

AVOCENT CORP
Form 10-K
February 27, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008.

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
(State or Other Jurisdiction of Incorporation or Organization)

91-2032368
(I.R.S. Employer Identification No.)

4991 Corporate Drive
Huntsville, Alabama

35805

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(Address of Principal Executive Offices)

(Zip Code)

256-430-4000

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act

Common Stock, \$0.001 par value per share

Securities registered under Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and disclosure will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$817,773,018.

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The number of shares outstanding of the registrant's common stock as of February 23, 2009 was 45,785,907.

DOCUMENTS INCORPORATED BY REFERENCE

Information with respect to items 10 to 14 of Part III of this Form 10-K may be found in the definitive proxy statement to be delivered to stockholders in connection with the 2009 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

Item 1. Business.

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. ALL STATEMENTS CONTAINED IN THIS ANNUAL REPORT THAT ARE NOT PURELY HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS INCLUDE, WITHOUT LIMITATION, STATEMENTS RELATING TO FUTURE EVENTS, FUTURE RESULTS, AND FUTURE ECONOMIC CONDITIONS IN GENERAL AND STATEMENTS ABOUT:

- *OUR FUTURE STRATEGY, STRUCTURE, AND BUSINESS PROSPECTS;*
- *PLANNED ENGINEERING AND DESIGN ACTIVITIES, DEVELOPMENT AND ENHANCEMENT OF CURRENT PRODUCTS, AND INTRODUCTION OR ACQUISITION OF NEW PRODUCTS AND TECHNOLOGIES;*
- *THE SIZE, GROWTH, AND LEADERSHIP OF THE POTENTIAL MARKETS FOR OUR PRODUCTS AND TECHNOLOGIES;*
- *THE ADEQUACY AND EXPANSION OF OUR RELATIONSHIPS WITH CURRENT, AND THE DEVELOPMENT OF NEW, OEM, DISTRIBUTOR, RESELLER, AND SUPPLIER RELATIONSHIPS;*
- *OUR FUTURE SALES, EARNINGS, INCOME, EXPENSES, OPERATING RESULTS, TAX RATES, OPERATING AND GROSS PROFIT AND MARGINS, INVENTORY LEVELS AND VALUATIONS, RECEIVABLES, RESERVES, AND INVESTMENT INCOME;*
- *OUR FUTURE LIQUIDITY, THE IMPACT OF CURRENCY RATES, AND OUR PLANS REGARDING EQUITY-BASED COMPENSATION, CAPITAL RESOURCE NEEDS, SHARE REPURCHASES, BORROWINGS, AND REPAYMENTS;*
- *OUR CUSTOMERS, SEASONALITY, AND COMPETITIVE ENVIRONMENT;*
- *OUR ABILITY TO OBTAIN AND PROTECT OUR INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS;*
- *ANTICIPATED EXPANSION OF INTERNATIONAL SALES AND OPERATIONS; AND*

- *POTENTIAL ACQUISITIONS, INTEGRATION COSTS, IMPAIRMENT CHARGE, AND TRANSACTION COSTS AND ADJUSTMENTS.*

ALL OF THESE FORWARD-LOOKING STATEMENTS ARE BASED ON INFORMATION, EXPECTATIONS, ESTIMATES, FORECASTS, AND PROJECTIONS AVAILABLE TO US ON THE DATE OF THIS ANNUAL REPORT AND THE BELIEFS AND ASSUMPTIONS OF OUR MANAGEMENT. WORDS SUCH AS EXPECTS, ANTICIPATES, TARGETS, GOALS, PROJECTS, INTENDS, PLANS, BELIEVES, SEEKS, ESTIMATES, CONTINUES, MAY, AND VARIATIONS OF THESE WORDS, AS WELL AS SIMILAR EXPRESSIONS, ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. IN ADDITION, ANY STATEMENTS THAT REFER TO PROJECTIONS OF OUR FUTURE FINANCIAL PERFORMANCE, OUR ANTICIPATED GROWTH, TRENDS IN OUR BUSINESSES, AND OTHER CHARACTERIZATIONS OF FUTURE EVENTS OR CIRCUMSTANCES ARE FORWARD-LOOKING STATEMENTS. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED IN THIS ANNUAL REPORT. THE FORWARD-LOOKING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, AND OTHER WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS MADE BY US FROM TIME TO TIME, ARE SUBJECT TO CERTAIN RISKS, UNCERTAINTIES, AND ASSUMPTIONS THAT COULD CAUSE 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 ITEM 1A RISK FACTORS. WE UNDERTAKE NO OBLIGATION TO REVISE OR UPDATE ANY FORWARD-LOOKING STATEMENTS FOR ANY REASON.

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, designed to increase the efficiency of IT personnel by centralizing control of servers, desktop computers, serial devices, wireless devices, mobile devices, network appliances, and process management. 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.

Our technological innovations include Internet protocol (IP) based switching, centralized management, and intuitive software interfaces. With more than two decades of experience, we have grown through product innovations, global expansion, and strategic acquisitions.

We market our products around the world to a diversified group of original equipment manufacturers (OEMs), dealers, distributors, resellers, and end users, primarily through our sales and customer support staff, advertisements in trade publications, on-line sponsorships, and participation in major industry trade shows. A substantial portion of our sales is to major server OEMs that purchase our switching systems on a private-label or branded basis.

Industry Background

Information technology is critical to most business operations as computers perform multiple and diverse functions throughout many different types of organizations. Many corporations have decentralized computing power while sharing technology resources and providing broad access to enterprise data. This has resulted in the widespread adoption of distributed network computing environments using a network-based architecture of interconnected computers that span from the data center to the corporate office. Businesses are increasingly faced with a growing number of challenges. These challenges include:

Data Center Growth. The typical data center installation consists of a local area network (LAN), with a large number of computers operating as servers dedicated to performing specific functions for the many client computers connected to the LAN and, in many cases, a wide-area network (WAN). With the shift of software applications to a web services model, the demand for servers and storage is growing. Users are accessing more data and resources using intranets and the Internet. This growth causes a proliferation of physical and virtual servers and increases the administration, environmental, power, security, and space challenges of managing data centers containing growing networks of servers, consoles, peripherals, and cables, and other network devices.

Increasingly Mobile Workforce. As the workforce continues to become more mobile, handheld devices and laptop computers are increasingly used outside of the corporate LAN. This proliferation of networked devices and the difficulty in controlling these devices outside of the corporate LAN pose many significant management and security challenges.

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Heterogeneous Environment. Corporate IT departments may manage hundreds or thousands of servers, clients, and other networked devices. In managing these network devices, they must identify and access relevant devices, add or delete users, add, change, or upgrade applications, tune systems for better performance, and diagnose and correct network failures. These network devices are generally purchased from multiple vendors and are designed to operate as stand-alone systems, each with its own console. IT professionals must therefore deal with a large number of consoles and workflow processes, whether centrally located or dispersed throughout the organization, when performing administration and management tasks.

Always-On Infrastructure. Information technology resources are critical to organizations. Accordingly, constant availability is crucial to the operation of many businesses. The time that an Internet service provider (ISP), an application service provider (ASP), a data center, a server farm, a corporate network, or a desktop computer, a laptop, or a mobile device is down or degraded can cause significant inconvenience, loss of productivity, and financial loss. Quick and efficient diagnosis and the correction of problems can be difficult, and the ability of a facilities manager or network administrator to quickly and efficiently diagnose and correct the problem may be hampered by the inability to access the software.

Virtualization. Virtualization is the separation of the computer operating system and applications from the hardware - often supporting multiple operating systems and applications on a single hardware platform. As a relatively new technology, virtualization offers significant economic benefits to IT organizations in the form of increased scalability and asset utilization, but this emerging mix of virtual and physical servers and desktops adds a new layer of complexity to IT

management. IT administrators need to manage and control these virtual machines in the same manner as physical machines, and our management software products address many of these needs. Our solutions offer combined access and control of both virtual and physical servers and desktops through a secure platform while reducing the cost and complexity of managing the IT infrastructure.

Products and Technologies

As of January 1, 2009, we have three business units that provide the following software and hardware products and technologies. The products and technologies we provide solve many of the network administration, systems, security, device management, and storage problems faced by facilities managers, network administrators, and IT managers.

- **The Management Systems business unit consists of our branded Avocent and OEM branded IT infrastructure management products, which include KVM, LCD console trays, serial console, power control, digital extension, management appliances, management software, and our embedded manageability technologies, such as intelligent platform management infrastructure (IPMI) and embedded KVM systems.**

This business unit focuses on IT infrastructure management solutions and technologies for (i) data centers, (ii) remote access and distributed branch office environments, (iii) mid-size server rooms for the small and medium business market, and (iv) desktop switching and universal serial bus (USB) hubs for simplified control of desktops, small offices, and home-based businesses. Many of our hardware products contain software or firmware, and this business unit also provides the technology that links our embedded technologies and our DSView 3 management software.

