AVOCENT CORP
Form 10-Q
August 07, 2009
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	**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

o	**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: 000-30575

AVOCENT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**91-2032368**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
4991 Corporate Drive **Huntsville, Alabama**	**35805**
(Address of Principal Executive Offices)	(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. x Yes o 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 o No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes o No x

As of August 4, 2009, the number of outstanding shares of the Registrant s Common Stock was 44,351,911.

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AVOCENT CORPORATION

FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AVOCENT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Net sales:				
Products	$ 85,140	$ 123,088	$ 170,264	$ 231,169
Licenses and royalties	23,508	25,998	46,237	49,815
Services	19,983	10,096	38,192	19,597
Total net sales	128,631	159,182	254,693	300,581
Cost of sales:				
Products	37,375	52,609	76,851	96,330
Licenses and royalties	466	668	935	1,369
Services	5,275	3,248	9,584	6,324
Amortization of intangibles related to licenses and royalties	4,132	2,768	8,690	5,535
Total cost of sales (including stock compensation of $238 and $461 for the three and six months ended June 30, 2009; $257 and $500 for the three and six months ended June 27, 2008)	47,248	59,293	96,060	109,558
Gross profit	81,383	99,889	158,633	191,023
Research and development expenses (including stock compensation of $1,282 and $1,859 for the three and six months ended June 30, 2009; $1,340 and $2,355 for the three and six months ended June 27, 2008)	21,038	24,361	41,529	47,728
Selling, general and administrative expenses (including stock compensation of $3,353 and $5,798 for the three and six months ended June 30, 2009; $2,622 and $5,302 for the three and six months ended June 27, 2008)	50,172	57,445	97,339	112,564
Restructuring, integration and retirement expenses (including stock compensation of ($45) and $4 for the three and six months ended June 30, 2009; $1,904 and $2,519 for the three and six months ended June 27, 2008)	1,530	4,730	6,825	7,701
Amortization of intangible assets	7,950	7,617	18,063	15,152
Impairment of goodwill			80,000	
Total operating expenses	80,690	94,153	243,756	183,145

Income (loss) from operations	693	5,736	(85,123)	7,878
Net investment income	134	671	285	1,568
Interest expense	(1,992)	(1,810)	(4,234)	(3,647)
Other income (expense), net	32	(95)	(1,164)	360
Income (loss) before provision (benefit) for income taxes	(1,133)	4,502	(90,236)	6,159
Provision (benefit) for income taxes	2,213	1,059	(26,965)	1,985
Net income (loss)	$ (3,346)	$ 3,443	$ (63,271)	$ 4,174
Earnings (loss) per share:				
Basic	$ (0.08)	$ 0.08	$ (1.42)	$ 0.09
Diluted	$ (0.08)	$ 0.08	$ (1.42)	$ 0.09
Weighted average shares used in computing earnings (loss) per share:				
Basic	44,320	44,731	44,556	45,469
Diluted	44,320	45,378	44,556	46,126

See notes accompanying these condensed consolidated financial statements.

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Avocent Corporation

Consolidated Balance Sheets

(Unaudited, in thousands, except per share data)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107,050	$ 126,858
Accounts receivable, less allowance for doubtful accounts of $3,807 and $4,548 at June 30, 2009 and December 31, 2008, respectively	95,132	122,133
Other receivables	7,672	12,281
Inventories	35,861	31,516
Other current assets	6,136	5,209
Deferred tax assets, net	5,163	6,885
Total current assets	257,014	304,882
Property and equipment, net	34,927	38,197
Goodwill	535,529	616,326
Other intangible assets, net	153,820	180,276
Deferred tax asset, non-current	43,395	10,873
Other assets	3,573	3,616
Total assets	$ 1,028,258	$ 1,154,170
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,873	$ 17,494
Accrued wages and commissions	23,691	30,966
Accrued liabilities	30,438	42,027
Income taxes payable	15,130	11,678
Deferred revenue, current	66,409	66,248
Total current liabilities	148,541	168,413
Unsecured bank credit facility	140,000	170,000
Deferred revenue, non-current	6,481	9,572
Other non-current liabilities	3,317	4,028
Total liabilities	298,339	352,013
Commitments and contingencies *(see Note 13)*		
Stockholders equity:		
Preferred stock, par value $0.001 per share; 5,000 shares authorized; no shares issued and outstanding		
Common stock, par value $0.001 per share; 200,000 shares authorized; June 30, 2009 55,223 shares issued and 44,396 outstanding; December 31, 2008 54,533 shares issued and 44,706 outstanding;	55	55
Additional paid-in capital	1,231,366	1,230,840
Accumulated other comprehensive income (loss)	1,172	(1,606)
Accumulated deficit	(256,518)	(193,247)
Treasury stock, at cost; June 30, 2009, 10,827 shares; December 31, 2008, 9,827 shares;	(246,156)	(233,885)
Total stockholders equity	729,919	802,157

Total liabilities and stockholders equity	$	1,028,258	$	1,154,170

See notes accompanying these condensed consolidated financial statements.

