

GLENAYRE TECHNOLOGIES INC

Form 10-Q

May 06, 2003

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **March 31, 2003**

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 **0-15761**

GLENAYRE TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

98-0085742

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

11360 LAKEFIELD DRIVE, DULUTH, GEORGIA

30097

(Address of principal executive offices)

(Zip Code)

(770) 283-1000

(Registrant's telephone number, including area code)

NOT APPLICABLE

(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 is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares outstanding of the Registrant's common stock, par value \$.02 per share, at May 5, 2003 was 65,549,488 shares.

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Glenayre Technologies, Inc. and Subsidiaries

Independent Auditors Review Report

To the Board of Directors and Stockholders of
Glenayre Technologies, Inc.
Atlanta, Georgia

We have reviewed the accompanying condensed consolidated balance sheet of Glenayre Technologies, Inc. and subsidiaries as of March 31, 2003 and the related condensed consolidated statements of operations for the three-month period ended March 31, 2003 and 2002, the condensed consolidated statement of stockholders' equity for the three-month period ended March 31, 2003 and the condensed consolidated statements of cash flows for the three-month period ended March 31, 2003 and 2002. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States.

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Glenayre Technologies, Inc. as of December 31, 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated February 14, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Atlanta, Georgia
April 28, 2003

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CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	March 31, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47,268	\$ 64,333
Short-term investments	50,569	43,884
Accounts receivable, net	10,850	5,584
Inventories, net	7,884	6,943
Assets, net, discontinued operations	11,204	11,709
Prepaid expenses and other current assets	5,960	6,698
	<u>133,735</u>	<u>139,151</u>
Property, plant and equipment, net	7,141	5,858
Other assets	679	795
	<u>141,555</u>	<u>145,804</u>
TOTAL ASSETS	\$ 141,555	\$ 145,804
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 4,925	\$ 3,226
Accrued liabilities	24,421	22,497
Accrued liabilities, discontinued operations	9,547	10,574
	<u>38,893</u>	<u>36,297</u>
Total Current Liabilities	38,893	36,297
Other liabilities	6,080	6,416
Accrued liabilities, discontinued operations noncurrent	13,227	15,299
Stockholders Equity:		
Preferred stock, \$.01 par value; authorized: 5,000,000 shares, no shares issued and outstanding		
Common stock, \$.02 par value; authorized: 200,000,000 shares, outstanding: 2003 - 65,548,321 shares; 2002 - 65,448,353 shares	1,310	1,308
Contributed capital	361,573	361,485
Accumulated deficit	(279,528)	(275,001)
	<u>83,355</u>	<u>87,792</u>
Total Stockholders Equity	83,355	87,792
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 141,555	\$ 145,804

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
REVENUES:		
Product sales	\$ 9,407	\$ 19,336
Service revenues	3,936	4,098
	13,343	23,434
COST of REVENUES (exclusive of depreciation and amortization shown separately below):		
Cost of sales	3,716	6,294
Cost of services	2,601	2,284
	6,317	8,578
	7,026	14,856
GROSS MARGIN (exclusive of depreciation and amortization shown separately below):		
OPERATING EXPENSES:		
Selling, general and administrative expense	7,956	7,966
Provision for doubtful receivables, net of recoveries	(168)	61
Research and development expense	5,209	4,332
Restructuring expense (credit)	222	(210)
Depreciation expense	144	2,229
	13,363	14,378
OPERATING INCOME (LOSS)	(6,337)	478
OTHER INCOME (EXPENSES):		
Interest income, net	425	479
Gain (loss) on disposal of assets, net	14	(68)
Realized and unrealized loss on securities, net		(372)
Other, net	93	71
	532	110
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(5,805)	588
Provision (benefit) for income taxes	28	(2,413)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(5,833)	3,001
INCOME FROM DISCONTINUED OPERATIONS	1,306	77
NET INCOME (LOSS)	\$ (4,527)	\$ 3,078
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE:		
Income (loss) from continuing operations	\$ (0.09)	\$ 0.05
Discontinued operations	0.02	0.00

