DOT HILL SYSTEMS CORP Form 10-Q August 10, 2009 Table of Contents

### **UNITED STATES**

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# **FORM 10-Q**

(Mark One)

b 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

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 b 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 b Non-accelerated filer " Smaller reporting company "
(Do not check if a 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 b

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

### DOT HILL SYSTEMS CORP.

## FORM 10-Q

### For the Quarter Ended June 30, 2009

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### 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	\$ 1	23.897 \$	107,080

See accompanying notes to unaudited condensed consolidated financial statements.

### 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 Mont June	
	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)	(7.495)
INCOME TAX EXPENSE (BENEFIT)	239	(4,227)	398	(7,485)
INCOME TAX EXPENSE (BENEFIT)	239	(39)	390	(0)
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.

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### DOT HILL SYSTEMS CORP.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

### (In Thousands)

Cash Flows From Operating Activities:         \$ (13,479)         \$ (7,47)           Net loss         \$ (13,479)         \$ (7,47)           Adjustments to reconcile net loss to net cash used in operating activities:         \$ (2,991)         1,42           Depreciation and amortization         2,991         1,42           Loss on disposal of property and equipment         57         100           Provision for bad debt reserve         (1,503)         1,553         1,553           Share-based compensation expense         (1,603)         1,553         1,553           Issuance of warrant to customer         2,282         1         1,201         1,202           Changes in operating assets and liabilities:         (13,851)         11,21         1,22         1,22         1,22         1,22         1,22         1,22         1,22         1			Six Months Ended June 30,	
Net loss         \$ (13,479)         \$ (7,47)           Adjustments to reconcile net loss to net cash used in operating activities:         Use on disposal of property and equipment         2,991         1,43           Loss on disposal of property and equipment         57         1,203         1,552         2,533         2,533			,	
Adjustments to reconcile net loss to net cash used in operating activities:         2.991         1.43           Depreciation and amortization         2.991         1.43           Loss on disposal of property and equipment         57           Provision for bad debt reserve         1,563         1,55           Share-based compensation expense         2,282           Usual color of warrant to customer         2,282           Changes in operating assets and liabilities:         3           Accounts receivable         (1,3,851)         11,21           Inventories         (4,547)         4,4           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         (9,26           Accured compensation and other expenses         (1,448)         (95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (15         (15           Other long-term liabilities         (20,111)         1,16           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:         (20,111)         1,16           Principal payment of note payable <t< td=""><td></td><td></td><td></td></t<>				
Depreciation and amortization         2,991         1,42           Loss on disposal of property and equipment         57           Provision for bad debt reserve         (120)         26           Share-based compensation expense         1,563         1,55           Issuance of warrant to customer         2,282           Changes in operating assets and liabilities:		\$ (13,479)	\$ (7,479)	
Loss on disposal of property and equipment         57           Provision for bad debt reserve         (120)         26           Share-based compensation expense         1,563         1,55           Issuance of warrant to customer         2,282           Changes in operating assets and liabilities:           Accounts receivable         (13,851)         11,21           Inventories         (4,547)         4,41           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         9,22           Accounts payable         7,370         9,22           Account compensation and other expenses         (1,448)         95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (15         0.35           Other long-term liabilities         (516)         0.35           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:         2         1,21           Purchases of property and equipment         (865)         (1,07)           Net cash used in investing activities         (20,27)         (22		• 004		
Provision for bad debt reserve         (120)         2c           Share-based compensation expense         1,563         1,55           Issuance of warrant to customer         2,282           Changes in operating assets and liabilities:           Accounts receivable         (13,851)         11,21           Inventories         (4,547)         4,44           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         9,26           Accrued compensation and other expenses         (1,448)         05           Deferred revenue         (228)         06           Income taxes payable         345         5           Restructuring accrual         (516)         03           Other long-term liabilities         (516)         03           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:         (20,111)         1,16           Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Principal payment of note payable         (12         (12           Proceeds from exercise of stock options and warrants         198<			1,437	
Share-based compensation expense         1,563         1,553           Issuance of warrant to customer         2,282           Changes in operating assets and liabilities:         (13,851)         11,21           Accounts receivable         (13,851)         11,21           Inventories         (4,547)         4,44           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         (9,26           Accrued compensation and other expenses         (1,448)         (95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (15         (15           Other long-term liabilities         (516)         (35           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:           Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Cash Flows From Financing Activities:           Principal payment of note payable         (12         (12           Proceeds from exercise of stock options and warrants         198         (12				