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AVOCENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Cash flows from operating activities:		
Net income (loss)	$ (63,271)	$ 4,174
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,363	4,890
Amortization of intangible assets	27,007	21,033
Stock-based compensation	8,113	10,671
Net loss on disposition of fixed assets	82	428
Impairment of goodwill	80,000	
Tax adjustments from stock-based compensation	2,961	(9)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	29,619	(1,367)
Inventories	(4,313)	2,396
Other assets	3,874	1,324
Accounts payable	(6,448)	(899)
Accrued wages and commissions	(7,275)	3,197
Accrued other liabilities and deferred revenue	(15,944)	846
Income taxes, current and deferred	(30,759)	(7,807)
Net cash provided by operating activities	28,009	38,877
Cash flows from investing activities:		
Purchase of other intangible assets	(462)	(1,921)
Additional consideration paid for LANDesk and Touchpaper	(4,077)	
Purchases of property and equipment	(1,724)	(5,011)
Proceeds from sale of property and equipment	622	
Maturities and proceeds from sales of investments		5,942
Net cash used in investing activities	(5,641)	(990)
Cash flows from financing activities:		
Borrowings (payments) under unsecured line of credit, net	(30,000)	35,000
Proceeds from employee stock plans	1,216	633
Tax adjustments from stock-based compensation	(2,961)	9
Purchases of treasury stock	(12,271)	(64,449)
Net cash used in financing activities	(44,016)	(28,807)
Effect of exchange rate changes on cash and cash equivalents	1,840	2,670
Net increase (decrease) in cash and cash equivalents	(19,808)	11,750
Cash and cash equivalents at beginning of period	126,858	105,183
Cash and cash equivalents at end of period	$ 107,050	$ 116,933

See notes accompanying these condensed consolidated financial statements.

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods shown. The results of operations for these periods are not necessarily indicative of the results expected for the full fiscal year nor for any future period. 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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, 2008, which is on file with the Securities and Exchange Commission and is available at our website, www.avocent.com. The consolidated balance sheet presented in the accompanying condensed consolidated financial statements for December 31, 2008, was derived from the audited financial statements filed in our 10-K for the period ended December 31, 2008, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

We report our annual results based on years ending December 31. Prior to 2009, we reported 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. Beginning January 1, 2009, we began reporting our quarterly periods based on the calendar month end to better align our quarter ends with those of our customers and others within our industry.

Certain reclassifications have been made to the prior year s condensed consolidated financial statements in order to conform to the 2009 presentation. These reclassifications had no effect on previously reported net income, net cash provided by operating activities, net cash provided by investing activities nor total stockholders equity.

Our financial statements are consolidated and include the accounts of Avocent Corporation and our wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Note 2. Inventories

Inventories consisted of the following at:

	June 30, 2009	December 31, 2008
Raw materials	$ 2,961	$ 525
Work-in-process	1,007	308
Finished goods	31,893	30,683
Inventories	$ 35,861	$ 31,516

Inventories above have been reduced by reserves for excess and obsolete inventories of $5,508 and $6,401 as of June 30, 2009 and December 31, 2008, respectively.

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

Note 3. Equity and Treasury Stock

We issued common stock as a result of stock option exercise activity during the three and six months ended June 30, 2009 and June 27, 2008 as follows:

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Stock option exercises	13,000	47,000	26,000	64,000

We issued common stock as a result of restricted stock unit (RSU) vesting activity during the three and six months ended June 30, 2009 and June 27, 2008 as follows:

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Net RSUs issued				
RSU s vested	98,000	24,000	839,000	569,000
Shares withheld for tax	(28,000)	(9,000)	(247,000)	(168,000)
Net RSUs issued	70,000	15,000	592,000	401,000

Share repurchase activity during the three and six months ended June 30, 2009 and June 27, 2008 was as follows:

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Shares repurchased		88,000	1,000,000	4,000,000

RSUs granted During the first six months of 2009, our Compensation Committee approved the grant of 779,000 restricted stock units to our employees, officers and directors. Of these grants, 479,000 were time-based and 300,000 were based on market or performance conditions. During the first six months of 2008, our Compensation Committee approved the grant of 1,154,000 restricted stock units to our employees, officers and directors. Of these grants, 728,000 were time-based and 426,000 were based on market or performance conditions.

Note 4. Accumulated Other Comprehensive Income (Loss)

We record our foreign currency translation adjustments and unrealized gains and losses on derivatives which are cash flow hedges, net of tax, within accumulated other comprehensive income (loss), which is included as a separate component of stockholders equity. Comprehensive income (loss) for the six months ended June 30, 2009 and June 27, 2008 is as follows:

	For the six months ended	
	June 30, 2009	June 27, 2008
Comprehensive income (loss)		
Net income (loss)	$ (63,271)	$ 4,174
Unrealized gains on cash flow hedge	534	446
Foreign currency translation adjustment	2,244	2,367
Total comprehensive income (loss)	$ (60,493)	$ 6,987

As of June 30, 2009 and December 31, 2008, total accumulated other comprehensive income (loss) was $1,172 and $(1,606), respectively.

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

Note 5. Earnings (Loss) Per Share (share data in thousands)

	Income (Loss) (Numerator)	Shares (Denominator)	Per-Share Amount
For the three months ended June 30, 2009			
Basic EPS			
Net loss available to common stockholders	$ (3,346)	44,320	$ (0.08)
Effect of Dilutive Securities			
Stock options and unvested RSUs			
Diluted EPS			
Net loss available to common stockholders and assumed conversions	$ (3,346)	44,320	$ (0.08)
For the three months ended June 27, 2008			
Basic EPS			
Net income available to common stockholders	$ 3,443	44,731	$ 0.08
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		647	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 3,443	45,378	$ 0.08
For the six months ended June 30, 2009			
Basic EPS			
Net loss available to common stockholders	$ (63,271)	44,556	$ (1.42)
Effect of Dilutive Securities			
Stock options and unvested RSUs			
Diluted EPS			
Net loss available to common stockholders and assumed conversions	$ (63,271)	44,556	$ (1.42)
For the six months ended June 27, 2008			
Basic EPS			
Net income available to common stockholders	$ 4,174	45,469	$ 0.09
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		657	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 4,174	46,126	$ 0.09

Anti-dilutive options to purchase common stock outstanding were excluded from the calculations above. Anti-dilutive options and anti-dilutive RSUs totaled 4,627 and 4,840 for the three and six months ended June 30, 2009, respectively. Anti-dilutive options and anti-dilutive RSUs totaled 4,451 and 4,169 for the three and six months ended June 27, 2008, respectively.