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Net income (loss) per weighted average common share	\$ (0.07)	\$ 0.05
	<u> </u>	<u> </u>
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION:		
Income (loss) from continuing operations	\$ (0.09)	\$ 0.04
Discontinued operations	0.02	0.00
	<u> </u>	<u> </u>
Net income (loss) per weighted average common share	\$ (0.07)	\$ 0.04
	<u> </u>	<u> </u>

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Contributed Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balances, January 1, 2003	65,448	\$ 1,308	\$ 361,485	\$(275,001)	\$ 87,792
Net and comprehensive loss				(4,527)	(4,527)
Shares issued for ESP Plan and option exercises	136	3	121		124
Repurchase of common stock	(36)	(1)	(33)		(34)
Balances, March 31, 2003	65,548	\$ 1,310	\$ 361,573	\$(279,528)	\$ 83,355

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
NET CASH USED IN OPERATING ACTIVITIES	\$ (9,054)	\$ (81)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,416)	(399)
Proceeds from sale of building and equipment		4,492
Investment in short-term securities	(6,685)	(5,000)
Proceeds from sale of available-for-sale securities		242
NET CASH USED IN INVESTING ACTIVITIES	(8,101)	(665)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	124	324
Purchase of treasury stock	(34)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	90	324
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17,065)	(422)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	64,333	89,149
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 47,268	\$ 88,727
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 33	\$ 12
Income taxes	10	12

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Glenayre Technologies, Inc. and subsidiaries (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period's financial information to conform with the presentation used in 2003. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Glenayre's financial results in any quarter are highly dependent upon various factors, including the timing and size of customer orders and the shipment of products for large orders. Large orders from customers can account for a significant portion of products shipped in any quarter. Accordingly, the shipment of products in fulfillment of such large orders can dramatically affect the results of operations of any single quarter.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual amounts may differ from those estimates.

For further information, refer to the consolidated financial statements and footnotes thereto include in the Glenayre Technologies, Inc. Annual Report on Form 10-K for the year ended December 31, 2002.

2. Business Restructuring of Continuing Operations

During the first quarter of 2003, the Company recorded a restructuring charge of \$234,000 for severance and outplacement services related to the reduction of the Company's workforce by approximately 19 positions impacting several functional areas within the Company. Additionally, the Company recorded net favorable adjustments to its original estimates associated with the Company's 2002 and 2001 restructuring activities of \$12,000 primarily related to a reduction in accrued severance benefits.

During the first quarter 2002, the Company recorded a restructuring credit of \$210,000 primarily related to the collection of accounts receivable previously reserved for in the 2001 restructuring charge and the change in estimate of accrued severance benefits related to the reduction of the Company's workforce.

The following is a summary of activity for the three months ended March 31, 2003 related to the restructuring reserves:

	Severance and Benefits	Lease Cancellation and Other Exit Costs	Total
Balance at December 31, 2002	\$ 265	\$ 1,483	\$1,748
Expense accrued	234		234
Credits and changes in estimates	(12)		(12)
Payments and charges	(166)	(178)	(344)
Balance at March 31, 2003	<u>\$ 321</u>	<u>\$ 1,305</u>	<u>\$1,626</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands except per share data)
(Unaudited)

3. Discontinued Operations

In May 2001, the Company began exiting its Wireless Messaging (Paging) business and refocusing all of its strategic efforts on the Enhanced Services Platform and Unified Communication systems business segment based in Atlanta, Georgia. As a result, the Wireless Messaging (Paging) segment was reported as a disposal of a segment of business in the second quarter 2001 in accordance with APB Opinion No. 30. Accordingly, the operating results of the Wireless Messaging (Paging) segment have been classified as a discontinued operation for all periods presented in the Company's condensed consolidated statements of operations. Additionally, the Company has reported all of the Wireless Messaging (Paging) segment assets at their estimated net realizable values in the Company's condensed consolidated balance sheet as of March 31, 2003. All business transactions related to the Wireless Messaging (Paging) segment, with the exception of existing contractual obligations, ceased in May 2002 the end of the transition period.

