorded as non-cash consideration for the acquisition of OSA. On the closing of the OSA transaction, we acquired $5,618 in cash held by OSA.

The purchase consideration was allocated, on a preliminary basis, to the estimated fair values of the assets acquired and liabilities assumed, as follows:

		Purchase Price Allocation	Amortization Period
Tangible assets	$	11,718	Various
In-process research and development		21,720	
Developed technology		12,380	3 years
Customer base		4,260	5 years
Trademarks		3,240	3 years
Non-compete agreements		960	3 years
Goodwill		57,131	
Deferred taxes		(8,544)	Various
Assumed liabilities		(1,710)	
	$	101,155	

Additionally, we recorded $6,350 of deferred compensation related to the unvested OSA employee stock options at the time of the acquisition on April 6, 2004. The deferred compensation is being amortized straight-line over the vesting period of the options for which it was recorded.

The fair value of all of the in-process research and development (IPR&D) received in the acquisition was determined using a form of the discounted cash flow method known as the multi-period excess earnings method. These amounts were deemed to be for particular research and development projects that have no alternative future uses and were therefore expensed rather than capitalized at the time of purchase.

OSA s in-process research and development activities consisted of an upgrade of its Firmware Suite to Version 2.0 and an embedded server management product. The status of these projects varied, however, it is anticipated that the products will be completed during 2005 and 2006. These projects were still in process at the end of the second quarter 2004.

The new generations of products under development are projected to sell through sales channels and to customers that are substantially the same as current and historical sales channels and customers. Pricing and margins will not differ significantly from historical pricing and margins. Revenue for the projects under development was projected through 2012, with 50% of OSA s forecasted revenue in 2006 coming from projects currently in development. Net income attributable to IPR&D was calculated by applying OSA s projected gross, operating and net profit margins to IPR&D revenue, while considering Avocent s historical results and industry prospects.

Revenue growth related to the in-process research and development is embodied in products to be launched during 2005. These products have estimated economic lives ranging from approximately six to nine years. The product life cycle is characterized by a gradual 2 to 3 year ramp up period, followed by a 1 to 2 year plateau, followed by a 3 to 4 year decline period. Operating margins are projected to be well above historical Avocent margins as these products are primarily software in nature. The discount rate used to value IPR&D was 24%.

Crystal Link Technologies

On January 6, 2004, we acquired the outstanding common shares of Crystal Link Technologies (Crystal Link) for approximately $6,652 in cash and common stock, plus the assumption of liabilities and payment of certain acquisition costs. The purchase agreement calls for additional potential earn-out payments of up to $5,000 based on future technical enhancements and achievement of certain sales goals. The results of Crystal Link s operations have been included in the consolidated financial statements since the date of acquisition. Crystal Link, headquartered in Escondido, CA, has developed wireless technology for KVM switching and extension products, which is incorporated into our LongView Wireless product.

The acquisition was recorded under the purchase method of accounting, and the purchase price was allocated based on the fair value of the assets acquired and liabilities assumed. In accordance with generally accepted accounting principles, purchased research and development costs allocated to patent-pending technology were capitalized and will be amortized over the respective estimated useful lives. The remaining amounts of purchased research and development were expensed upon the closing of the transaction. The valuation resulted in an excess of acquired nets assets over cost, or negative goodwill in the amount of $143. As prescribed under FAS 141, *Business Combinations*, the negative goodwill was recorded as a contingent liability due to the potential future earn-outs. Goodwill will likely be recorded if the additional earn-outs mentioned previously are achieved. If the earn-outs are not achieved, the negative goodwill will be allocated across all acquired assets, including acquired research and development expense. In the event goodwill is recorded due to the earn-out payments, then goodwill will not be amortized but will be included in our annual review of goodwill for impairment. A summary of the total purchase consideration is as follows:

Cash paid for outstanding shares	$	3,152
Value of common stock issued for outstanding shares		3,500
Acquisition costs		163
Total purchase consideration	$	6,815

The purchase consideration was allocated, on a preliminary basis, to the estimated fair values of the assets acquired and liabilities assumed, as follows:

	Purchase Price Allocation	Amortization Period

Tangible assets	$	295	Various
In-process research and development		6,490	
Developed technology		520	3 years
Non-compete agreements		500	3 years
International marketing rights		1,250	3 years
Contingent consideration liability		(143)	
Assumed liabilities		(2,097)	
	$	6,815	

The acquisition was funded through available cash and by the issuance of 107 shares of Avocent common stock. The common stock, valued at approximately $3,500, was recorded as non-cash consideration for the acquisition of Crystal Link. On the closing of the Crystal Link transaction, we acquired $4 in cash held by Crystal Link.