Note 6. Segment Reporting

In the third quarter of 2008, we began the process of dissolving the Connectivity and Control business unit and merging its products into our remaining business units. We divided this business unit into its three product lines: the Equinox branded serial business, the Broadcast business and the Pro Audio Visual business. We folded the broadcast product line into Management Systems in the third quarter of 2008. We folded the serial product line into Corporate in the second quarter of

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

2009. We will fold the Pro Audio Visual product line into Managements Systems during Q3 2009. Due to the immateriality of the last remaining product line in the second quarter of 2009, we have combined this residual business unit s results with Corporate and other in the tables below. As a result of these actions, all revenues and costs associated with our Connectivity and Control business are included within either Management Systems or combined with Corporate and other in the tables below. Additionally, historical segment results for both Management Systems and Corporate have been adjusted to reflect these changes and the Connectivity and Control business unit has now been effectively dissolved.

We evaluate the performance of our segments based on revenue and operating profit, which are calculated before corporate and unallocated costs, amortization and impairment of intangibles, acquired in-process research and development expense, restructuring, integration and retirement expenses and stock compensation costs. We do not track nor use assets by segment as a measure of performance, therefore, we have not presented assets by segment. The following is a presentation of information for our two reportable segments, Management Systems and LANDesk:

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Net revenue:				
Management Systems	$ 89,252	$ 123,669	$ 178,654	$ 232,424
LANDesk	36,716	31,842	71,166	61,035
Corporate, other and unallocated	2,663	3,671	4,873	7,122
Total net revenue	$ 128,631	$ 159,182	$ 254,693	$ 300,581

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
Operating income (loss):				
Management Systems	$ 18,133	$ 30,100	$ 34,161	$ 57,766
LANDesk	6,592	3,931	12,221	4,541
Corporate, other and unallocated costs	(5,547)	(8,796)	(9,809)	(17,717)
Amortization of intangibles and other expenses	(12,082)	(10,550)	(26,753)	(20,854)
Impairment of goodwill			(80,000)	
Restructuring, integration and retirement expenses	(1,575)	(2,826)	(6,821)	(5,182)
Stock-based compensation expense	(4,828)	(6,123)	(8,122)	(10,676)
Total income (loss) from operations	$ 693	$ 5,736	$ (85,123)	$ 7,878

Sales by product line for Management Systems and LANDesk for the three and six months ended June 30, 2009 and June 27, 2008 are as follows:

	For the three months ended		For the six months ended	
	June 30, 2009	June 27, 2008	June 30, 2009	June 27, 2008
Management Systems net revenue:				
KVM	$ 62,191	$ 94,328	$ 124,392	$ 174,278
Serial management	7,424	13,336	14,621	26,055
Embedded software and solutions	6,261	8,405	12,238	16,752
Other	13,376	7,600	27,403	15,339
Total Management Systems net revenue	$ 89,252	$ 123,669	$ 178,654	$ 232,424

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

	For the three months ended June 30, 2009	For the three months ended June 27, 2008	For the six months ended June 30, 2009	For the six months ended June 27, 2008
LANDesk net revenue:				
Licenses and royalties	$ 17,531	$ 18,785	$ 34,722	$ 35,827
Maintenance and services	19,185	13,057	36,444	25,208
Total LANDesk net revenue	$ 36,716	$ 31,842	$ 71,166	$ 61,035

We sell our products internationally to customers in several countries; however no foreign country accounted for more than 10% of sales in the first six months of 2009 or 2008.

Following is a presentation of long-lived assets as of June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Long-lived assets:		
United States	$ 26,438	$ 28,176
International	8,489	10,021
Total	$ 34,927	$ 38,197

Note 7. Forward Contracts and Interest Rate Swaps

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 income. As of June 30, 2009, we had six open forward contracts with an approximate fair value of ($35). As of December 31, 2008, we had four open forward contracts with an approximate fair value of $26.

There was $140,000 outstanding under our credit facility, which includes both our line of credit and term loan, as of June 30, 2009. The line of credit and term loan contain affirmative and negative covenants, including limitations on our ability to (i) make distributions, investments, and other payments unless we satisfy certain financial tests or other criteria, (ii) incur additional indebtedness, (iii) restructure our subsidiaries, and (iv) make acquisitions and capital expenditures. The financial tests include an interest coverage ratio and a total leverage ratio. We are in compliance with these covenants and related tests as of June 30, 2009. Failure to comply with these covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on us. We pay a commitment fee on the unused portion of the line of credit based on the results of a leverage ratio computation. As of June 30, 2009, the commitment fee rate is 20 basis points per quarter. The fair value of our unsecured bank credit facility approximates its carrying value at June 30, 2009, in accordance with SFAS No. 107 *Disclosures about*

Fair Value of Financial Instruments.