The products and technologies offered by Management Systems include:

- Our *DS Series* products, which allow users to access and control both physical and virtual servers from remote locations using an Internet or network connection without the necessity of remote access hardware or software on the computers or servers being accessed. The *DS Series* KVM products digitize keyboard, video, and mouse information and compress and transport that information in packets over traditional network connections optimizing performance for busy data centers. Our *DSR*® switching systems feature a digital console connection that allows facilities managers and network administrators access to servers utilizing standard networking infrastructure and our *KVM over IP* technology. Our *DS Series* appliances are managed with *DSView*® centralized management software providing access and control of servers and serial devices in the network operations center or from almost any location in the world using TCP/IP connectivity. IT administrators can securely manage all connected data center devices and gain point-and-click access and control over these devices using a browser interface.
- Our *AutoView*® switch family, which offers users a variety of analog and digital KVM switches. Our *AutoView* switches provide small to medium size businesses with a 1U-high design, saving valuable rack space in the server room. Our *AutoView switches* offer an on-screen display and a web-based interface, which means that no additional software is required for remote server access.

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- Our *SwitchView*® switching products includes our *SwitchView SC* family of secure switches, built for the secure environment and designed to restrict the transfer of data between connected computers. Our compact, space-saving *SwitchView* desktop KVM switches support multiple computers and allow users to control multiple PCs and share access to a digital camera, CD-ROM, PDA, scanner, printer, speakers, and a microphone.
- Our *AMX* analog matrix switching systems, which provide simpler access and easier manageability of servers in multi-rack, multi-platform environments. Our *AMX* switches increase the number of users with simultaneous access and offer efficient scalability with an architecture that makes it easy to add and support additional servers.
- Our KVM extension product lines, including our CAT 5 extension products, fiber optic and copper extension products, and wireless extension products. The *LongView*® extender allows users to extend a keyboard, monitor, mouse, speakers, microphone, and serial port up to 500 feet away from the computer or KVM switch with one CAT 5 UTP cable.
- Our *ACS* appliances, which deliver secure, serial over IP access to console ports of command line driven operating systems such as LINUX or UNIX servers and other serially-managed devices such as power management systems, storage elements, firewalls, and network switches and routers. These serial appliances and attached devices can be centrally managed using our *DSView 3* management software.

- Our Avocent console trays provide out-of-band access to KVM switches for convenient access and control of servers and other devices in the data rack.
- Our *PM* series of intelligent power control and distribution devices, which can monitor power consumption and provide control over a connected device's AC power source. These devices are critical in certain situations when the connected devices require a full hardware level reset to restore operational service. Our *PM* devices are connected to *DSR* or *ACS* appliances and can be managed by the user interface of these appliances or centrally managed using our *DSView 3* management software.
- Our embedded products, which are provided as hardware, software, firmware, or licensed technology. These products include IPMI firmware, SMASH and WS-Man interfaces, DASH firmware, service process drivers, and development utilities. Our remote presence products include KVM switching and video compression technologies, virtual media firmware, and software for graphical user interfaces (GUIs). Our embedded technologies are licensed to our OEM customers for inclusion in their servers, desktops, notebooks, and other devices. Our hardware products consist of remote access, system management, and chassis management cards that are also sold to our OEMs for integration with their systems.
- **The LANDesk business unit consists of our systems, security, and service management software for desktops, servers, and mobile devices across an enterprise.**

This business unit delivers systems, security, and service management software solutions that simplify how corporate enterprises manage desktops, servers, mobile devices, and IT services and processes. These LANDesk solutions allow an IT staff to increase productivity and protect corporate assets from a single, easy-to-use console while leveraging prior investments in database, application, and directory service technologies and across heterogeneous IT environments (Windows, Mac OS, UNIX, LINUX, handheld, and embedded device operating systems). LANDesk revenue and bookings are comprised of license-based revenue, primarily from the LANDesk Management Suite product, and subscription-based revenue, primarily from the LANDesk Security Suite and LANDesk Patch Manager products and from maintenance and support agreements related to LANDesk products.

The products and technologies offered by LANDesk include:

Systems Management Software

- Our *LANDesk® Management Suite* (LDMS) software, which allows enterprise IT departments to easily and efficiently automate systems management tasks and see, manage, and update desktops, servers and mobile devices from a single console. LDMS provides intelligent and efficient distribution capabilities, such as functional load balancing, fault tolerance, bandwidth minimizing technologies, and local access to packages previously delivered to a subnet, to minimize the impact to corporate systems. With just an Internet connection, corporate IT teams can identify and securely manage computer assets (including assets outside the firewall and at geographically distributed sites), scan, define, track, and audit applications, and provide compliance and usage reports.

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- Our *LANDesk Server Manager* software, which provides enterprises with the tools to improve server performance, reliability, and availability through operating system (OS) and application provisioning, real-time hardware health monitoring, automated patching, imaging, and updating, historical data collection, predictive failure analysis and prevention, and remote problem resolution, all through a single console.

- Our *LANDesk Application Virtualization* software, which provides enterprises with the capability to virtualize an application isolated from other applications running on the operating system. This allows IT managers to run older applications on new operating system platforms. The virtualized application can be run on the local device or streamed from a remote server, and does not require local administration rights or a local agent to be present.

- Our *LANDesk Handheld and Embedded Device Manager* software, which is designed and optimized for managing across the low-speed, intermittent connections characteristic of handheld, embedded, and wireless devices, and allows an IT staff the ability to secure moving resources and the information on them, including the option to clear a device's memory card, delete contacts, address book data, and e-mail, and perform a reset of the mobile device.
- Our *LANDesk Asset Lifecycle Manager* software, which allows enterprises to track assets through a single console and a structured asset repository that extends the management of a customer's hardware and software assets throughout an asset's lifecycle to enable better planning decisions, informed business analysis, and improved business capacity.
- Our *LANDesk Inventory Manager* software, which enables IT staff to discover networked computing devices, automatically maintain detailed hardware and software inventories, and gather and track detailed hardware, software, and OS configuration data for license compliance, plan upgrades, identification of security issues, and determination of purchase needs.
- Our *LANDesk Power Manager* software delivers a simple-to-use, easy-to-deploy solution to quickly create sophisticated power management policies for networked PCs and to balance power savings and system availability.

Security Management Software

- Our *LANDesk Security Suite*, which includes software and subscription content that allows enterprises to easily perform and automate patch, anti-spyware, and security threat management from a single console with quarantine, antivirus enforcement, vulnerability detection, threat remediation, computer access restriction tools, and a variety of reporting capabilities (including trend graphs, spyware reports, and an executive dashboard with a graphical view of critical enterprise concerns).
- Our *LANDesk Patch Manager* software, which allows corporate IT departments to actively scan managed computers across heterogeneous IT environments to identify application and operating system vulnerabilities and quickly download patches with e-mail or pager alerts when a vulnerability or a specific severity level is detected.
- Our *LANDesk Antivirus* software, which provides enterprises with affordable, real-time virus protection and root kit detection to user endpoints with little or no new infrastructure. *LANDesk Antivirus* can automatically encrypt and quarantine suspicious files and known infections, and allows IT staffs to customize and control alerts, queries, and reports for full security.
- Our *LANDesk Host-based Intrusion Prevention (HIPs)* software, which provides enterprises the ability to protect endpoint devices from zero-day attacks and other similar threats. The LANDesk HIPs solution also monitors the behavior of applications and isolates machines on the network that are behaving erratically.

Service Management Software

- Our *LANDesk Process Manager*, which integrates, optimizes, and automates IT and business processes, workflow, change management, and configuration management, with a graphical process builder, full-featured auditing, customizable reporting capabilities, and support for third-party electronic forms.
- Our *LANDesk Service Desk* software (including the products we acquired in our recent acquisition of Touchpaper), which provides help desk and IT staff with an Internet-based consolidated service desk solution with process-driven incident management, role-based privilege sets, knowledge base, call logging, assignment, form design, and service level escalation for delivering support services. *LANDesk Service Desk* includes an Internet-based interface that allows service providers and end users or customers to easily and proactively report problems, log incidents, communicate and track service status, and research the intelligent knowledge base for solutions to facilitate faster resolution.

Professional Services

- Our LANDesk professional services, training, which include maintenance, upgrade protection, and customer support offerings to help customers realize the most value from their LANDesk software investment. The LANDesk Professional Services team can draw from the experience, talents, and abilities of the people who develop award-winning LANDesk solutions, helping customers experience the best implementation possible. In addition, customers can attend LANDesk training courses or complete the Certified LANDesk Engineer or Administrator programs.

- **The Connectivity and Control business unit consists of our professional audio-visual products.**

This business unit offers managed audio visual (AV) infrastructure solutions for commercial digital signage, presentation, and rental and staging markets. Our Emerge product family allows industry professionals to deliver innovative analog, IP-wired, and wireless solutions for AV extension, switching, distribution, and signal processing needs. Extension products simplify connectivity and control of displays, projectors, and AV source equipment.