Sasuance of warrant to customer			264	
Changes in operating assets and liabilities:           Accounts receivable         (13,851)         11,21           Inventories         (4,547)         4,44           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         (9,26           Accrued compensation and other expenses         (1,448)         (95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (15         35           Other long-term liabilities         (516)         (35           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:         20,111)         1,16           Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Cash Flows From Financing Activities:         2           Principal payment of note payable         (12           Proceeds from exercise of stock options and warrants         198           Proceeds from sale of stock to employees         465         27           Net cash provided by financing activities         663         15			1,553	
Accounts receivable       (13,851)       11,21         Inventories       (4,477)       4,44         Prepaid expenses and other assets       (530)       54         Accounts payable       7,370       (9,26         Accrued compensation and other expenses       (1,448)       (95         Deferred revenue       (228)       (6         Income taxes payable       345       5         Restructuring accrual       (15       (15         Other long-term liabilities       (516)       (35         Net cash (used in) provided by operating activities       (20,111)       1,16         Cash Flows From Investing Activities:       (865)       (1,07         Net cash used in investing activities       (865)       (1,07         Net cash used in investing activities       (865)       (1,07         Cash Flows From Financing Activities:       (12       (12         Principal payment of note payable       (12       (12         Proceeds from exercise of stock options and warrants       198       (12         Proceeds from sale of stock to employees       465       27         Net cash provided by financing activities       663       15         Effect of Exchange Rate Changes on Cash       37       (1      <		2,282		
Inventories         (4,547)         4,41           Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         9,22           Accrude compensation and other expenses         (1,448)         (95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (516)         33           Other long-term liabilities         (516)         33           Net cash (used in) provided by operating activities         20,111)         1,16           Cash Flows From Investing Activities:         2         1           Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Cash Flows From Financing Activities:         2         1           Principal payment of note payable         (12         1           Proceeds from exercise of stock options and warrants         198         2           Net cash provided by financing activities         663         15           Effect of Exchange Rate Changes on Cash         37         (1           Net (Decrease) Increase in Cash and Cash Equivalents         (20,276)         22		(10.074)		
Prepaid expenses and other assets         (530)         54           Accounts payable         7,370         (9,26           Accrued compensation and other expenses         (1,448)         (95           Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (15         (15           Other long-term liabilities         (516)         (35           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:           Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Cash Flows From Financing Activities:           Principal payment of note payable         (12           Proceeds from exercise of stock options and warrants         198           Proceeds from sale of stock to employees         465         27           Net cash provided by financing activities         663         15           Effect of Exchange Rate Changes on Cash         37         (1           Net (Decrease) Increase in Cash and Cash Equivalents         (20,276)         22				
Accounts payable       7,370       (9,26         Accrued compensation and other expenses       (1,448)       (93         Deferred revenue       (228)       (6         Income taxes payable       345       5         Restructuring accrual       (15       (15         Other long-term liabilities       (516)       (35         Net cash (used in) provided by operating activities       (20,111)       1,16         Cash Flows From Investing Activities:       20,111)       1,16         Purchases of property and equipment       (865)       (1,07         Net cash used in investing activities       (865)       (1,07         Cash Flows From Financing Activities:       7       (12         Proceeds from exercise of stock options and warrants       198       (12         Proceeds from sale of stock to employees       465       27         Net cash provided by financing activities       663       15         Effect of Exchange Rate Changes on Cash       37       (1         Net (Decrease) Increase in Cash and Cash Equivalents       (20,276)       22			4,410	
Accrued compensation and other expenses       (1,448)       (95         Deferred revenue       (228)       (6         Income taxes payable       345       5         Restructuring accrual       (15       (15         Other long-term liabilities       (516)       (35         Net cash (used in) provided by operating activities       (20,111)       1,16         Cash Flows From Investing Activities:       Turchases of property and equipment       (865)       (1,07         Net cash used in investing activities       (865)       (1,07         Cash Flows From Financing Activities:       Trincipal payment of note payable       (12         Proceeds from exercise of stock options and warrants       198         Proceeds from sale of stock to employees       465       27         Net cash provided by financing activities       663       15         Effect of Exchange Rate Changes on Cash       37       (1         Net (Decrease) Increase in Cash and Cash Equivalents       (20,276)       22			545	