As of June 30, 2009, we have two interest rate swaps, which are recorded on our balance sheet. On May 1, 2008, we entered into an interest rate swap agreement with a notional amount of $80,000. The remaining notional amount of this interest rate swap was $40,000 as of June 30, 2009. The swap was effective on May 1, 2008 and terminates on December 31, 2009. The swap calls for us to make fixed rate payments of 3.05% over the term of the hedge and to receive floating rate payments based on LIBOR (matching the LIBOR rate in the line of credit above) from the counter-party. On November 6, 2008 we entered into an additional interest rate swap agreement with a notional amount of $90,000. The notional amount of this interest rate swap will remain at $90,000 until the termination on June 16, 2011. The swap was effective on December 31, 2008. The swap calls for us to make fixed rate payments of 2.75% over the term of the hedge and to receive floating rate payments based on LIBOR (matching the LIBOR rate in the term loan above) from the counter-party.

The objective of the interest rate swap agreements is to provide a hedge against LIBOR interest rate changes that could have an effect on our cash flows and borrowing costs. We anticipate these hedges will be settled upon maturity and they are accounted for as cash flow hedges. The interest rate swaps are recorded at fair value each reporting period with the changes in the fair value of the hedge that take place through the date of maturity recorded in accumulated other comprehensive income (loss).

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

These interest rate swaps qualify as derivative instruments and are designated as cash flow hedges. We do not expect any material amounts to be reclassified into earnings, as a result of interest rate swap ineffectiveness, within the next twelve months. The cash flow hedges were in a liability position as of June 30, 2009 and were included in other non-current liabilities in the consolidated balance sheet, as follows:

		June 30, 2009
Cash flow hedges:		
Interest rate swaps	$	2,624

For the six months ended June 30, 2009, the activity related to our interest rate swaps designated as cash flow hedges is included in our condensed consolidated financial statements as follows:

		Effective Portion Included in OCI, Net of Tax		June 30, 2009 Effective Portion in AOCI, Reclassified into Earnings		Ineffectiveness, Excluded from Hedge Effectiveness
Cash flow hedges:						
Interest rate swaps	$	534	$		$	

Note 8. Goodwill and Other Intangible Assets

Other intangible assets subject to amortization were as follows:

	June 30, 2009				December 31, 2008			
		Gross Carrying Amounts		Accumulated Amortization		Gross Carrying Amounts		Accumulated Amortization
Developed technology	$	84,437	$	39,639	$	86,285	$	31,401
Internally developed software for resale		21,900		10,342		21,900		8,517
Patents and trademarks		31,678		13,085		31,236		10,915
Customer base		110,900		44,078		116,121		39,388
Maintenance contracts		17,600		6,640		17,600		5,280
Non-compete agreements		7,225		6,136		11,325		8,690
	$	273,740	$	119,920	$	284,467	$	104,191

For the three months ended June 30, 2009 and June 27, 2008, amortization expense for other intangible assets was $12,255 and $10,579, respectively. For the six months ended June 30, 2009 and June 27, 2008, amortization expense for other intangible assets was $27,007 and $21,033, respectively. The approximate estimated annual amortization for other intangibles is as follows:

Years ending December 31:		
2009, remainder	$	23,722
2010	$	46,504
2011	$	38,170
2012	$	29,052
2013	$	16,036
Thereafter	$	336

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(Unaudited, in thousands, except share data)

In accordance with FASB Statement No. 142, *Goodwill and Intangible Assets* (SFAS 142), we evaluate the carrying value of goodwill for potential impairment annually during the fourth quarter of each year or on an interim basis if an event occurs or circumstances change that indicate that the fair value of a reporting unit is likely to be below its carrying value. Our fourth quarter 2008 impairment test concluded that there had been no impairment of goodwill; however there were certain factors noted during the 2008 testing that would require continued monitoring, especially related to any potential future decline in our market capitalization. During the first quarter of 2009, we concluded that interim impairment testing was required due to the continued deterioration in the global economic environment, the resulting decrease in our market capitalization to less than the book value of our shareholders equity, and declining market valuations for many other companies in our peer group. Additionally, we revisited our five year forecast in light of the continuing global recession. Based on that trend, we revised our five year forecast to reduce our estimated revenues and expenses.

As of June 30, 2009 we have three reporting units: Management Systems (MS), LANDesk and AESS, which is combined with MS for segment reporting purposes. We perform our goodwill impairment test in two steps. Step one compares the fair value of each reporting unit to its carrying amount. If step one indicates that an impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the estimated fair value of goodwill is less than its carrying value.

For purposes of the interim step one analysis, the fair value of our reporting units was determined through the use of a combination of a discounted cash flow analysis, utilizing the income approach, and the guideline public company method, utilizing a market approach. The result of each valuation was weighted in determining the fair value of the reporting units. Under the market approach, the fair value of each reporting unit is determined based upon comparisons to public companies engaged in similar businesses. Under the income approach, the fair value of each reporting unit was based on the present value of estimated future cash flows. The income approach is dependent on a number of significant management assumptions including estimated demand in each geographic market and the discount rate. The discount rate is commensurate with the risk inherent in the projected cash flows and reflects an assumed rate of return required by an investor in the current economic conditions. Based on our assessment of the market conditions, the weighting applied to the market approach for the March 1, 2009 valuation was decreased from 50% to 40% and the weighting for the income approach was increased from 50% to 60%, as compared to the assumptions as of October 1, 2008, the date used for our most recent prior impairment testing. We believe that this change was appropriate as it reflects our longer term view, including our revised cash flow projections based on current expectations, while continuing to reflect the impact of declining equity values in this highly volatile equity market impacting our stock price and the stock price of many of our peers.