The products and technologies offered by Connectivity and Control include:

- Our *Emerge* family of products, which provide both wired and wireless switching and extension of video, audio, and control data for use in a range of markets. Our *Emerge* family of multipoint high-definition wired/wireless extenders (MPX) allows AV consultants to design managed audio-video extension networks for commercial signage and presentation markets. Our *Emerge Wireless* extender is used in boardrooms, classrooms, and commercial digital signage applications, and our *Emerge Media Streamer (EMS)* extenders offer CAT 5 wired video extension for use in similar markets. Our digital *ECMS* products provide intra-building extension and switching of digital media across IP networks. Our Emerge family also incorporates a range of video processing products such as scalers and presentation switchers, which allow integrators to provide full audiovisual solutions when combined with our distribution and extension products.

Sales and Marketing

We market, sell, and license our hardware and software products and services through our own sales force and various distribution channels, including OEMs, system integrators, distributors, and reseller arrangements. We market our products primarily through advertisements in trade publications, online sponsorships, participation in major industry trade shows, promotions with distributors and resellers, direct marketing, telemarketing, publicity programs, and through our website. We also devote a substantial portion of our marketing efforts to developing, monitoring, and enhancing our relationships with our network of OEMs, independent dealers, distributors, resellers, and end users. Our sales personnel are supported by our engineers and our customer service representatives who provide technical support and advice to customers. As of December 31, 2008, we employed 851 people in sales, marketing, and customer support. As of December 31, 2008, we were also working with approximately 41 independent contractors on various sales and marketing projects.

We currently sell or license various hardware and software products and technologies to APC, Dell, EMC, Hewlett-Packard, IBM, Intel, Lenovo, Fujitsu Components Limited, Fujitsu Siemens, and other OEMs pursuant to private-label, branded, and other licensing arrangements. These

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OEM customers integrate and sell our products and technologies with or within their own products, including networked servers and clients. We devote significant sales, engineering, operations, and customer service resources to our OEM accounts. We have significant experience in working with our OEMs and other system manufacturers, and we intend to use that experience to enter into new relationships with other computer manufacturers in the United States, Europe, and Asia. We believe that the architecture, quality, and reliability of our products and technologies, together with our commitment to customer service, are attractive to computer manufacturers and software developers worldwide.

We have relationships with a variety of distributors and resellers, and systems integrators, for the distribution and sale of Avocent, Cybex, Cyclades, Equinox, and LANDesk branded software and hardware products in the United States, and internationally. We devote resources to educating our distributors and resellers about the benefits of our products and training them in the proper sales, marketing, installation and support of our products. We will continue to devote additional resources to increase these branded sales, and we will pursue additional relationships with distributors and resellers, both domestically and internationally, who have the technical capability and market presence to assist end-user customers in developing network space management, access, control, systems management, and security products and technologies to meet customers' particular needs. Our future success will depend in part on our ability to attract, train, and motivate additional distributors and resellers.

We provide discounts, other special pricing arrangements, and certain return privileges to our OEMs and our distributors and resellers. Our agreements with our distributors and resellers are generally nonexclusive and may be terminated on short notice by either party without cause. Our OEMs, distributors and resellers are not within our control, are not obligated to purchase products from us, and frequently offer products from several different manufacturers, including products that compete with our products.

International sales accounted for approximately 48% of net sales in 2008, 44% of net sales in 2007, and 43% of net sales in 2006. No foreign country accounted for more than 10% of 2008, 2007, or 2006 sales. We are expanding our international sales efforts within Europe, Latin America, Asia, and the Pacific Rim through the utilization of our sales offices in Sydney, Australia; São Paulo, Brazil; Beijing, Guangzhou, and Shanghai, China; London, England; Paris, France; Munich, Germany; Rotterdam, Holland; Hong Kong; Shannon, Ireland; Tokyo, Japan; Mexico City, Mexico; Taipei, Taiwan; and Singapore.

Customers

Our customers include our channel partners, which is a diversified group of dealers, major distributors, resellers, and direct end users who purchase our branded products. These customers represented 67% of net sales in 2008, 65% of net sales in 2007, and 60% of net sales in 2006. We believe that our broad range of products sold at different price points offers us the opportunity to market our products to customers of all sizes, in different industries, and with varying degrees of technical sophistication.

Sales to OEM customers represented 33% of net sales in 2008, 35% of net sales in 2007, and 40% of net sales in 2006. The declining trend in percentage of sales in recent years is due in part to the change in the mix of our business as a result of our acquisitions. While we have agreements with many of our OEM customers, these agreements are generally cancellable at the will of the OEM (generally subject to notice provisions), and none of our OEM customers is obligated to purchase products from us except pursuant to binding purchase orders or licensing agreements. Consequently, any OEM customer could cease doing business with us at any time. Although we are not substantially dependent on any one OEM customer, the loss of, or material decline in orders from, certain of our current OEM customers would have a material adverse effect on our business, financial condition, results of operations, and cash flow.

The following table identifies our customers that exceeded 10% of our net sales for the years 2008, 2007, and 2006:

	Percentage of Net Sales for the Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Dell	11%	13%	14%
Hewlett-Packard	<10%	12%	14%
Ingram Micro	13%	<10%	<10%
Tech Data	<10%	11%	12%

Sales to these customers are reported primarily through our Management Systems business unit, but also through our LANDesk business unit. No other customer accounted for more than 10% of our net sales in 2008, 2007, or 2006.

Seasonality

Our operating results are affected by seasonal trends and by general conditions in the server market. We have experienced, and expect to continue to experience, some degree of seasonality due to customer buying cycles. We believe that the third and fourth quarters will generally have higher net sales levels due to customer budgeting and procurement cycles, which may depress net sales in other quarters. In addition, we typically see a sequential decline in revenue from the fourth quarter of a year to the first quarter of the following year. While it is difficult to predict revenue in any quarter, we expect that this pattern will continue in the future.

Customer Service

We emphasize customer service by developing high quality products, encouraging customer feedback through contact with our key customers, providing technical support and information on our website, and providing a customer hotline that offers technical support for the life of our hardware products. We also offer annual software upgrade protection and maintenance agreements for licensees of our software products. We strive to respond quickly to our customers' requests for technical support and service, and our engineering department often works with individual customers to troubleshoot problems and develop solutions. We offer warranties for parts and service on all of our hardware products, ranging from one to three years (and, in the case of some of our Equinox branded products, five years). We also offer a 30-day money-back

guarantee for our appliance products sold in North America. To date, we have not experienced any significant hardware product returns. For our software products, we generally provide a 90-day limited warranty on the media used to deliver the software, which is not applicable to electronic downloads, and a 90-day limited warranty (except where a longer period is required by local law) that our software products will function in accordance with the end user documentation provided with the software product. We may, as a result of competitive pressures or requirements in certain geographies, change our warranty policies in the future to provide coverage that is greater in scope and duration than the coverage we currently offer. If we were to increase our warranty coverage, our risk of warranty claims, and therefore our warranty expense and reserves, would likely increase.

Development of New Products and Technologies

We believe that the timely development of enhancements to our existing hardware and software products and technologies and of new products and technologies is essential to maintaining and building on our competitive position. The market for our products continues to experience rapid technological advances, frequent new product introductions and enhancements, and significant price competition. The introduction of products incorporating superior or alternative technologies (such as the creation of virtual servers using a combination of hardware and software, which is known as virtualization), the creation or adoption of new technologies, the emergence of new industry standards, or changes in the market's pricing structure could render our existing products and technologies, and the products and technologies we have in development, obsolete or unmarketable.

Our hardware products generally combine components, such as printed circuit boards, semiconductors, memory, connectors, cable assemblies, power supplies, and enclosures, that are manufactured by other companies and are generally available to our competitors and potential competitors. Our software products combine software and content from third parties, such as open source software or technology, drivers, security, application virtualization, or anti-virus information, which may also be generally available to our competitors and potential competitors. Our future success will depend in large part upon continued innovative application of commercially available components and software or technologies, continued enhancements to our proprietary hardware, software, firmware, and other technologies, the expansion and enhancement of our existing products and technologies, and the development and introduction of new products and technologies that address changing industry trends (including virtualization) and customer needs on a cost-effective and timely basis. By emphasizing customer-driven research and development, we have been able to develop innovative, practical, and marketable products that have had immediate application and acceptance. Our failure to respond on a timely basis to technological changes or customer requirements could have a material adverse effect on our business, financial condition, results of operations, and cash flow. In addition, the acquisition of or departure from the market of one or more of these third party technology or component providers could have a material adverse effect on our business, financial condition, products, results of operation and cash flow.

