

GLENAYRE TECHNOLOGIES INC

Form 10-Q

May 10, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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

For the transition period from _____ to _____

Commission File Number 0-15761

GLENAYRE TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

98-0085742

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

825 8th Avenue, 23rd Floor, NY, NY

(Address of Principal Executive Offices)

10019

(Zip Code)

(212) 333-8400

(Registrant's Telephone Number, Including Area Code)

NOT APPLICABLE

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of Exchange Act)

Yes No

The number of shares outstanding of the Registrant's common stock, par value \$.02 per share, at May 7, 2007 was 69,906,720 shares.

Glenayre Technologies, Inc. and Subsidiaries

INDEX

	Page
<u>Part I Financial Information:</u>	
<u>Item 1. Financial Statements</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2007 (Unaudited) and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006 (Unaudited)</u>	5
<u>Condensed Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2007 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	21
<u>Part II Other Information:</u>	
<u>Item 1. Legal Proceedings</u>	21
<u>Item 6. Exhibits</u>	21
<u>EX-15.1 LETTER REGARDING UNAUDITED FINANCIAL INFORMATION</u>	
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE CEO</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE CFO</u>	
<u>EX-32.1 SECTION 906 CERTIFICATION OF THE CEO</u>	
<u>EX-32.2 SECTION 906 CERTIFICATION OF THE CFO</u>	

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Glenayre Technologies, Inc.

We have reviewed the condensed consolidated balance sheet of Glenayre Technologies, Inc. and subsidiaries as of March 31, 2007, and the related condensed consolidated statements of operations for the three month periods ended March 31, 2007 and 2006, and the condensed consolidated statements of cash flows for the three month periods ended March 31, 2007 and 2006. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Glenayre Technologies, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended not presented herein and in our report dated March 29, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Indianapolis, Indiana

May 7, 2007

Table of Contents**GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
	(In thousands, except share data)	
Current Assets:		
Cash and cash equivalents	\$ 76,897	\$ 96,088
Restricted cash	1,639	1,972
Accounts receivable, net of allowances for doubtful accounts of \$577 and \$558 for 2007 and 2006, respectively	47,456	43,677
Current portion of long-term receivable	1,174	1,933
Inventories, net	8,785	8,684
Prepaid expenses and other current assets	16,675	15,850
Current assets, discontinued operations	682	946
Total Current Assets	153,308	169,150
Restricted cash	23,448	22,390
Property, plant and equipment, net	57,503	59,219
Long-term receivable	3,933	4,078
Goodwill	2,382	2,382
Intangible assets	56,539	58,164
Deferred income taxes	2,538	2,943
Other assets	5,923	5,910
TOTAL ASSETS	\$ 305,574	\$ 324,236
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 24,208	\$ 30,233
Accrued and other liabilities	37,630	35,799
Income taxes payable	3,985	13,981
Deferred income taxes	75	262
Loans from employees	1,147	1,250
Current portion of long-term debt	22,452	22,157
Accrued liabilities, discontinued operations	1,286	5,594
Total Current Liabilities	90,783	109,276
Other non-current liabilities	9,455	4,151
Loans from employees	3,107	4,216
Long-term debt	44,192	43,959
Pension and other defined benefit obligations	36,745	35,774
Deferred income taxes	7,795	8,663
Total Liabilities	192,077	206,039

Edgar Filing: GLENAYRE TECHNOLOGIES INC - Form 10-Q

Minority interest in subsidiary company	5,662	5,412
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value; authorized: 5,000,000 shares, no shares issued and outstanding		
Common stock, \$.02 par value; authorized: 200,000,000 shares, issued and outstanding: 2007 69,630,969 shares; 2006 69,325,780 shares	1,393	1,387
Additional paid in capital	369,140	368,493
Accumulated deficit	(264,130)	(258,199)
Other comprehensive income	1,432	1,104
Total Stockholders' Equity	107,835	112,785
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 305,574	\$ 324,236

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
	(In thousands, except per share amount)	
REVENUES:		
Product sales	\$ 64,469	\$ 49,691
Service revenues	19,541	20,385
 Total Revenues	 84,010	 70,076
COST OF REVENUES:		
Cost of sales	57,763	44,591
Cost of services	15,403	15,380
 Total Cost of Revenues	 73,166	 59,971
GROSS PROFIT	10,844	10,105
OPERATING EXPENSES:		
Selling, general and administrative expense	15,232	11,725
Amortization of intangible assets	2,034	1,755
 Total Operating Expenses	 17,266	 13,480
OPERATING LOSS	(6,422)	(3,375)
OTHER INCOME (EXPENSE):		
Interest income	1,157	1,048
Interest expense	(1,299)	(1,411)
Loss on currency swap, net	(357)	(727)
Gain on currency transaction, net	109	413
Other gain (loss), net	11	(8)
 Total Other Income (Expense)	 (379)	 (685)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, DISCONTINUED OPERATIONS AND GAIN ON SALE OF MESSAGING BUSINESS	(6,801)	(4,060)
Income tax benefit	(86)	(263)
 LOSS FROM CONTINUING OPERATIONS BEFORE DISCONTINUED OPERATIONS AND GAIN ON SALE OF MESSAGING BUSINESS	 (6,715)	 (3,797)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(304)	(3,125)
GAIN ON SALE OF MESSAGING BUSINESS, NET OF TAX	1,088	