The fair value of all of the in-process research and development (IPR&D) received in the acquisition was determined using a form of the discounted cash flow method known as the multi-period excess earnings method. These amounts were deemed to be for particular research and development projects that have no alternative future uses and were therefore expensed rather than capitalized at the time of purchase.

Crystal Link s in-process research and development activities consisted of a second generation of the KVM wireless extender with significant enhancements to the developed KVM wireless extender product and the development of a wireless KVM switch and an embedded KVM switch solution. The status of these projects varied from 10% complete to 60% complete. It is anticipated that each of these products will be completed during 2004, however, the projects were still in process at the end of the first quarter 2004.

The new generations of products under development are projected to sell through sales channels and to customers that are substantially the same as current and historical sales channels and customers. Pricing and margins will not differ significantly from historical pricing and margins. Revenue for the projects under development was projected through 2013, with 100% of Crystal Link s forecasted revenue in 2005 coming from projects currently in development. Net income attributable to IPR&D was calculated by applying Crystal Link s projected gross, operating and net profit margins to IPR&D revenue, while considering Avocent s historical results and industry prospects.

Revenue growth related to the in-process research and development is embodied in products to be launched in late 2004. These products have estimated economic lives ranging from approximately seven to ten years. The product life cycle is characterized by a gradual 3 to 4 year ramp up period, followed by a 1 to 2 year plateau, followed by a 3 to 4 year decline period. Operating margins are projected to be below overall historical Avocent margins in the early years, but will improve for these products over their lives as the products mature, as costs are designed out of the products, and as sales volumes increase. The discount rate used to value IPR&D was 20%.

Pro Forma Financial Information - The following unaudited pro forma summary combines the results of operations of Avocent, Soronti (acquired in November of 2003), Crystal Link and OSA as if the acquisitions had occurred at the beginning of each period presented. Certain adjustments have been made to reflect the impact of the purchase transactions. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made at the beginning of 2003, or of results which may occur in the future.

	Three Months Ended,				**Six Months Ended,**			
	July 2, 2004		**June 27, 2003**		**July 2, 2004**		**June 27, 2003**	
Net sales	$	87,796	$	70,752	$	174,466	$	142,257
Net income	$	12,157	$	3,043	$	16,792	$	7,114
Income per basic share	$	0.25	$	0.07	$	0.34	$	0.15
Income per diluted share	$	0.24	$	0.06	$	0.33	$	0.16

The above amounts exclude acquired in-process research and development expense of $21,720 related to the OSA acquisition, $3,829 (net of a $2,661 tax benefit) related to the Crystal Link acquisition and $3,940 related to the Soronti acquisition.

Note 9. Goodwill and Other Intangible Assets

Acquired other intangible assets subject to amortization were as follows:

	July 2, 2004		December 31, 2003	
	Gross Carrying Amounts	Accumulated Amortization	Gross Carrying Amounts	Accumulated Amortization
Developed technology	$ 79,140	$ 53,495	$ 66,240	$ 45,824
Patents and trademarks	21,187	11,795	17,657	9,566
Customer base and certification	5,873	1,199	1,613	717
Non-compete agreements	4,733	2,163	3,273	1,455
Other	1,814	215	768	100
	$ 112,747	$ 68,867	$ 89,551	$ 57,662

For the three months ended July 2, 2004 and June 27, 2003, amortization expense for other intangible assets was $6,412 and $6,156, respectively. For the six months ended July 2, 2004 and June 27, 2003, amortization expense for other intangible assets was $11,174 and $12,312, respectively. The approximate estimated annual amortization for other intangibles is as follows:

Years ending December 31:	
2004	$ 23,440
2005	$ 18,240
2006	$ 9,740
2007	$ 2,520