The results of our step one test as of March 1, 2009 indicated that the fair value of each of our reporting units had declined from 2008, however the estimated fair values exceeded their carrying value, with the exception of LANDesk. We estimated the fair value of our largest reporting unit, Management Systems, to be $184 million higher, or approximately 35%, than its carrying value of $520 million. Our remaining reporting units are not material to our financial statements, however we estimated the combined fair value of these reporting units to be $49 million higher, or well over double, their combined carrying value of $20 million.

As a result of our step one testing, we then performed step two testing for potential goodwill impairment on the LANDesk business unit. This testing identifies the identifiable tangible and intangible assets associated business unit and estimates the fair market value a potential acquirer would assign them. Any residual amount is considered to be applicable to goodwill and is compared to the current

carrying value of the related goodwill. Any unfavorable variance is considered as the impairment amount. Our step two testing resulted in an $80,000 impairment charge during our three months ended March 31, 2009 and is reflected in the following table.

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(Unaudited, in thousands, except share data)

The changes in the carrying amount of goodwill (*see note 11*) for the six months ended June 30, 2009, are as follows:

	Management Systems	LANDesk	Corporate and Other	Total
Balance as of January 1, 2009	$ 335,096	$ 278,709	$ 2,521	$ 616,326
Impairment loss related to LANDesk		(80,000)		(80,000)
Other adjustments	27	(824)		(797)
Balance as of June 30, 2009				
Goodwill	335,123	277,885	2,521	615,529
Accumulated impairment losses		(80,000)		(80,000)
	$ 335,123	$ 197,885	$ 2,521	$ 535,529

Note 9. Product Warranties and Deferred Revenue

The activity within the liability for warranty returns for the six months ended June 30, 2009 was as follows:

Balance, January 1, 2009	$ 2,245
Accruals for product warranties issued during the period	3,777
Settlements made during the period	(4,217)
Balance, June 30, 2009	$ 1,805

We include an accrued liability for the extended warranty program in our balance sheet within deferred revenue. The activity within deferred revenue for our extended warranty program for the six months ended June 30, 2009 was follows:

Balance January 1, 2009	$ 5,151
New extended warranty contracts	2,538
Earned revenue from amortization of deferred revenue	(2,108)

Balance June 30, 2009	$	5,581

We defer revenue for subscription, service and maintenance and upgrade protection contracts until earned, which is generally over the term of the contract or when services are performed. As of June 30, 2009, deferred revenue was $72,890. As of December 31, 2008, deferred revenue was $75,820.

Note 10. Income Taxes

The effective tax rate for the second quarter of 2009 was 195.3% compared to an effective tax rate of 23.5% for the second quarter of 2008. The provision for income taxes was $2,213 for the second quarter of 2009, compared to $1,059 for the second quarter of 2008. The effective tax rate for the first six months of 2009 was (29.9)% compared to an effective tax rate of 32.2% for the first six months of 2008. The provision for income taxes was a benefit of $26,965 for the first six months of 2009, compared to income tax expense of $1,985 for the first six months of 2008. The change in the effective tax rate was primarily attributable to the change in the amount and mix of our pretax book income within taxable jurisdictions and a tax benefit recognized to record a deferred tax asset associated with the goodwill impairment charge (*see note 8*).

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(Unaudited, in thousands, except share data)

We have considered FIN 18, (as amended by SFAS 109) which limits the amount of benefit that can be reflected in a year-to-date interim loss period to an amount equal to the anticipated benefit that would be derived from the anticipated cumulative loss for the entire reporting year. Our loss through June 30, 2009 exceeds the anticipated loss for the year and the tax benefit recognized through June 30, 2009 has been limited to the amount that would be recognized based on the anticipated full year loss. As of June 30, 2009, we have limited our benefit by $3,757.

As of June 30, 2009, we had total reserves for uncertain tax positions related to gross unrecognized tax benefits of $5,821, of which $4,479, if recognized, would affect the effective tax rate. We recognize potential accrued interest and penalties related to unrecognized tax benefits from our global operations within income tax expense. We recorded $67 of such expenses in the first six months of 2009. As of June 30, 2009, we had accrued interest payable related to the unrecognized tax benefits of $918.

We conduct business globally, and as a result our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examinations by taxing authorities throughout the world including the U.S. With few exceptions, we are no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations for periods ending before 2005.

The Internal Revenue Service (IRS) commenced an examination in 2006 of our U.S. income tax returns for 2004 and 2005. During the first quarter of 2008, we reached a settlement with the IRS concerning those periods. A payment for additional tax, including interest was made of $6,600 during the first quarter of 2008. This payment did not result in a material change to our financial position. The IRS is currently examining our 2006 and 2007 income tax returns. As of June 30, 2009 the IRS had not issued any proposed adjustments for those periods.