Due to our significant reliance on OEM relationships, some of our product development efforts are focused on developing new hardware and software products or enhancements for OEM customers, which could delay or otherwise negatively affect our planned delivery of non-OEM products. At times, these new products or enhancements may not be available to, or readily marketable to, other customers without significant modifications or delay.

Our engineering and product development efforts focus on anticipating the needs of our customers by providing innovative, practical, and marketable products and technologies that have immediate applications in their markets. By maintaining contact with customers throughout the installation and technical support process, beta-test programs, and customer advisory groups, we are better able to identify and test potential design modifications and improvements as well as new applications and extensions for existing products and technologies. We expect this process will enable us to develop new product categories and applications (including new uses for existing technology) to meet specific customer needs. Many of our products and technologies are designed to accommodate future modifications and additional features, which we believe facilitates the development and integration of future modifications and features if we see a market need.

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As of December 31, 2008, we employed 750 people in our engineering departments. In addition, we use independent contractors from time to time. As of December 31, 2008, we were working with approximately 27 independent contractors on various development projects.

A key component of our engineering and product development strategy is the acquisition of new technologies and companies. We intend to continue to evaluate opportunities to acquire technologies and companies, and it is likely that we will complete additional acquisitions in the future. Acquiring new technologies and companies is inherently risky, especially if the technology or the products of the company have not had significant time in the market or exhibit uncertain commercial viability. There can be no assurance that these acquisitions will be successful, will result in the timely development or continuation of commercially viable products or technologies that achieve market acceptance, or will otherwise improve or benefit our financial condition or operating results.

The industry in which we compete is subject to rapid technological developments, evolving standards, changes in customer requirements, and new product introductions and enhancements. Our success depends in part upon our ability to continue to enhance our existing products and to develop and introduce new products that improve performance and reduce total cost of ownership on a cost-effective and timely basis, and to meet these challenges, we expect to make substantial investments in product development in the future. We also expect to continue to make acquisitions and investments where appropriate to provide us with access to new technologies. There can be no assurance, however, that our product development efforts will lead to commercially viable products or technologies, will be completed on a timely basis, or will include the features required to achieve market acceptance.

Manufacturing

We do not manufacture any of our hardware products in their entirety. Instead, we manage product planning, purchasing, and shipping, and we perform final assembly, quality assurance, and testing on some of our hardware products while we outsource some or all of these functions on other products. In order to avoid the capital investment required to establish and maintain in-house manufacturing capabilities, we rely on subcontractors throughout the world for the assembly of printed circuit board assemblies, subassemblies, chassis, and equipment enclosures. We believe that our chosen subcontractors can typically perform these functions at a lower cost than we can, while maintaining our high standards for quality and delivery. Outsourcing our manufacturing functions allows us to concentrate our resources on research and development, product design, quality assurance, sales and marketing, and customer service. We (or our subcontractors) subject our most critical components and products to automated testing, equipment burn-in procedures, comprehensive quality audits, functional testing, and regulatory screening to assure quality and reliability. As of December 31, 2008, we employed 147 people in our manufacturing, supply chain management, and logistics department.

We currently rely on several third party manufacturers, including Elcoteq Network Corporation, Plexus Corp., Kontron AG, Likom Computer Products, and Sanmina-SCI for subassembly of our hardware products. These outsourcing arrangements, and any future outsourcing arrangements, involve numerous risks, including reduced control over product quality, delivery schedules, manufacturing yields, and costs. The acquisition or departure from the market of one of these contract manufacturers could have a material adverse effect on our business, financial condition, products, results of operations, and cash flows. In addition, while these third-party manufacturers may have certain warranty obligations, we remain primarily responsible to our customers for warranty obligations. We attempt to diversify our outsourced manufacturing operations and believe we have an adequate supply of alternative subcontractors.

We generally purchase industry-standard parts and components, including power supplies, semiconductors, memory, cable assemblies, line filters, enclosures, and printed circuit boards, for the assembly of our products from multiple vendors and suppliers through a worldwide sourcing program. Custom molded cables and certain turn-key products procured from outside sources have significant delivery times (generally 10 to 12 weeks), and failure to obtain adequate supplies could adversely affect our product deliveries. We buy components under purchase orders and generally do not have long-term agreements with our suppliers. Circuit board assemblies are currently obtained from a number of sources, including Elcoteq Network Corporation, Plexus Corp., Kontron AG, Likom Computer Products, and Sanmina-SCI. We believe that there are adequate alternative sources for our product components. Any termination of, or significant disruption in, the business or affairs of our suppliers or our third-party manufacturers or in our relationship with them may prevent us from filling customer orders in a timely manner since we generally do not maintain large inventories of our components.

In the past, we have experienced delays in the receipt of certain components, which have resulted in delays in related product deliveries. We attempt to manage these risks through developing alternative sources, committing internal resources to supply chain management, and maintaining quality relationships and close personal contact with each of our contract manufacturers and suppliers. There can be no assurance, however, that delays in component and product deliveries will not occur in the future, and the inability to obtain sufficient components or to develop alternative sources, if and as required in the future, could result in delays or reductions in product shipments, which, in turn, could have a material adverse effect on our business, financial condition, results of operations, or cash flow.

Competition

The market for our hardware and software products is highly fragmented, competitive, rapidly changing, and we expect these market characteristics to increase in the future. We compete with numerous vendors in each of our product categories. In the market for hardware switching systems, we compete with companies such as Raritan Computer, Rose Electronics, Minicom Advanced Systems, Aten International, Belkin, Digi International, and Lantronix, and in the market for

our systems management products we compete with companies such as Microsoft, Computer Associates, BMC Software, Novell, Tivoli, and Symantec. In addition, certain of our OEM customers, such as Dell, Hewlett-Packard, and IBM, offer technologies and products that are competitive with our products, and we expect these technologies and products to remain competitive in the features they offer. Our products and technologies are also in competition with products and technologies offered by hardware manufacturers and network management companies such as AMI, Cisco, EMC, Intel, and Microsoft. Many of these competitors may have substantially greater financial, marketing, and technical resources than we have.

In the market for our products, we compete primarily on the basis of technological capabilities, performance in relation to price, product features, quality, reliability, return on investment, development capabilities, product availability, and customer service and support. Our future success will be highly dependent upon timely completion, introduction, and distribution of new products, technologies, services, and features at competitive price and performance levels that address changing industry trends and the evolving needs of our customers. We continually experience price competition and expect that pricing pressures could increase in the future. As we continue to grow, especially internationally, we expect that we will encounter new competition in different geographic regions.

Proprietary Technology

Our future success is dependent in part upon our ability to develop and protect our intellectual property and our proprietary rights in our products and technologies. We seek to protect our intellectual property rights by invoking the benefits of the patent, trademark, copyright, trade secret, and unfair competition laws of the United States and certain foreign countries, all of which provide only limited protection. We regularly file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We have been issued over 60 U.S. patents and have over 55 U.S. patent applications pending. We have various corresponding patent applications pending under the provisions of the Patent Cooperation Treaty, which permits the filing of corresponding foreign patent applications in numerous foreign countries within a limited time period. We also have other foreign patent applications pending. There can be no assurance that any additional patents will be issued from any of our pending applications, that any patents will be issued in any additional countries where our products or technologies can be sold or licensed, or that any claims allowed in our patents or in any pending patent applications will be of sufficient scope or strength for, or provide any meaningful protection or any commercial advantage to, us. Moreover, our competitors or other holders of intellectual property rights may challenge the validity of, or be able to design around, these patents or any other patents that may be issued to us. The laws of certain foreign countries in which our products are or may be developed, manufactured, or sold (particularly, countries in Asia) may not protect our products or intellectual property rights to the same extent as do the laws of the United States and thus increase the likelihood of piracy of our products and technologies.

We have in the past filed, and we may in the future file, lawsuits against other companies regarding the alleged infringement of our proprietary rights. Patent litigation, and any other litigation relating to our intellectual property to which we become a party, is expensive and subject to numerous risks and uncertainties, and there can be no assurance that we will be successful in any such litigation. There can be no assurance that the steps we take to protect our intellectual property rights will be adequate to prevent misappropriation of our technologies or that we can use our intellectual property rights to successfully prevent competitors from commercializing technologies that are substantially equivalent or superior to our products and technologies. Additionally, current or future competitors could develop their own proprietary technologies or obtain patents that may prevent us from developing or selling our products and technologies.

We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality and nondisclosure agreements.

Employees

As of December 31, 2008, we had 1,099 full-time employees working in the United States. Of our domestic full-time employees, 391 were in marketing, sales, and customer support, 480 were in engineering, research, and development, 90 were in manufacturing and logistical operations, and 138 were in administration. As of December 31, 2008, we had 872 full-time employees working at our facilities outside of the United States. Of our international full-time employees, 460 were in marketing, sales, and customer support, 270 were in engineering, research, and development, 57 were in manufacturing and logistical operations, and 85 were in administration. Our employees in Brazil (approximately 17) and the LANDesk employees in France (approximately 32) are covered by collective bargaining agreements. No other employees are covered by collective bargaining agreements relating to their employment by us. We believe that we have good relations with our employees.

