

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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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(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
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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 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)