Note 11. Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* (SFAS 157), which was effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities, which include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and those initially measured at fair value in a business combination. We adopted the provisions of SFAS 157 that pertain to the nonfinancial assets and nonfinancial liabilities as of January 1, 2009.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified contractual term, a level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable inputs based on our own assumptions about the assumptions that market participants would use in pricing the assets or liabilities (including assumptions about risk), used to measure assets and liabilities at fair value. An asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2009:

		Fair value measurements		
	Total Carrying Value	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Money market funds	$ 49	$ 49		
Derivative liabilities	$ 2,624		$ 2,624	

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The fair market value of our money market funds is measured at fair value using quoted prices in active markets. These fair value measurements are classified within Level 1 of the valuation hierarchy.

The fair market value of over-the-counter derivatives is measured at fair value using expected cash flows over the life of the trade. The fair value measurement is prepared using the closing mid-market rate/price environment on June 30, 2009, using proprietary models, available market data and reasonable assumptions and includes a consideration of credit risk. These fair value measurements are classified within Level 2 of the valuation hierarchy.

The following table provides the indefinite lived intangible assets and liabilities carried at fair value, measured on a non-recurring basis during the six months ended June 30, 2009:

		Fair value measurements			
	Total Carrying Value	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total Gains (Losses)**
LANDesk goodwill	$ 197,885			$ 197,885	$ (80,000)

Our impairment testing for LANDesk, performed in accordance with SFAS 142, indicated that its implied fair value was less than its pre-adjusted carrying value of $277,885.   The fair value of LANDesk was determined through the combination of a discounted cash flow analysis, utilizing the income approach and a guideline public company method, utilizing a market approach (*see note 8*).

Note 12. Restructuring, Integration and Retirement

During 2008 we began a series of restructuring actions which continued into the first quarter of 2009. Also in 2008, we began the integration of our Ergo and Touchpaper acquisitions, each acquired in the third quarter of 2008. The restructuring and integration actions were designed to enhance competitiveness, improve efficiency, and reduce our overall cost structure. The restructuring and integration costs, along with costs associated with our former CEO s retirement incurred in the first quarter of 2008, have been separately identified as Restructuring, integration and retirement expenses within our operating expenses. Restructuring and integration expenses include severance charges incurred for certain workforce reductions and the costs associated with the relocation of certain functions from our Shannon, Ireland, Redmond, Washington and Shanghai, China facilities to Huntsville, Alabama.

We recorded $1,530 and $4,730 of such costs for the three months ended June 30, 2009 and June 27, 2008, respectively. These costs include stock compensation adjustments of $(45) and $1,904 during the three months ended June 30, 2009 and June 27, 2008, respectively. These costs also include $1,882 of integration costs related to the Ergo and Touchpaper acquisitions during the three months ended June 30, 2009. These costs include a reduction of approximately $350 of severance costs as a result of adjusting our severance cost accrual during the three months ended June 30, 2009. We recorded $6,825 and $7,701 of such costs for the six months ended June 30, 2009 and June 27, 2008, respectively. These costs include stock compensation costs of $4 and $2,519 during the six months ended June 30, 2009 and June 27, 2008, respectively. The costs in the first quarter of 2008 also include approximately $1,400 of costs settled in cash related to the retirement of our former CEO. The balance of costs in both periods relate to severance charges and other costs to be settled in cash.

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As of June 30, 2009, we had accrued approximately $2,054 related to severance costs, which were included in accrued wages and commissions in our consolidated balance sheet. All costs associated with our restructuring and integration program were carried at the corporate level, and none of these costs were allocated to specific business units. A rollforward of the liability for severance charges associated with our restructuring programs is as follows:

Balance as of January 1, 2009	$	3,585
Accruals for severance costs		3,427
Adjustments to accrual		(332)
Settlements made during the period		(4,626)
Balance as of June 30, 2009	$	2,054

We do not expect to record additional restructuring and integration expenses related to these actions after the second quarter of 2009. We did, however, initiate additional restructuring actions, primarily affecting our Fremont location, in July 2009 which are expected to result in additional expense of approximately $2,000 in the third quarter of 2009. We expect the remaining accruals to be paid by the beginning of the fourth quarter 2009.

Note 13. Legal Matters

In January 2007, we filed a complaint for patent infringement in the United States District Court for the Western District of Washington against Aten Technology, Inc., Aten International Co., Ltd, Belkin Corporation, Rose Electronics and its general partners, and Trippe Manufacturing Company. The defendants filed counterclaims alleging non-infringement, unenforceability, and invalidity. In May 2007, we entered into a Settlement and License Agreement with Trippe Manufacturing, and dismissed Trippe from the lawsuit. In October 2007, the District Court stayed the action pending a re-examination of our patents by the Patent and Trademark Office. The PTO has now confirmed the patentability of the patents and terminated the reexaminations. We have asked the District Court to restart the litigation. In July 2009, Rose filed new reexamination requests in the PTO against two of the three patents at issue in the litigation.

In January 2008, Avocent Redmond Corp. filed a complaint for unauthorized use of patented inventions against the United States government in the United States Court of Federal Claims. The complaint alleges that the United States government accepted products manufactured and sold by Rose Electronics that are covered by patents held by Avocent Redmond. The United States has answered, Rose Electronics has intervened, and a trial has been scheduled for June 2010.

In March 2007, KBM Enterprises, formerly a contract manufacturer for Avocent, filed a complaint against Avocent in the Circuit Court of Madison County, Alabama, seeking $9,500 for costs allegedly incurred by KBM in its manufacturing efforts on behalf of Avocent. We have filed an answer and counterclaims against KBM and one of its principals. Discovery is currently underway.