Backlog

Backlog consists of purchase orders with delivery dates scheduled within the next six months. None of our customers is obligated to purchase products from us except pursuant to binding purchase orders or other legal agreements. Because of the timing of orders and the possibility of customer changes to delivery schedules, our backlog as of any particular date is not representative of actual sales for any succeeding period. Moreover, with recent industry-wide initiatives by OEMs, distributors, and resellers to reduce inventories and shorten lead times, we do not view backlog as an important indicator of our future results, and we do not believe it is a meaningful indicator of actual sales for any succeeding period.

Additional Information

Our corporate Internet address is www.avocent.com. At this website, we make available free of charge our annual report on Form 10-K, our annual proxy statement, our quarterly reports on Form 10-Q, any current reports on Form 8-K, and any amendments to these reports, as soon as reasonably practicable after we electronically file them with, or furnish them to, the Securities and Exchange Commission (SEC). Also available at this website are our Code of Business Conduct and Ethics, our Corporate Governance Guidelines, our Whistleblower Policy, the Nominating and Governance Committee's Policies and Procedures for Director Candidates, and the Charters for our Acquisition and Strategy Committee, Audit Committee, Compensation Committee, and Nominating and Governance Committee. If any amendment to our Code of Business Conduct and Ethics or any waiver granted under it is applicable to our principal executive officer, our principal financial officer, our principal accounting officer or controller (or any persons performing similar functions) and relates to the code of ethics definition enumerated in the SEC's regulations, we will disclose such amendment or waiver at this website within five business days after the date of such amendment or waiver. The information found on our website is not part of this Form 10-K.

ACS, Apex, AMX, AMWorks, Avocent, the Avocent logo, AutoView, Cybex, Cyclades, DSR, DSView, Emerge, Equinox, KVM over IP, LANDesk, the LANDesk logo, LongView, PM, The Power of Being There, SwitchView, Touchpaper, and the Touchpaper logo are trademarks or registered trademarks owned by us. This annual report also includes trademarks of other companies.

Item 1A. Risk Factors.

THIS ANNUAL REPORT CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THIS ANNUAL REPORT. THESE RISKS AND UNCERTAINTIES INCLUDE THE FOLLOWING:

Difficulties encountered during challenging and changing economic conditions could adversely affect our results of operations.

Our business and operating results depend to a significant extent on economic conditions in general and on IT spending and the server market 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 or in the server market 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 capital spending, general economic uncertainty, and a weakening global economy could have a material adverse effect on us. The current financial crisis could have an

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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, bank failure or governmental takeover of financial institutions, and customer insolvencies. In addition, we continue to see industry-wide initiatives by OEMs and by distributors and resellers of our hardware products to reduce their inventories and to shorten their lead times, thereby reducing early commitments to firm orders by our major OEM and distributor and reseller customers. If we are unable to effectively manage during the current challenging and changing economic conditions, our business, financial condition, and results of operations could be materially adversely affected.

We have acquired, and expect to continue to acquire, technologies and companies and these acquisitions could disrupt our business or expose us to other risks.

A key component of our engineering and product development strategy and our future growth is the investment in or the acquisition of technologies and companies. We intend to continue to execute our strategy through the acquisition of technologies or companies or through investments in complementary companies, products, personnel, or technologies, and it

is likely we will complete such acquisitions or investments in the future. These acquisitions and investments involve many risks and factors outside our control, including the following:

- Difficulty integrating the acquired company's personnel, distribution channels, products, product roadmaps, technologies, systems, processes, and operations, including product development, product delivery, order management, and information systems;
- Difficulty in conforming the acquired company's financial policies and practices to our policies and practices and in implementing and maintaining adequate internal systems and controls over the financial reporting and information systems of the acquired company;
- Diversion of management's attention and disruption of our current business and the challenges associated with managing the resulting larger company following any acquisition;
- Difficulty in combining product and technology offerings and entering into new markets or geographical areas in which we have no or limited direct experience and where our competitors may have stronger market positions;
- Loss (at either Avocent or in the acquired company) of management, sales, technical, or other key personnel or the loss of customers, distributors, resellers, vendors, or other business relationships as a result of the acquisition;
- Revenue or deferred revenue from the acquired company not meeting our expectation, and the potential loss of the acquired company's customers, distributors, resellers, suppliers, or other partners;
- Delays or difficulties and the attendant expense in evaluating, coordinating, and combining administrative, manufacturing, research and development, operations, facilities, and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures, including financial controls and controls over information systems;
- Difficulty in completing projects associated with acquired in-process research and development;
- Incurring amortization expense related to certain intangible assets and recording goodwill and non-amortizable assets that will be subject to impairment testing and possible impairment charges;

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- Dilution of existing stockholders as a result of issuing equity securities, including the assumption of any stock options or other equity issued by the acquired company;
- Overpayment for any acquisition or investment or unanticipated costs or liabilities;
- Assumption of liabilities of the acquired company, including any potential intellectual property infringement or other litigation claims, the liabilities and obligations under the acquired company's existing agreements, and any unrecorded tax obligations; and
- Incurring substantial write-offs, restructuring charges, interest expense, amortization, and transactional expenses.

Our integration plans and indemnification and escrow agreements might fail to adequately mitigate these risks and factors, and our failure to manage these risks and challenges could materially harm our business, financial condition, and results of operations. Further, if we do not successfully address these challenges in a timely manner, we may not fully realize all of the anticipated benefits or synergies on which the value of a transaction was based. Future transactions could cause our financial results to differ materially from expectations of market analysts or investors for any given quarter.

Our impairment testing may indicate we have an impairment of goodwill and require us to take an impairment charge.

As required by generally accepted accounting principles, we have performed an annual impairment test of goodwill in each of the fourth quarter of 2008, 2007, and 2006. Our testing in the fourth quarter of each year concluded that there had been no impairment of goodwill and that no adjustments were required.

While our testing in 2008 indicated that there was no goodwill impairment, we noted certain factors during the 2008 testing that will require monitoring and may require additional testing prior to our next scheduled test in the fourth quarter of 2009. With the broad-based decline in the stock market, our market capitalization has declined to less than the book value of our shareholders' equity after year end and through the date of this filing. We believe the reduction in our market capitalization is a short term anomaly and is not indicative of our true value as a whole nor the value of our individual reporting units.

Although our testing indicated there was no impairment for our LANDesk reporting unit in the 2008 test, LANDesk carries a significant amount of goodwill and other intangible assets, including those added in the recent Touchpaper acquisition. The value of these intangible assets resulted in the carrying value of LANDesk being marginally below the indicated fair value calculated through our impairment testing.

As a result of these factors and due to the current recessionary environment and the resulting impact on our business, we are monitoring our stock price, control premium, and other conditions in relation to potential additional goodwill impairment testing, and we intend to perform an additional test for goodwill impairment in the first quarter of 2009. There is a risk that there may be an impairment in the future requiring an adjustment to the carrying value of goodwill and other intangible assets, and we may be required to take an impairment charge. If so, any charge could have material adverse effect on our financial position and the results of our operations.

Intense competition from new and existing competitors or consolidation in the industry could impair our ability to grow our business, to sustain our profitability, and to sell our products and technologies.

The markets for our products and technologies are highly fragmented, rapidly evolving, and intensely competitive, and we expect these characteristics to continue and increase. Aggressive competition from both hardware and software products and technologies could lengthen the customer evaluation process and result in price reductions and loss of sales, which would materially harm our business. Our business is highly sensitive to the introduction of new products and technologies (such as virtualization), price changes, and marketing efforts by numerous and varied competitors. Accordingly, our future success will be highly dependent upon our timely completion and introduction of new products, technologies, and features at competitive prices and performance levels that address changing industry trends and the evolving needs of our customers. We continue to experience aggressive price competition and increased customer sensitivity to product prices, and pricing and margin pressures are likely to increase in the future. Because of this competition, we may have to continue to lower the prices of many of our products and technologies or offer greater functionality within our products without increasing prices to deliver greater value to customers to stay competitive, while at the same time trying to maintain or improve our revenue and gross margin. Because our business model is based on providing innovative and high quality products, we may spend a proportionately greater amount on research and development than some of our competitors. If we cannot proportionately decrease our cost structure on a timely basis in response to competitive price pressures and the loss of revenue, our gross and operating margins and profitability could be adversely affected. In addition, if our pricing, functionality, and other factors are not sufficiently competitive, or if there is an adverse reaction to our product decisions, we may lose market share in certain areas, which could adversely affect our revenue and prospects.