Deferred revenue         (228)         (6           Income taxes payable         345         5           Restructuring accrual         (19           Other long-term liabilities         (516)         (35           Net cash (used in) provided by operating activities         (20,111)         1,16           Cash Flows From Investing Activities:         Purchases of property and equipment         (865)         (1,07           Net cash used in investing activities         (865)         (1,07           Cash Flows From Financing Activities:         (12         (12           Principal payment of note payable         (12         (12           Proceeds from exercise of stock options and warrants         198         (198           Proceeds from sale of stock to employees         465         27           Net cash provided by financing activities         663         15           Effect of Exchange Rate Changes on Cash         37         (1           Net (Decrease) Increase in Cash and Cash Equivalents         (20,276)         22			(9,268)	
Income taxes payable 345 5 Restructuring accrual (15 Other long-term liabilities (516) 33  Net cash (used in) provided by operating activities (20,111) 1,16  Cash Flows From Investing Activities: Purchases of property and equipment (865) (1,07  Net cash used in investing activities (865) (1,07)  Cash Flows From Financing Activities: Principal payment of note payable (12 Proceeds from exercise of stock options and warrants 198 Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22			(956)	
Restructuring accrual Other long-term liabilities (516) (35  Net cash (used in) provided by operating activities  Cash Flows From Investing Activities: Purchases of property and equipment (865) (1,07)  Net cash used in investing activities  Cash Flows From Financing Activities: Principal payment of note payable Proceeds from exercise of stock options and warrants Proceeds from exercise of stock options and warrants Proceeds from sale of stock to employees  Net cash provided by financing activities  Effect of Exchange Rate Changes on Cash  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22			(68)	
Other long-term liabilities (516) (35  Net cash (used in) provided by operating activities (20,111) 1,16  Cash Flows From Investing Activities:  Purchases of property and equipment (865) (1,07)  Net cash used in investing activities (865) (1,07)  Cash Flows From Financing Activities:  Principal payment of note payable (12  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22		345	53	
Net cash (used in) provided by operating activities  Cash Flows From Investing Activities:  Purchases of property and equipment (865) (1,07)  Net cash used in investing activities (865) (1,07)  Cash Flows From Financing Activities:  Principal payment of note payable (12)  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22		(#4.6)	(193)	
Cash Flows From Investing Activities:  Purchases of property and equipment (865) (1,07)  Net cash used in investing activities (865) (1,07)  Cash Flows From Financing Activities:  Principal payment of note payable (12)  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22	Other long-term liabilities	(516)	(351)	
Purchases of property and equipment (865) (1,07)  Net cash used in investing activities (865) (1,07)  Cash Flows From Financing Activities:  Principal payment of note payable (12)  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22	Net cash (used in) provided by operating activities	(20,111)	1,163	
Purchases of property and equipment (865) (1,077)  Net cash used in investing activities (865) (1,077)  Cash Flows From Financing Activities:  Principal payment of note payable (122)  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 277  Net cash provided by financing activities 663 155  Effect of Exchange Rate Changes on Cash 37 (127)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 225	Cook Flour From Langeting Astinition			
Net cash used in investing activities (865) (1,07  Cash Flows From Financing Activities:  Principal payment of note payable (12  Proceeds from exercise of stock options and warrants 198  Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22		(0(5)	(1.070)	
Cash Flows From Financing Activities:Principal payment of note payable(12Proceeds from exercise of stock options and warrants198Proceeds from sale of stock to employees46527Net cash provided by financing activities66315Effect of Exchange Rate Changes on Cash37(1Net (Decrease) Increase in Cash and Cash Equivalents(20,276)22	Purchases of property and equipment	(865)	(1,0/8)	
Principal payment of note payable Proceeds from exercise of stock options and warrants Proceeds from sale of stock to employees  Net cash provided by financing activities  Effect of Exchange Rate Changes on Cash  Net (Decrease) Increase in Cash and Cash Equivalents  (20,276)	Net cash used in investing activities	(865)	(1,078)	
Proceeds from exercise of stock options and warrants Proceeds from sale of stock to employees  Net cash provided by financing activities  Effect of Exchange Rate Changes on Cash  Net (Decrease) Increase in Cash and Cash Equivalents  198  27  Net (Decrease) Increase in Cash and Cash Equivalents  (20,276)				
Proceeds from sale of stock to employees 465 27  Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1)  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22			(123)	
Net cash provided by financing activities 663 15  Effect of Exchange Rate Changes on Cash 37 (1  Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22	Proceeds from exercise of stock options and warrants	198		
Effect of Exchange Rate Changes on Cash  Net (Decrease) Increase in Cash and Cash Equivalents  (20,276)  22	Proceeds from sale of stock to employees	465	277	
Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22	Net cash provided by financing activities	663	154	
Net (Decrease) Increase in Cash and Cash Equivalents (20,276) 22	Effect of Evolungo Data Changes on Cash	27	(15)	
	Effect of Exchange Nate Changes on Cash	37	(13)	
Cash and Cash Equivalents, beginning of period 82,358 56,85	•	· / /	224	
	Cash and Cash Equivalents, beginning of period	82,358	56,850	
Cash and Cash Equivalents, end of period \$ 62,082 \$ 57,07	Cash and Cash Equivalents, end of period	\$ 62,082	\$ 57,074	
Supplemental Disclosures of Cash Flow Information:	Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest \$ \$		\$	\$	
Cash paid for income taxes \$ 56 \$ 3	Cash paid for income taxes	\$ 56	\$ 32	

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## Supplemental Disclosures of Non-Cash Investing and Financing Activities:

Construction-in-progress costs incurred but not paid

\$ 275 \$ 281

See accompanying notes to unaudited condensed consolidated financial statements.

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### DOT HILL SYSTEMS CORP.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The Company

Dot