

DOT HILL SYSTEMS CORP
Form 10-Q
August 10, 2009
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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 June 30, 2009

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)

Delaware
(State or other jurisdiction of incorporation

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

or organization)

2200 Faraday Avenue, Suite 100, Carlsbad, CA
(Address of principal executive offices)

92008
(Zip Code)

(760) 931-5500

(Registrant's telephone number, including area code)

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(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

Smaller reporting company ☐

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 48,410,369 shares of common stock, \$0.001 par value, outstanding as of August 7, 2009.

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DOT HILL SYSTEMS CORP.

FORM 10-Q

For the Quarter Ended June 30, 2009

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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)**

	December 31, 2008	June 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 56,850	\$ 57,074
Accounts receivable, net of allowance of \$287 and \$551	41,035	29,529
Inventories, net	14,127	9,713
Prepaid expenses and other	4,796	4,186
Total current assets	116,808	100,502
Property and equipment, net	2,410	2,731
Intangible assets, net	4,164	3,597
Other assets	515	250
Total assets	\$ 123,897	\$ 107,080
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 31,050	\$ 21,700
Accrued compensation	3,217	3,142
Accrued expenses	5,212	4,016
Deferred revenue	1,121	2,392
Restructuring accrual	681	484
Current portion of long-term note payable	249	255
Income taxes payable	17	70
Total current liabilities	41,547	32,059
Long-term note payable - less current portion	607	478
Other long-term liabilities	5,091	3,450
Total liabilities	47,245	35,987
Commitments and Contingencies (Note 12)		
Stockholders' Equity:		
Preferred stock, \$.001 par value, 10,000 shares authorized, no shares issued and outstanding at December 31, 2008 and June 30, 2009		
Common stock, \$.001 par value, 100,000 shares authorized, 46,308 and 48,410 shares issued and outstanding at December 31, 2008 and June 30, 2009, respectively	46	48
Additional paid-in capital	300,555	302,383
Accumulated other comprehensive loss	(3,474)	(3,384)
Accumulated deficit	(220,475)	(227,954)

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Total stockholders' equity	76,652	71,093
Total liabilities and stockholders' equity	\$ 123,897	\$ 107,080

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**DOT HILL SYSTEMS CORP.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE LOSS****(In Thousands, Except Per Share Amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
NET REVENUE	\$ 71,027	\$ 54,328	\$ 123,853	\$ 108,217
COST OF GOODS SOLD	63,805	46,358	112,465	90,986
GROSS PROFIT	7,222	7,970	11,388	17,231
OPERATING EXPENSES:				
Sales and marketing	3,647	2,519	7,919	5,085
Research and development	7,125	6,934	14,549	14,086
General and administrative	3,939	2,473	6,982	5,242
Restructuring charge		326		411
Legal settlement			(3,836)	
Total operating expenses	14,711	12,252	25,614	24,824
OPERATING LOSS	(7,489)	(4,282)	(14,226)	(7,593)
OTHER INCOME:				
Interest income, net	358	42	1,066	115
Other income (expense), net		13	79	(7)
Total other income, net	358	55	1,145	108
LOSS BEFORE INCOME TAXES	(7,131)	(4,227)	(13,081)	(7,485)
INCOME TAX EXPENSE (BENEFIT)	239	(39)	398	(6)
NET LOSS	\$ (7,370)	\$ (4,188)	\$ (13,479)	\$ (7,479)
NET LOSS PER SHARE:				
Basic and diluted	\$ (0.16)	\$ (0.09)	\$ (0.29)	\$ (0.16)
WEIGHTED AVERAGE SHARES USED TO CALCULATE NET LOSS PER SHARE:				
Basic and diluted	46,055	46,952	46,005	46,836
COMPREHENSIVE LOSS:				
Net loss	\$ (7,370)	\$ (4,188)	\$ (13,479)	\$ (7,479)
Foreign currency translation gain (loss)	130	(36)	(101)	90
Comprehensive loss	\$ (7,240)	\$ (4,224)	\$ (13,580)	\$ (7,389)

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)**

	Six Months Ended June 30,	
	2008	2009
Cash Flows From Operating Activities:		
Net loss	\$ (13,479)	\$ (7,479)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,991	1,437
Loss on disposal of property and equipment	57	
Provision for bad debt reserve	(120)	264
Share-based compensation expense	1,563	1,553
Issuance of warrant to customer	2,282	
Changes in operating assets and liabilities:		
Accounts receivable	(13,851)	11,216
Inventories	(4,547)	4,410
Prepaid expenses and other assets	(530)	545
Accounts payable	7,370	(9,268)
Accrued compensation and other expenses	(1,448)	(956)
Deferred revenue	(228)	(68)
Income taxes payable	345	53
Restructuring accrual		(193)
Other long-term liabilities	(516)	(351)
Net cash (used in) provided by operating activities	(20,111)	1,163
Cash Flows From Investing Activities:		
Purchases of property and equipment	(865)	(1,078)
Net cash used in investing activities	(865)	(1,078)
Cash Flows From Financing Activities:		
Principal payment of note payable		(123)
Proceeds from exercise of stock options and warrants	198	
Proceeds from sale of stock to employees	465	277
Net cash provided by financing activities	663	154
Effect of Exchange Rate Changes on Cash	37	(15)
Net (Decrease) Increase in Cash and Cash Equivalents	(20,276)	224
Cash and Cash Equivalents, beginning of period	82,358	56,850
Cash and Cash Equivalents, end of period	\$ 62,082	\$ 57,074
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$	\$
Cash paid for income taxes	\$ 56	\$ 32

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

Construction-in-progress costs incurred but not paid	\$	275	\$	281
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See accompanying notes to unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Company

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