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We compete for sales of switching systems and extension products with companies such as Raritan Computer, Rose Electronics, Minicom Advanced Systems, Aten International, Belkin, Digi International, and Lantronix. These products also face competition from software providers (such as Microsoft, Computer Associates, Tivoli, Symantec, Novell, AMI, and BMC Software), who may be able to offer software products competitive with our hardware products at a much lower cost or even bundled for free with their other products, and from server manufacturers (including our OEM customers), who are able to offer their competitive technologies or products at the time of the server sale. These competitive software and hardware products address many of the problems our switching systems and technologies, extension products, and remote access products are designed to address.

We compete for sales of our systems management and security products with companies such as Microsoft, Computer Associates, BMC Software, Novell, and Symantec, many of whom have greater financial, technical, and marketing resources, a larger customer base, a longer operating history, greater name recognition, and more established relationships in the industry than we do, and may offer their own or third-party competitive software products at a lower cost or bundled for free with their other products. Microsoft, in particular, has delivered competitive products and announced its intention to continue to develop competitive software, and if it is successful in delivering software products that are competitive with our products, our ability to grow our software business may be limited.

Our current and potential competitors may be able to respond more quickly to new or emerging technologies or products and to changes in customer requirements or to devote greater resources to the research, development, promotion, sale, and support of their products and technologies than we do. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties that expand or enhance the ability of their products and technologies to address the needs of our current and prospective customers. Some of these competitors can also bundle hardware, software, and services together, and offer a more complete set of products and services than we are able to offer. We may not be able to compete successfully against current and future competitors and competitive pressure may materially harm our business, financial condition, operating results, and cash flows, or impair our ability to achieve our desired results.

Certain of our customers, such as Dell, Hewlett-Packard, IBM, Microsoft, and Symantec presently offer competitive hardware and/or software products and technologies that address many of the problems our products and technologies address. These customers could decide to manufacture or enhance their own switching, IPMI, or other embedded technologies, or systems management, security, and service desk products, or offer products or technologies supplied by competitors. Companies with hardware manufacturing experience or network management products, many of which are substantially larger than we are and have significantly more financial resources than we do, also offer products or technologies that compete with us. Established companies with hardware manufacturing or network management experience (such as Intel, Cisco, or EMC) could also offer new products, new technologies (such as virtualization), or new solutions that compete with, or reduce the demand for, our products and technologies.

There has been consolidation in the markets in which we compete, which we believe will continue and could lead to increased price competition and other forms of competition as companies attempt to maintain or extend their market positions in the rapidly changing IT industry. In addition, we may face competition in the future from large established companies or from emerging companies that have not previously entered the market or that do not currently have products that directly compete with our products. This could lead to more variability in our operating results for a variety of reasons including the lengthening of the customer evaluation process and/or the loss of business to these competitors, which may adversely affect our business, financial condition, and results of operations.

Our gross margins are expected to vary and may decline.

Gross margins may vary or decline from period-to-period and may be adversely affected by a number of factors, including:

- The ratio of OEM sales to branded sales, since OEM sales typically have lower gross margins than branded sales;
- The ratio of sales through indirect channels to direct sales, since indirect sales typically have lower gross margins than direct sales;
- The ratio of sales in established markets to sales in new markets with different pricing and cost structures;
- Sales of lower margin products or other changes in our product mix, because sales of some of our products and technologies will have lower gross margins than sales of other products or technologies (e.g. our software products tend to have higher gross

margins);

- Increased price competition;
- Changes in product costs and sales discounts;
- Changes in raw materials, freight, regulatory, certification, import or export expenses, tariffs, and labor costs;
- Introduction of new products, services, business models, and technologies by us and by our competitors;
- The level of and costs for third-party technology and code used in our software products; and
- The level of and costs for outsourcing of our manufacturing and assembly services for our hardware products and the impact this can have on our inventory valuation of older products.

We expect that our gross margins may vary and may decline in the future primarily due to the factors listed above and to increased competition and the introduction of new products and technologies that may affect product prices and demand for our products.

We have limited protection of proprietary rights and face risks of third-party infringements.

Our future success depends in part upon our ability to develop and protect proprietary rights in our products and technologies. We seek to protect our intellectual property rights by invoking the benefits of the patent, trademark, copyright, trade secret, and unfair competition laws of the United States and other countries and the protections provided by confidentiality and nondisclosure agreements and other legal agreements. These laws and practices, however, afford only limited protection. There can be no assurance that the steps we have taken to protect our intellectual property rights, or that the steps we take in the future, will be adequate to prevent or detect misappropriation of our intellectual property or technologies or that our competitors will not independently develop proprietary or other technologies that are substantially equivalent or superior to our products or technologies. In addition, our proprietary information may be misused or improperly disclosed by third parties entrusted with this information. There also can be no assurance that our proprietary rights will not be challenged, invalidated, or avoided.

The U.S. Patent and Trademark Office has issued several patents to us for various aspects of our products. We have various corresponding patent applications pending under the provisions of the Patent Cooperation Treaty, which permits the filing of corresponding foreign patent applications in numerous foreign countries within a limited time period. We also have other United States and foreign patent applications pending. There can be no assurance that any additional patents will be issued from any of those pending applications or that any patents will be issued in any additional countries where our products can be sold. Claims allowed in our patents or in any pending patent applications may not be of sufficient scope or strength for, or provide meaningful protection or any commercial advantage to us or such claims may not be upheld if challenged. Also, competitors may develop their own intellectual property or technologies, obtain their own patents, or challenge the validity of, or be able to design around, our patents. The laws of certain foreign countries in which our products are or may be developed, manufactured, or sold (particularly certain countries in Asia) may not protect our products or intellectual property rights to the same extent as do the laws of the United States and thus increase the likelihood of piracy of our technologies and products.

We may initiate claims or litigation against other third parties for infringement of proprietary rights or to establish the validity of proprietary rights. Similarly, our competitors or other third parties may initiate claims or litigation against us alleging infringement of their proprietary rights or improper use of their intellectual property, and from time to time, third parties notify us that our products may infringe their intellectual property rights, which regardless of merit, requires our time and resources to evaluate and respond. Existing litigation, and any other litigation relating to intellectual property to which we become a party, is subject to numerous risks and uncertainties, including the risk of counterclaims or other litigation against us, and we may not be successful in any such litigation. Dealing with adverse claims and litigation is very expensive, and the existing litigation or any other litigation by or against us could result in significant additional expense, divert the efforts of technical and management personnel, whether or not such litigation results in a favorable determination, harm our relationships with existing customers, and deter future customers from purchasing or licensing our products. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, suspend or cease the development, manufacture, use, marketing, and sale of any infringing products, expend significant resources to redesign products or develop non-infringing technology, discontinue the use of certain processes, or obtain licenses to the infringing technology. There can be no assurance that we would be successful in such development or that such licenses would be available on reasonable terms, or at all, and any such development or license could require us to expend substantial time and other resources. In the event that any third party makes a successful claim against us, or our customers, and a license is not made available on commercially reasonable terms, our business, financial condition, and results of operations could be adversely affected. In addition, any dispute involving our intellectual property could result in our customers, distributors, or resellers becoming involved in the litigation, which could trigger indemnification obligations in certain of our sales, license, or service agreements.

The IT industry is characterized by vigorous pursuit and protection of intellectual property rights or positions, which has resulted in significant and often protracted and expensive litigation. We have in the past been, and we may from time to time in the future be, a party in litigation or other proceedings alleging infringement of intellectual property rights owned by third parties. If necessary or desirable, we may seek licenses

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under such intellectual property rights. However, licenses may not be offered on terms acceptable to us, or at all. The failure to obtain a license from a third party for technology used by us

could cause us to incur substantial liabilities and to suspend or cease the manufacture of products requiring such technology. In addition, current or future competitors could obtain patents or other intellectual property rights that may prevent us from developing or selling our products. The result of these litigation matters is difficult to predict and an unfavorable resolution could affect our operating results, business, or financial condition. The resolution of litigation may have a negative impact on our operating results or financial condition.

Our recently-announced restructuring may disrupt our operations and adversely affect our operating and financial results.

In fiscal July 2008, and again in January 2009, we announced a series of actions designed to enhance competitiveness, improve our efficiency, and reduce our cost structure. We initiated workforce reduction and consolidation actions designed to intensify our focus on our growth areas and improve our operating efficiency. The restructuring includes actions to increase our organizational efficiency, reduce certain research and development investments in lower growth product areas, integrate our marketing functions, and shift support for our Asian operations from Shannon, Ireland, to our recently-established regional hub in Singapore. We are also relocating certain functions from Redmond, Washington to Huntsville, Alabama. The impact of these organizational improvements will result in a net decrease of approximately 273 positions or approximately 13% of our global workforce. In fiscal July 2008, we also announced that, as part of our continued focus on core markets, we intend to sell the portion of our entrepreneurial Connectivity and Controls business unit dedicated to our Professional Audio Video and our Equinox serial products. The restructuring activities could create uncertainty and confusion among our employees, customers, and suppliers. In addition, the restructuring activities might not result in the cost savings or efficiencies we anticipate and may result in temporary operational inefficiencies. As a result, these restructuring activities could have a material adverse effect on our business, financial condition, and results of operations. The factors described above also could disrupt our product development, manufacturing, and sales, which would affect our financial results.