In November 2007, Gemini IP, LLC filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Avocent Corporation and our subsidiary LANDesk Software, Inc. The complaint alleges infringement of a Gemini patent through the sales of a LANDesk product. The complaint seeks injunctive relief, damages, attorneys fees, and costs. Avocent Corporation was dismissed from the lawsuit in January 2008. In April 2008, the District Court stayed the action pending a review of the Gemini Patent by the Patent and Trademark Office.

We intend to vigorously defend each of these matters, but the outcome of any claim, litigation, or proceeding is always inherently uncertain. Based on the facts and circumstances currently known to us, we believe that resolution of the foregoing matters will not materially affect our operations, financial condition, or cash flows.

Note 14. Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. Since we have significant acquired deferred tax assets for which full valuation allowances were recorded at the acquisition date, SFAS 141(R) could materially affect the results of operations if changes in the valuation allowances occur after adoption of the standard. We will assess the impact of SFAS 141(R) on future acquisitions, however the application of SFAS 141(R) will result in a significant change in accounting for any such future acquisitions.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information that would enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We adopted SFAS 161 on January 1, 2009 and it did not have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Lives of Intangible Assets , which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. This interpretation is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted the interpretation on January 1, 2009 and it did not have a material impact on our financial statements.

In April, 2009, the FASB issued FASB Staff Position (FSP) No. FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 provides guidance for determining whether a market is inactive and a transaction is distressed in order to apply the existing fair value measurement guidance in SFAS No. 157, Fair Value Measurements (SFAS 157). In addition, FSP FAS 157-4 requires enhanced disclosures regarding financial assets and liabilities that are recorded at fair value. This FSP is effective for interim and annual reporting periods ending after June 15, 2009. We adopted the interpretation on June 15, 2009 and it did not have a material impact on our financial statements.

In April 2009, the FASB released FSP Financial Accounting Standard (FAS) 107-1 and Accounting Principles Board (APB) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FAS 107-1 and APB 28-1). This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This FSP is effective for interim periods ending after June 15, 2009. We adopted FSP FAS 107-1 and APB 28-1 in the second quarter of 2009, and have provided the disclosures required for the period ending June 30, 2009.

In June 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 incorporates the subsequent events guidance contained in the auditing standards literature into authoritative accounting literature. It also requires entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. SFAS 165 is effective for all interim and annual periods ending after June 15, 2009. We adopted SFAS 165 upon its issuance and it had no material impact on our financial statements. See Note 1 - Basis of Presentation for this new disclosure.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 amends certain requirements of FASB Interpretation No. 46(R) to improve financial reporting by companies involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact that the adoption of SFAS 167 will have on our financial statements.

Note 15. Subsequent Events

We have evaluated subsequent events for recognition or disclosure through August 7, 2009, which was the date we filed this Form 10-Q with the SEC. During the period July 1, 2009, through August 7, 2009, we repurchased 150,000 shares of our common stock for $2,373. In July 2009, our Compensation Committee approved the grant of 580,000 restricted stock units to our employees.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

THE INFORMATION IN THIS ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND IN OTHER PARTS OF THIS FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, STATEMENTS RELATING TO OUR FUTURE BUSINESS PROSPECTS AND ECONOMIC CONDITIONS IN GENERAL; STATEMENTS REGARDING OUR ABILITY TO PREDICT FUTURE SALES AND MANAGE INVENTORY LEVELS; STATEMENTS REGARDING PRICING PRESSURE; STATEMENTS REGARDING THE FLUCTUATION OF OUR REVENUE GROWTH IN RELATION TO ECONOMIC CONDITIONS AND IT RELATED SPENDING TRENDS; STATEMENTS REGARDING OUR PRODUCT PLATFORMS AND OUR ABILITY TO RESUME GROWTH IN OUR OVERALL BUSINESS; STATEMENTS REGARDING INCREASED SALES OF OUR DIGITAL PRODUCTS AND EMBEDDED SOLUTIONS AND THEIR ABILITY TO OFFSET PRICE DECLINES AND COMPETITIVE FACTORS; STATEMENTS REGARDING OUR ANTICIPATED FUTURE GROSS MARGINS, RESEARCH AND DEVELOPMENT EXPENSES, AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES; AND STATEMENTS REGARDING THE OUTCOME OF, AND OUR LEGAL COSTS FOR, PATENT AND OTHER LEGAL CLAIMS, LITIGATION, AND PROCEEDINGS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN PART II, ITEM 1A RISK FACTORS.

Overview

Avocent Corporation designs, manufactures, licenses, and sells software and hardware products and technologies that provide connectivity and centralized management of information technology (IT) infrastructure. We (meaning Avocent and its wholly-owned subsidiaries) provide connectivity and systems management, endpoint security, and service management products and technologies that centralize control of servers, desktop computers, serial devices, wireless devices, mobile devices, and network appliances, thus increasing the efficiency of IT resources. Server manufacturers resell private-labeled Avocent KVM (keyboard, video, and mouse) switches, LCD trays, and embedded software and hardware technology in their systems, and companies large and small depend on our software and hardware products and technologies for managing their growing IT infrastructure.

For a more complete description of our products, technologies and markets please refer to our Form 10-K filed on February 27, 2009.