NET LOSS	\$	(5,931)	\$	(6,922)
INCOME (LOSS) PER WEIGHTED AVERAGE COMMON SHARE				
(1):				
Loss from continuing operations	\$	(0.10)	\$	(0.06)
Loss from discontinued operations				(0.05)
Gain on sale of Messaging		0.02		
Net loss per weighted average common share	\$	(0.09)	\$	(0.10)
INCOME (LOSS) PER COMMON SHARE ASSUMING DILUTION				
Loss from continuing operations	\$	(0.10)	\$	(0.06)
Loss from discontinued operations				(0.05)
Gain on sale of Messaging		0.02		
Net loss per weighted average common share	\$	(0.09)	\$	(0.10)

(1) Income (loss) per weighted average common share amounts are rounded to the nearest \$.01; therefore, such rounding may impact individual amounts presented.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

(In thousands)
(Unaudited)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Pension</u>	<u>Accumulated Other</u>	<u>Comprehensive</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Deficit</u>	<u>and</u>	<u>Income</u>	<u>(Loss)</u>	
			<u>Capital</u>		<u>Other</u>	<u>Currency</u>		<u>Comprehensive</u>
					<u>Benefit</u>	<u>Translation</u>		<u>Income</u>
					<u>Obligations</u>	<u>Adjustment</u>		
Balances, December 31, 2006	69,326	\$ 1,387	\$ 368,493	\$ (258,199)	\$ (1,143)	\$ 2,247		
Net loss				(5,931)				\$ (5,931)
Foreign currency translation					(8)	331		323
Comprehensive income								\$ (5,608)
FAS 158 Post-retirement benefit obligation adjustment					5			
Shares issued for ESP Plan, other awards and option exercises	305	6	647					
Balances, March 31, 2007	69,631	\$ 1,393	\$ 369,140	\$ (264,130)	\$ (1,146)	\$ 2,578		

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (5,931)	\$ (6,922)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of messaging business	(1,088)	
Depreciation and amortization	5,268	5,296
Stock compensation expense	348	383
Unrealized loss on currency swap	357	727
Foreign currency transaction gain	(109)	(394)
Other	357	134
Changes in operating assets and liabilities, net of effects of business dispositions and acquisitions:		
Restricted cash	(472)	1,159
Accounts receivable	(3,527)	(5,379)
Inventories	(65)	486
Prepaid and other current assets	(379)	(606)
Long-term receivables	958	4,283
Goodwill and intangible assets		(356)
Other assets	(69)	(68)
Accounts payable	(6,087)	3,074
Deferred revenue		(4,430)
Accrued liabilities and income taxes payable	(7,050)	(563)
Other liabilities	632	725
NET CASH USED IN OPERATING ACTIVITIES	(16,857)	(2,451)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,274)	(4,866)
NET CASH USED IN INVESTING ACTIVITIES	(1,274)	(4,866)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee loans		108
Repayment of employee loans	(1,267)	(1,132)
Repayment of capital lease obligations	(117)	
Issuance of common stock	304	945
NET CASH USED IN FINANCING ACTIVITIES	(1,080)	(79)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	20	458
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,191)	(6,938)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	96,088	78,803
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 76,897	\$ 71,865

See Notes to Condensed Consolidated Financial Statements.

7

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Amounts in Thousands, Except per Share Amounts)
 (Unaudited)

1. Business and Basis of Presentation

Glenayre Technologies, Inc. and its wholly owned and controlled majority owned subsidiaries (Glenayre) is a multi-national company in the entertainment industry. We have one reportable business segment operated by our subsidiary, Entertainment Distribution Company (EDC). The EDC segment provides pre-recorded products and distribution services to the entertainment industry. The primary customer of EDC is Universal Music Group. Our operations formerly included our Wireless Messaging (Paging) business, which we began exiting in May 2001, and our Glenayre Messaging (Messaging) business, substantially all of the assets of which were sold in December 2006. Consequently, the operating results of the Paging and Messaging segments are reported as discontinued operations in the accompanying financial statements.

The accompanying unaudited condensed consolidated financial statements are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. We believe, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The results for the interim periods are not necessarily indicative of results for the full year. These interim financial statements should be read in conjunction with the consolidated financial statements of the Company and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The financial statements include the accounts of Glenayre and its wholly owned as well as our controlled majority owned subsidiaries and have been prepared from records maintained by Glenayre and its subsidiaries in their respective countries of operation. The ownership interest of minority investors is recorded as minority interest. All significant intercompany accounts and transactions are eliminated in consolidation. The Company does not have any equity or cost method investments.