The net income (loss) from discontinued operations consists of (a) operating losses incurred in the Wireless Messaging (Paging) segment adjusted for cash received from Wireless Messaging (Paging) trade receivables previously reserved and (b) an estimated loss on disposal of the segment which includes charges for the following: (i) the write-off of goodwill and other intangibles, (ii) reserves on property, plant and equipment, (iii) customer accounts and notes receivable settlement costs, (iv) employee termination costs, (v) inventory and non-inventory purchase commitments, (vi) anticipated losses from operations during a no more than twelve month transition period, (vii) facility exit and lease termination costs, (viii) expenses to be incurred to fulfill contractual obligations existing prior to the formal disposal date and (ix) related net tax expense, primarily related to a valuation allowance for related deferred tax assets. Numerous estimates and assumptions were made in determining the net realizable value related to the discontinued assets, operating results and various obligations noted above. These estimates are subject to adjustment resulting from, but not limited to, future changes in real estate market conditions or changes in estimates related to on-going contractual obligations and commitments.

Results of discontinued operations consist of the following:

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net sales	\$	\$4,665
Income (loss) from discontinued operations:		
Income (loss) from operations before income taxes		77
Provision for income taxes		
	—	—
Income (loss) from operations		77
Gain (loss) on disposal before income taxes	1,306	
Provision (benefit) for income taxes		
	—	—
Income (loss) on disposal of discontinued operations	1,306	
	—	—
Net income (loss) from discontinued operations	\$1,306	\$ 77

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(Tabular amounts in thousands except per share data)
(Unaudited)

In the first quarter of 2003, as a result of the Company's review of the estimated asset values and liabilities and future commitments related to the discontinued operations, a net reduction in the loss on disposal of \$1.3 million was recorded. The adjustments to the original estimates made at May 23, 2001 related mainly to collections of accounts receivable previously reserved for, reduction in the original estimate of anticipated headcount related costs to support the on-going obligations and commitments offset by additional write-down of the market value of the Singapore facility.

4. Sale of Facility

In January 2002, the Company sold its building held for sale located in Quincy, Illinois for cash proceeds of approximately \$4.4 million. The Company entered into a five-year lease with the purchaser whereby 131,334 square feet of the total 154,256 square feet was leased from January 2002 to May 2002 and 66,656 square feet is being leased for the remainder of the term.

5. Accounts Receivable

Accounts receivable related to continuing operations consist of:

	March 31, 2003	December 31, 2002
	<hr/>	<hr/>
Trade receivables	\$ 11,485	\$ 6,389
Less: allowance for doubtful accounts	(635)	(805)
	<hr/>	<hr/>
	\$ 10,850	\$ 5,584
	<hr/>	<hr/>

6. Inventories

Inventories related to continuing operations consist of:

	March 31, 2003	December 31, 2002
	<hr/>	<hr/>
Raw materials	\$ 3,638	\$ 3,359
Work-in-process	1,342	1,544
Finished goods	2,904	2,040
	<hr/>	<hr/>
	\$ 7,884	\$ 6,943
	<hr/>	<hr/>

In connection with the introduction of new products and services as well as in an effort to demonstrate its products to new and existing customers, the Company, from time to time, delivers new product test systems for demonstration and testing to customer third-party locations. The Company expenses the cost associated with new product test equipment upon the shipment from the Company's facilities.

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(Tabular amounts in thousands except per share data)
(Unaudited)

7. Estimated Warranty Costs

The Company generally warrants its products for one year after sale and provision for estimated warranty costs is recorded at the time of sale. The following is a summary of activity of the Company's continuing operations warranty obligation for three months ended March 31, 2003:

Balance at January 1, 2003	\$2,193
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