Most of our revenue is derived from sales to a limited number of OEMs (who purchase our products on a private-label or branded basis for integration and sale with their own products), sales through our reseller and distributor network, and sales to a limited number of direct customers. Sales to our branded customers accounted for 69% of sales in the first six months of 2009 and 67% of sales in the first six months of 2008. Sales to our OEM customers accounted for 31% of sales in the first six months of 2009 and 33% of sales in the first six months of 2008. We do not have contracts with many of our branded customers, and in general, our OEM and branded business customers are obligated to purchase products from us only pursuant to binding purchase orders. Although we are not substantially dependent on any one OEM customer, the loss of, or material decline in orders from, these customers would have a material adverse effect on our business, financial condition, results of operations, and cash flows. Our top five customers include both OEM and branded customers, and accounted for 46% and 48% of sales in the first six months of 2009 and 2008, respectively.

We sell products to resellers, distributors, end-users, and OEMs in the United States, Canada, Europe, and Asia as well as in other foreign markets. Sales within the United States accounted for approximately 50% and 55% of first six months sales in 2009 and 2008, respectively.

Outside the United States, no other country accounted for more than 10% of sales in the first six months of 2009 or 2008.

With continued industry-wide initiatives to reduce all channel inventories and to shorten lead times, trends with our major customers are, generally, to reduce the number of weeks of forward-committed firm orders. This trend continues to affect our business with certain distributors, OEMs, and other server manufacturers, and we believe that it will continue to make our future sales more difficult to predict and inventory levels more difficult to manage. We monitor inventories of our products owned by our major distribution partners and we strive to maintain a level of inventory in our own facilities to service these customers, and monitor these levels to minimize potential exposure of having excessive inventory on hand. A change in the amount of inventory held by a customer in any one period could adversely affect our revenues through reduced orders in that or a subsequent period which could have a material impact on our business, financial condition, results of operations, and cash flows.

We experience significant price competition in the market for most of our products, and we expect that pricing pressures will continue in the future. In addition, our business and operating results depend to a significant extent on economic conditions in general and on IT spending in particular, and we expect our revenue growth rate to fluctuate in relation to economic conditions and IT related spending trends. Any adverse change in IT spending due to adverse economic conditions, declining capital spending levels, or other factors could have a material adverse effect on our business, financial condition, and results of operations. World-wide efforts to cut

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capital spending, general economic uncertainty, and a weakening global economy could have a material adverse effect on us. For example, in recent periods global credit and other financial markets have suffered substantial stress, volatility, illiquidity, and disruption. This financial crisis and the current global recession could have an impact on our business in a variety of ways, including insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of our products and customer insolvencies. As we evaluate anticipated impacts from the global economic uncertainties, we periodically adjust our spending and related headcount to mitigate the overall impact on our financial results of any anticipated negative changes. We continually monitor the financial health of our key suppliers and customers by constant reviews of our accounts receivable aging and open purchase orders to ensure our customers are paying in a timely fashion and our suppliers are meeting our needs so that we can service our customers.

Many of our executive officers and directors are vested in significant amounts of options to purchase shares of our common stock and RSUs. These officers and directors have informed us that they have sold, and may sell additional, shares of our common stock to provide liquidity and diversify their portfolios. During the first and second quarters of 2009 and 2008, our Board of Directors granted both time-based and market and performance condition-based restricted stock units (RSUs) with two and three year vesting.

During the first six months of 2009, we had the following business units: Management Systems, which includes our branded and OEM KVM, embedded software, serial console, power control, LCD tray, and management appliance businesses; LANDesk, which includes systems, security, and service management solutions for desktops, servers, and mobile devices across the enterprise; and Connectivity and Control, which focuses on our audio-visual products.

We believe our business units allow us to focus on new technology and growth opportunities and to add product and shareholder value in the future. We believe this structure enhances customer service, speeds delivery of products to market and better focuses our research, development, and marketing resources. In the third quarter of 2008, we began the process of dissolving the Connectivity and Control business unit and merging its products into our remaining business units. We divided this business unit into its three product lines: the Equinox branded serial business, the Broadcast business and the Pro Audio Visual business. We folded the broadcast product line into Management Systems in the third quarter of 2008. We folded the serial product line into Corporate in the second quarter of 2009. We will fold the Pro Audio Visual product line into Managements Systems during Q3 2009. Due to the immateriality of the last remaining product line in the second quarter of 2009, we have combined this residual business unit s results with Corporate and other. As a result of these actions, all revenues and costs associated with our Connectivity and Control business are included within either Management Systems or combined with Corporate and other in the relevant tables in this quarterly report. Additionally, historical segment results for both Management Systems and Corporate have been adjusted to reflect these changes and the Connectivity and Control business unit has now been effectively dissolved.

Our largest business unit, Management Systems, comprised 70% of our consolidated net revenue in the first six months of 2009 and 77% in 2008. LANDesk contributed 28% of net revenue to the first half of 2009 and 20% in 2008. Our Corporate and unallocated revenue comprised the remaining percentage of our consolidated net revenue in 2009 and 2008. See Note 6 in the notes to the condensed consolidated financial statements contained in Part I, Item 1 of this document.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of income data expressed as a percentage of net sales:

	Three months ended		Six months ended	
	June 30, 2009	June 27, 2008	June 30, 2009	June 27, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	36.7	37.2	37.7	36.4
Gross profit	63.3	62.8	62.3	63.6
Operating expenses:				
Research and development expenses	16.4	15.3	16.3	15.9
Selling, general and administrative expenses	39.0	36.1	38.2	37.4
Restructuring, integration and retirement expenses	1.2	3.0	2.7	2.6
Amortization of intangible assets	6.2	4.8	7.1	5.0
Impairment of goodwill			31.4	
Total operating expenses	62.8	59.2	95.7	