We are likely to experience fluctuations in operating results.

We have in the past experienced substantial fluctuations in revenue, bookings, and operating results, on a quarterly and an annual basis, and we expect these fluctuations will continue in the future. Our operating results will be affected by a number of factors, including, but not limited to:

- The volume, timing, pricing, and contractual terms of orders, particularly from OEMs, resellers, and other large customers, a significant portion of which tend to occur late in each quarter;
- The timing of shipments;
- The unpredictable nature of the sales cycle for software products and the timing and completion of delivery of software products and any related services;
- The timing of new product introductions, new technologies, and enhancements by us and by our competitors, and the possibility that customers may defer purchases of our products in anticipation of these new products, new technologies, and enhancements;

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- Changes in or our failure to accurately predict product or distribution and reseller channel mixes, including changes in the mix of software licenses in which revenue is recognized upfront as opposed to subscription licenses that are deferred over time and changes in the mix of revenue attributable to higher-margin products as opposed to lower-margin sales or services;
- Changes in demand for our products and services;
- Changes in pricing policies, price reductions, and channel programs;
- Changes in laws, regulations, or other government requirements;
- Changes in renewal rates for software upgrade protection or maintenance;
- Competition from new products, technologies, business models, and price reductions by competitors;

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- The availability and cost of supplies, components, or third-party code or content on commercially reasonable terms;
- Compatibility or interoperability of our products with third-party systems and applications;
- Sales and marketing expenses related to entering into new markets, introducing new products, new technologies, and retaining current OEMs, resellers, and other large customers;
- Fluctuations in sales of servers and personal computers due to changes in technology (such as virtualization), economic conditions, or capital spending levels;
- The amount and timing of operating expenses and capital expenditures relating to the expansion of our business and operations; and
- Costs associated with legal proceedings, including legal fees and any adverse judgments or settlements.

Our operating results will continue to be affected by seasonal trends, by general conditions in the IT market, and by general economic conditions. Depending on the severity and longevity of the current economic crisis, we may see fluctuations in our operating results. In addition, we have experienced, and we expect to continue to experience, some degree of seasonality due to customer buying cycles and delays in customer orders during unfavorable economic periods. We believe that the third and fourth quarters will generally have higher net sales levels due to customer budgeting and procurement cycles, which may depress net sales in other quarters. In addition, European sales are often weaker during the summer months. In the past, we have typically seen a sequential decline in revenue from the fourth quarter of a year to the first quarter of the following year, and while it is difficult to predict revenue in any quarter, we expect that this pattern will continue in the future. Many of the factors that create and affect seasonal trends are beyond our control.

Our quarterly sales have also reflected a pattern in which a disproportionate percentage of each quarter's total sales occur toward the end of the quarter, and this trend has become more pronounced in recent periods. Our increased focus on the software market continues this trend with a greater proportion of our software revenue coming from software license and subscriptions booked in the last weeks or days of each quarter. This uneven sales pattern makes prediction of revenue, earnings, and working capital for each financial period difficult, increases the risk of unanticipated variations in quarterly results and financial condition, and places pressure on our hardware inventory management and logistics systems. If predicted demand for hardware is substantially greater than orders, there will be excess inventory. Alternatively, if hardware orders substantially exceed predicted demand, we may not be able to fulfill all of the orders received in the last few weeks of each quarter. Other developments late in a quarter, such as a systems failure, component pricing movements, actions or announcements from our competitors, global logistics disruptions, or large sales opportunities not being completed when predicted, could adversely impact inventory levels and results of operations in a manner that is disproportionate to the number of days in the quarter affected. In addition, accounting requirements associated with satisfying the various elements necessary to recognize software revenue may result in significant fluctuations in our quarterly results.

In order to remain competitive and provide our increasingly sophisticated customers with more options, we have made and expect to continue to make new products and new software purchasing and licensing options available to our customers. These new products and options may result

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in an increase in contracts where software revenue is deferred or cash is received over time as opposed to recognition of revenue or payment at or about the time of the purchase or license.

We believe that quarter-to-quarter comparisons of our historical financial results are not meaningful indicators of our future operating results, and you should not rely on them as an indication of our future performance. If our quarterly operating results fail to meet the expectations of equity research analysts, the price of our common stock could be negatively affected.

A large portion of our business consists of sales to a limited number of resellers and distributors that are not obligated to continue doing business with us, and these sales vary considerably from quarter to quarter.

A large portion of our sales consists of sales of our branded products to a limited number of resellers and distributors. Sales to resellers and distributors represented approximately 60% of net sales in 2008, 61% of net sales in 2007, and 56% of net sales in 2006. The loss of significant revenue opportunities with these resellers and distributors could negatively impact our results of operations. In addition, many of these customers also have or distribute competing products. If resellers and distributors elect to increase the marketing of competing products or reduced marketing of our products, our ability to grow our business will be negatively impacted and will impair one of our substantial revenue sources.

Our reseller and distributor business is subject to many risks, including:

- Concentration of business in a limited number of resellers and distributors could result in significant damage to our business upon the termination of a reseller relationship;
- Termination of reseller and distributor agreements or reduced or delayed orders;
- Difficulty in predicting sales to resellers and distributors who do not have long-term commitments to purchase from us, which requires us to maintain sufficient inventory levels to satisfy anticipated demand;
- Lack of visibility of end user customers and revenue recognition and channel inventory issues related to sales by resellers and distributors;
- Resellers and distributors electing to resell or increase their marketing of competing products or technologies or reduced marketing of our products; and
- Changes in corporate ownership, financial condition, credit worthiness, payment patterns, business direction, sales compensation related to our products, or product mix by the resellers and distributors.

Any of these risks could have a material adverse effect on our business, financial condition, and results of operations. We have experienced, and expect to continue to experience, pricing pressures and significant variability in orders from our resellers and distributors, which may in the future have a material adverse effect on our quarterly sales and operating results.

The loss of one or more large resellers or distributors could materially harm our business. While we have reseller and distributor agreements, none of our resellers or distributors are obligated to purchase products from us. Consequently, any reseller or distributor could cease doing business with us at any time. Our dependence upon a few resellers and distributors could result in a significant concentration of credit risk, thus a substantial portion of our trade receivables outstanding from time to time may be concentrated among a limited number of customers. In addition, the inability to accurately forecast the timing and volume of orders for sales of branded products to resellers and distributors during any given quarter could adversely affect operating results for such quarter and, potentially, for future periods. If we underestimate sales, we will not be able to fill orders on a timely basis. This could cause customer dissatisfaction and loss of future business. If we overestimate sales, we will experience increased costs from inventory storage, waste, and obsolescence.

We will need to expand our sales distribution channels in order to develop our business and increase revenue.

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We expect to rely increasingly on distributors and resellers, VARs, and systems integrators for the distribution and sale of our branded hardware and software products. Our strategy contemplates the expansion of our distributor and reseller networks both domestically and internationally, particularly in Asia, and an increase in the number of customers licensing our products through these expanded channels. Our future success will depend in part on our ability to attract, train, and motivate new distributors and resellers and expand our sales distribution channels. We may not be successful in expanding our distributor and reseller relationships. We will be required to invest significant additional resources in order to expand these relationships, and the cost of this investment may exceed the margins generated from this investment. Conducting business through indirect sales channels presents a number of risks, including:

- Difficulties in replacing any lost or terminated distributors or resellers;
- Existing or new distributors and resellers may not be able to effectively sell our current or future products or services;
- Potential distributors and resellers deciding not to enter into relationships with us because of our existing relationships with other distributors and resellers with which they compete;
- Our ability to provide proper training and technical support to our distributors and resellers;

- The possibility of damage or impairment to our market position, brands or trademarks as a result of the actions of our distributors and resellers;
- Distributors and resellers electing to place greater emphasis on products or services offered by our competitors; and
- The lack of direct control over the business practices, marketing, sales and services offered by distributors and resellers.

As we expand our distribution and reseller channels, we will also need to expand our sales organization and invest substantial resources toward this expansion. We may experience difficulty in recruiting, training, and retaining qualified sales personnel, and any failure to obtain, train, and keep qualified personnel could limit our ability to sell products.

In addition, distributors and resellers of our hardware products often have rights of return, and in the future, these returns from our existing or any new distributors and resellers may have a material adverse effect on our business, financial condition, and results of operations. Our agreements with our current distributors and resellers are generally nonexclusive and may be terminated on short notice by either party without cause, and any new distributor or reseller agreements are likely to contain similar provisions. Distributors and resellers are not obligated to purchase products from us and frequently offer products from several different companies, including competitors' products, and distributors and resellers may give higher priority to the sale of our competitors' products. A reduction in sales efforts or efficiency by our distributors or resellers could lead to a reduction in our sales and could materially adversely affect our business, financial condition, and results of operations.

