

DOT HILL SYSTEMS CORP  
Form 10-Q  
August 08, 2011  
Table of Contents

**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, 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)

Edgar Filing: DOT HILL SYSTEMS CORP - Form 10-Q

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>13-3460176</b> (I.R.S. Employer Identification No.)
<b>1351 S. Sunset Street, Longmont, CO</b> (Address of principal executive offices)	<b>80501</b> (Zip Code)
<b>(303) 845-3200</b> (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 57,285,845 shares of common stock, \$0.001 par value, outstanding as of July 31, 2011.

**Table of Contents**

**DOT HILL SYSTEMS CORP.**

**FORM 10-Q**

**For the Quarter Ended June 30, 2011**

**INDEX**

<b><u>Part I. Financial Information</u></b>	3
Item 1. <u>Financial Statements</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets at December 31, 2010 and June 30, 2011</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 30, 2010 and 2011</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2011</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	24
<b><u>Part II. Other Information</u></b>	25
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 6. <u>Exhibits</u>	36
<b><u>Signatures</u></b>	38
<b>EXHIBIT 31.1</b>	
<b>EXHIBIT 31.2</b>	
<b>EXHIBIT 32.1</b>	

**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	June 30, 2011
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 45,732	\$ 46,508
Accounts receivable, net	35,202	30,905
Inventories	7,340	5,290
Prepaid expenses and other assets	3,540	4,463
Total current assets	91,814	87,166
Property and equipment, net	3,597	4,215
Intangible assets, net	7,581	6,541
Goodwill	4,140	4,140
Other assets	370	299
Total assets	\$ 107,502	\$ 102,361
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 30,555	\$ 25,417
Accrued compensation	3,899	4,385
Accrued expenses	4,171	5,479
Deferred revenue	1,371	1,394
Restructuring accrual	1,664	1,183
Current portion of long-term note payable	275	210
Total current liabilities	41,935	38,068
Long-term note payable	71	
Other long-term liabilities	1,118	763
Total liabilities	43,124	38,831
<b>Commitments and Contingencies</b>		
<b>Stockholders Equity:</b>		
Preferred stock, \$.001 par value, 10,000 shares authorized, zero shares issued and outstanding at December 31, 2010 and June 30, 2011		
Common stock, \$.001 par value, 100,000 shares authorized, 55,953 and 57,192 shares issued and outstanding at December 31, 2010 and June 30, 2011, respectively	56	57
Additional paid-in capital	315,257	317,652
Accumulated other comprehensive loss	(3,584)	(3,612)
Accumulated deficit	(247,351)	(250,567)

<b>Total stockholders equity</b>	64,378	63,530
<b>Total liabilities and stockholders equity</b>	<b>\$ 107,502</b>	<b>\$ 102,361</b>

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,	
	2010	2011	2010	2011
NET REVENUE	\$ 65,493	\$ 53,179	\$ 125,467	\$ 102,353
COST OF GOODS SOLD	55,824	39,984	107,673	77,056
GROSS PROFIT	9,669	13,195	17,794	25,297
OPERATING EXPENSES:				
Research and development	8,447	8,946	16,220	16,932
Sales and marketing	3,379	3,649	6,740	6,682
General and administrative	2,225	2,437	5,301	4,778
Restructuring charge (recoveries)	1,413	37	1,702	(4)
Total operating expenses	15,464	15,069	29,963	28,388
OPERATING LOSS	(5,795)	(1,874)	(12,169)	(3,091)
OTHER INCOME:				
Interest income (expense), net	4	(5)	7	(11)
Other Income (expense), net	(8)	(1)	(15)	1
Total other income (expense), net	(4)	(6)	(8)	(10)
LOSS BEFORE INCOME TAXES	(5,799)	(1,880)	(12,177)	(3,101)
INCOME TAX EXPENSE	35	65	84	115
NET LOSS	\$ (5,834)	\$ (1,945)	\$ (12,261)	\$ (3,216)
NET LOSS PER SHARE:				
Basic and diluted	\$ (0.11)	\$ (0.04)	\$ (0.23)	\$ (0.06)
WEIGHTED AVERAGE SHARES USED TO CALCULATE NET LOSS PER SHARE:				
Basic and diluted	53,246	54,737	52,397	54,536
COMPREHENSIVE LOSS:				
Net loss	\$ (5,834)	\$ (1,945)	\$ (12,261)	\$ (3,216)
Foreign currency translation adjustment	(46)	(19)	(39)	(28)
Comprehensive loss	\$ (5,880)	\$ (1,964)	\$ (12,300)	\$ (3,244)

Edgar Filing: DOT HILL SYSTEMS CORP - Form 10-Q

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)**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2011</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (12,261)	\$ (3,216)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	1,999	2,164
Adjustment to contingent consideration	(285)	
Stock-based compensation expense	1,763	2,537
<b>Changes in operating assets and liabilities, net of effects of business acquisition:</b>		
Accounts receivable	(1,147)	4,298
Inventories	(3,327)	2,050
Prepaid expenses and other assets	(809)	(850)
Accounts payable	(875)	(5,305)
Accrued compensation and other expenses	(1,698)	1,254
Deferred revenue	458	23
Restructuring accrual	732	(481)
Other long-term liabilities	(459)	(355)
Net cash provided by (used in) operating activities	(15,909)	2,119
<b>Cash Flows From Investing Activities:</b>		
Acquisition, net of cash acquired	(625)	
Purchases of property and equipment	(655)	(1,578)
Net cash used in investing activities	(1,280)	(1,578)
<b>Cash Flows From Financing Activities:</b>		
Principal payment of note and loan payable	(904)	