

RIVERSTONE NETWORKS INC
Form 10-Q
September 02, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended November 29, 2003

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-32269

RIVERSTONE NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4596178
(I.R.S. Employer
Identification no.)

5200 Great America Parkway, Santa Clara, CA 95054

(Address of principal executive offices and zip code)

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(408) 878-6500

Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 1, 2004 there were 130,105,034 shares of the Registrant's common stock outstanding.

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Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****RIVERSTONE NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands)**(unaudited)*

	November 29, 2003	March 1, 2003 (1)
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,863	\$ 99,610
Short-term investments	82,920	120,218
Accounts receivable, net	6,106	13,115
Inventories	8,444	10,217
Prepaid expenses	2,419	1,952
Other current assets	4,336	3,997
	<u> </u>	<u> </u>
Total current assets	187,088	249,109
Long-term investments	102,762	122,498
Property and equipment, net	8,149	13,635
Goodwill	6,324	6,324
Other intangible assets, net	13,794	17,905
Other long-lived assets	10,914	10,361
	<u> </u>	<u> </u>
Total assets	<u>\$ 329,031</u>	<u>\$ 419,832</u>
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 10,350	\$ 12,121
Accrued compensation	5,296	6,723
Accrued liabilities	10,353	9,577
Securities litigation settlement accrual	20,250	
Deferred income on shipments to resellers	11,223	13,719
Deferred revenue on maintenance contracts	3,580	3,524
Convertible subordinated notes	131,750	147,000
	<u> </u>	<u> </u>
Total current liabilities	192,802	192,664
Long-term deferred revenue on maintenance contracts	4,057	3,883

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Securities litigation settlement accrual		20,250
Other long-term liabilities	2,470	2,086
Commitments and contingencies (see Note 14)		
Stockholders' equity:		
Common stock	1,308	1,306
Additional paid-in capital	466,673	467,095
Accumulated deficit	(330,948)	(254,987)
Unearned stock-based compensation	(7,524)	(13,965)
Accumulated other comprehensive income	193	1,500
	<u>129,702</u>	<u>200,949</u>
Total stockholders' equity		
	<u>\$ 329,031</u>	<u>\$ 419,832</u>

(1) The balance sheet at March 1, 2003 has been derived from the audited consolidated financial statements at that date, but does not include all the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying notes to condensed consolidated financial statements

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	Three-Month Period Ended		Nine-Month Period Ended	
	Nov 29, 2003	Nov 30, 2002	Nov 29, 2003	Nov 30, 2002
		<i>(as restated)</i>		<i>(as restated)</i>
Net revenues	\$ 9,171	\$ 18,819	\$ 39,958	\$ 53,836
Cost of revenues	7,624	10,257	30,655	35,172
Gross profit	1,547	8,562	9,303	18,664
Operating expenses:				
Research and development	9,992	10,278	36,460	35,060
Sales and marketing	6,616	10,675	25,696	36,787
General and administrative	8,269	2,204	20,195	8,157
Reseller litigation settlement		(11,507)		(11,507)
Restructuring charges	(31)		2,596	5,486
Total operating expenses	24,846	11,650	84,947	73,983
Operating loss	(23,299)	(3,088)	(75,644)	(55,319)
Other income	1,026	15,131	5,339	19,042
Interest expense	(1,648)	(1,815)	(4,930)	(6,312)
Securities litigation settlement charges				(20,250)
Income (loss) before income tax provision	(23,921)	10,228	(75,235)	(62,839)
Income tax provision	148	235	726	700
Net income (loss)	\$ (24,069)	\$ 9,993	\$ (75,961)	\$ (63,539)
Basic and diluted net income (loss) per share	\$ (0.19)	\$ 0.08	\$ (0.60)	\$ (0.52)
Shares used in per share calculation	127,247	123,051	126,932	122,779

See accompanying notes to condensed consolidated financial statements

Table of Contents**RIVERSTONE NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS***(in thousands)**(unaudited)*

	Nine-Month Period Ended	
	November 29, 2003	November 30, 2002
		(As restated)
Cash flows from operating activities:		
Net loss	\$ (75,961)	\$ (63,539)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,019	7,788
Amortization	6,397	2,112
Stock-based compensation	4,147	1,850
Non-cash restructuring costs	411	987
Loss on investments	745	1,312
Gain on extinguishment of debt	(2,853)	(10,460)
Gain on sales of marketable securities	(197)	(3,063)
Loss on disposal of assets	2,044	376
Changes in assets and liabilities:		
Accounts receivable	6,880	558
Inventories	1,773	3,405
Prepaid expenses and other current assets	(861)	8,795
Other long-lived assets	(2,354)	1,782
Accounts payable and other liabilities	49	(4,792)
Deferred income and revenue	(2,266)	(4,722)
Net cash used in operating activities	(56,027)	(57,611)
Cash flows from investing activities:		
Acquisition of assets, net of cash	(722)	
Capital expenditures	(2,767)	(4,576)
Proceeds from maturities of available-for-sale marketable securities	177,764	278,430
Proceeds from sales of available-for-sale marketable securities	111,416	246,018
Purchases of available-for-sale marketable securities	(234,808)	(381,604)
Net cash provided by investing activities	50,883	138,268
Cash flows from financing activities:		
Proceeds from issuance of common stock	532	1,725
Net transfers and adjustments from Cabletron		(2,500)
Repurchases of convertible subordinated notes	(12,094)	(16,890)
Repurchases of common stock	(23)	
Net cash used in financing activities	(11,585)	(17,665)
Effect of foreign exchange rate changes on cash	(18)	793

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(Decrease) increase in cash and cash equivalents	(16,747)	63,785
Cash and cash equivalents, at beginning of period	99,610	123,055
	<u> </u>	<u> </u>
Cash and cash equivalents, at end of period	\$ 82,863	\$ 186,840
	<u> </u>	<u> </u>

See accompanying notes to condensed consolidated financial statements

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RIVERSTONE NETWORKS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1. Basis of Presentation

Riverstone Networks, Inc. and its wholly owned subsidiaries (collectively "Riverstone" or the "Company") is a leading provider of data transmission routing equipment for metro Ethernet networks. Riverstone's metro routers and accompanying products are designed to meet customers' IP networking requirements in support of voice, video, and data services. Riverstone's products enable carriers to offer these services across existing revenue-generating networks and new Ethernet deployments.