A large portion of our business consists of sales to a limited number of OEM customers that are not obligated to continue doing business with us, and these sales vary considerably from quarter to quarter.

A large portion of our sales is concentrated among a limited number of OEM customers. Aggregate sales to these OEMs represented approximately 33% of our net sales in 2008, 35% of net sales in 2007, and 40% of net sales in 2006. The following table identifies our customers that exceeded 10% of our net sales for the years 2008, 2007, and 2006:

	Percentage of Net Sales for the Year Ended		
	December 31, 2008	December 31, 2007	December 31, 2006
Dell	11%	13%	14%
Hewlett-Packard	<10%	12%	14%
Ingram Micro	13%	<10%	<10%
Tech Data	<10%	11%	12%

We have experienced, and we expect to continue to experience, period-to-period variability in sales to these OEM customers. Any cancellation, rescheduling, or reduction of orders by OEM customers in the future could materially adversely affect our operating results. Although our OEM customers typically place orders for products up to several months prior to scheduled shipment dates, these orders are subject to cancellation.

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Our OEM business is subject to many risks, including:

- Contract termination or reduced or delayed orders;
- Short order cycles and difficulty in predicting sales because our OEM customers do not have long-term commitments to purchase from us;
- Changes in the OEMs' internal product life cycles including the delay of planned new product introductions and uncertainty over product end-of-life decisions;
- Adoption of competing products or technologies developed by third parties for the OEMs, acquisition or internal development of competing products or technologies by the OEMs, or changes in the OEMs' marketing of competing products or reduced marketing of our products; and
- Changes in corporate ownership, financial condition, credit worthiness, payment patterns, business direction, sales compensation related to our products, or product mix by the OEMs.

Any of these risks could have a material adverse effect on our business, financial condition, and results of operations. We have experienced, and expect to continue to experience, pricing pressures and significant variability in orders from our OEM customers, which may in the future have a material adverse effect on our quarterly sales and operating results.

Although we are not substantially dependent on any one OEM customer, the loss of one or more large OEM customers would materially harm our business. While we have agreements with some of our OEM customers, these agreements are generally cancellable at the will of the OEM (generally subject to notice provisions), and none of our OEM customers is obligated to purchase products from us except pursuant to binding purchase orders or licensing agreements. Consequently, any OEM customer could cease doing business with us at any time. Our volume of sales from just a few OEMs also results in a significant concentration of credit risk, thus a large portion of our trade receivables outstanding from time to time may be concentrated among a limited number of customers. In addition, OEM customers have longer payment cycles that increase the likelihood of aged or problem accounts receivable.

We use multiple warehouses for many of our OEM customers to fulfill their hardware orders under a just-in-time inventory management system, which requires us to maintain sufficient inventory levels of our hardware products at each of these warehouses to satisfy anticipated demand from our OEM customers, and we generally recognize revenue only when these OEM customers take possession of our hardware products. We are required to plan production, order components, and undertake our manufacturing activities prior to the time that these orders become firm or the products are accepted. In addition, our OEM customers have requested, and are likely to continue to request from time to time, that we delay shipment dates or cancel orders for hardware products that are subject to firm orders. As a result, at any time we may be holding a significant amount of OEM-branded hardware products in inventory, and our sales to OEMs for future quarters are difficult to predict. The inability to accurately predict the timing and volume of hardware orders for our OEM customers during any given quarter could adversely affect operating results for that quarter and, potentially, for future quarters. If we underestimate sales, we may not be able to fill orders on a timely basis. This could cause customer dissatisfaction and loss of future business. If we overestimate sales, we may experience increased costs from inventory storage, waste, and obsolescence.

Our failure to respond to rapid technological change or to introduce successful new products and technologies may result in reduced revenue or revenue growth.

The process of developing or acquiring new products, software, and technologies and enhancing existing products, software, and technologies is complex, costly, and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. Our products and technologies are characterized by rapid technological advances, frequent new product and technological introductions and enhancements, and significant price competition. If we do not keep pace with these changes, we will lose customers, and our business will be adversely affected. The introduction of products or technologies incorporating superior alternatives such as switching software, the emergence of new industry standards such as virtualization, or changes in pricing structure could render our existing products and technologies and those we have under development obsolete or unmarketable. New technologies offered by us or our competitors could compete with our existing products at a lower price, which could reduce our revenue.

Our future success will depend in large part upon continued innovative application of commercially available components and software or technologies, continued enhancements to our proprietary hardware, software, firmware, and other technologies, the expansion and enhancement of existing products and technologies, and our development and introduction of new products and technologies that address changing industry trends (including virtualization) and customer needs on a cost-effective and timely basis. If we fail to respond on a timely basis to technological developments, changes in industry standards, customer requirements, competitive products, product localization, or software innovations, we will lose customers, and our business will be greatly harmed. Similar results could occur if we experience significant delays in the development or introduction of new products or technologies.

We are dependent upon third-party suppliers and outsourced manufacturing for our hardware products. Disruption of our access to these supplies and services, or problems with the quality of supplies or services, could prevent us from filling customer orders and harm our business.

The principal components of our hardware products are electronic components, power supplies, semiconductors, memory, cable assemblies, line filters, enclosures, and printed circuit boards, all of which are purchased from outside vendors. We generally buy components under purchase orders and generally do not have long-term agreements with our suppliers. Also, we generally do not maintain large inventories of components. Any termination of, or significant disruption of, our relationships with the suppliers of our product components may prevent us from filling customer orders in a timely manner which could result in customer dissatisfaction and lost sales.

We have occasionally experienced, and we may in the future experience, shortages or delays in delivery of components. Although alternate suppliers are available for most of the components and services needed to produce our products, the number of suppliers of some components is limited, and qualifying a replacement supplier and receiving components from alternate suppliers could take several months.

We have limited ability to control quality issues (particularly with respect to faulty components manufactured by third parties), and we depend upon suppliers to deliver components that are free from defects, competitive in functionality and cost, and in compliance with specifications and delivery schedules. Disruption in supply, a significant increase in the cost of one or more components, failure of a third-party supplier to remain competitive in functionality or price, or the failure of a supplier to comply with any of our procurement needs could delay or interrupt our ability to manufacture and deliver our products to customers on a timely basis, thereby delaying our revenue recognition and adversely affecting our business, financial condition, and results of operations.

We rely on third-party manufacturers for subassembly of products and for final assembly, quality assurance, and testing of many of our products. These outsourcing arrangements and any future outsourcing arrangements involve numerous risks, including the economic and financial viability of these manufacturers, reduced control over product quality, delivery schedules, manufacturing yields, and costs. Moreover, although arrangements with such manufacturers may contain provisions for warranty obligations on the part of such manufacturers, we are primarily responsible to our customers for warranty obligations.

Our hardware products are subject to warranty claims and returns. Increased warranty claims or returns could harm our business.

We typically offer a 30-day unconditional money-back guarantee on our appliance products sold in North America. We also offer warranties for parts and service on our hardware products, ranging from one to three years (and, in the case of some of our Equinox branded products, five years). Although our historical return experience has not been significant, our returns may increase in the future. An increase in returns would have an adverse effect on our sales and could negatively affect our financial results.

For our software products, sales are final and we do not generally allow any returns. We provide a 90-day limited warranty on the media used to deliver the software, which is not applicable to electronic downloads, and we generally provide a 90-day limited warranty (except where a longer period is required by law) that our products will function in accordance with the user documentation.

In the future, we may, as a result of competitive pressures, requirements in certain geographies, or customer demands, change our warranty policies or our warranty terms to provide coverage that is greater in scope and duration than the coverage we currently offer. If we were to increase our warranty coverage, our risk of warranty claims, and therefore our warranty expense and reserves, would likely increase.

We must meet the increased demands on customer service operations or customer satisfaction and sales could suffer.

Continued growth of our sales is likely to be accompanied by increasing demands on our customer service operations. As a result of our commitment to a high level of customer service, we will need to invest significant resources in the maintenance and improvement of our customer service resources. Any failure to maintain adequate customer service could cause customer dissatisfaction, result in reduced sales of products, reductions in the renewals of software maintenance and support agreements for future periods, and, accordingly, materially adversely affect our business, financial condition, and results of operations.

If we are unable to successfully develop our international distribution and reseller networks and international sales efforts, results of operations may suffer.

We are working to develop, integrate, and expand our international distribution and reseller networks in an effort to increase international sales and availability of our products. We may not be successful in developing or expanding the international distribution and reseller network or in marketing and selling products in foreign markets, particularly Asia. If the revenue generated by our international sales is not adequate to recover the expense of establishing, expanding, and maintaining an international distribution and reseller network, our business, financial condition, and results of operations

could be materially adversely affected. If international sales become a more significant compone