2. Use of Estimates

The preparation of financial statements in conformity with U.S. accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Reclassifications

Certain items in the prior year consolidated financial statements have been reclassified to conform to the current presentation.

4. Inventories

Inventories, net of reserves, related to our continuing operations at March 31, 2007 and December 31, 2006 consisted of:

	March 31, 2007	December 31, 2006
Raw materials	\$ 7,279	\$ 7,417
Finished goods	844	315
Work in process	662	952
Total	\$ 8,785	\$ 8,684

At March 31, 2007 and, December 31, 2006 reserves were approximately \$1.0 million and \$1.1 million, respectively.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except per Share Amounts)
(Unaudited)

5. Recently Adopted Accounting Standards

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FAS 109, *Accounting for Income Taxes* (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. On January 1, 2007, we adopted FIN 48. The adoption of FIN 48 had no impact on our results of operations or financial condition. See Note 8 for further discussion.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS 159) The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . SFAS 159 provides entities with an option to choose to measure eligible items at fair value at specified election dates. If elected, an entity must report unrealized gains and losses on the item in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs); and is applied only to entire instruments and not to portions of instruments. The Company is currently evaluating the impact of adopting SFAS 159 on its financial statements, which is effective beginning in fiscal year 2008.

6. Currency Rate Swap

We entered into a cross currency rate swap agreement with a commercial bank on May 31, 2005. The Company's objective is to manage foreign currency exposure arising from our loan to our German subsidiary, acquired in May of 2005 and is therefore for purposes other than trading. The loan is denominated in Euros and repayment is due on demand, or by May 31, 2010. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the currency swap does not qualify for hedge accounting and, as a result, we report the foreign currency exchange gains or losses attributable to changes in the US\$/ exchange rate on the currency swap in earnings.

7. Discontinued Operations

Messaging

On December 14, 2006, we entered into an Asset Purchase Agreement (the Agreement) with IP Unity, for the sale of substantially all of the assets of the Messaging business, including inventory, fixed assets, intellectual property rights, contracts and certain real estate, and the assumption of certain related liabilities. On December 31, 2006, we closed the sale of the Messaging business. In accordance with the Agreement, we received \$25.0 million in cash (subject to a working capital adjustment as provided in the Agreement). The proceeds from the sale related to both domestic and international operations.

During the first quarter of 2007, we recorded a gain of \$1.1 million from the transfer of four international subsidiaries to IP Unity. Under the Agreement, we transferred the outstanding equity of our subsidiaries in Hong Kong, South Africa and Netherlands and substantially all of the assets of our Singapore subsidiary to IP Unity. As noted in the following table, we have recorded a net gain of \$454,000 as a result of these transfers. Also, during the first quarter, we completed the calculation of the closing working capital adjustment which resulted in the recording of a receivable for these additional proceeds and a resulting gain of \$634,000. This gain is also reflected in the table below. As part of the gain, we have recorded a net receivable of \$539,000 due from the purchaser representing cash assumed by the purchaser and cash provided by Glenayre for normal operating expenses incurred by us for the continued operation of the international operations prior to their final transfer to IP Unity. Finally, the transfer of the remaining four additional subsidiaries is expected to close during the second quarter of 2007.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except per Share Amounts)

(Unaudited)

At March 31, 2007 and December 31, 2006, we recorded an estimated gain on the sale as follows:

	December 31, 2006	Adjustments	March 31, 2007
Assets Sold and Liabilities Assumed			
Cash	\$	\$ 491	\$ 491
Accounts receivable	8,210		8,210
Inventory	7,393		7,393
Other current assets	416	610	1,026
Fixed assets	8,223		8,223
Accounts payable	(2,388)	(248)	(2,636)
Accrued liabilities	(2,288)	(761)	(3,049)
Deferred revenue	(2,747)		(2,747)
	\$ 16,819	\$ 92	\$ 16,911
Other write-offs and expenses	54	(7)	47
Estimated closing costs	2,000		2,000
	\$ 18,873	\$ 85	\$ 18,958
Receivables due from purchase	\$	\$ 1,173	\$ 1,173
Proceeds	\$ 25,000	\$	\$ 25,000
Gain on sale	\$ 6,127	\$ 1,088	\$ 7,215

The operating results of the Messaging segment are classified as a discontinued operation for all periods presented in the condensed consolidated statements of operations. Additionally, we reported all of the remaining Messaging segment assets at their estimated net realizable value in the condensed consolidated balance sheet as of March 31, 2007 and December 31, 2006.

Results for Messaging discontinued operations consist of the following:

	March 31, 2007	March 31, 2006
Net sales	\$	\$ 16,370
Loss from discontinued operations:		
Loss from operations before income taxes	(262)	(2,610)
Provision for income taxes	107	267
Loss from operations	\$ (369)	\$ (2,877)
Gain on disposal before income taxes	1,088	
Provision for income taxes		

Gain on disposal of discontinued operations	1,088	
Income (loss) from discontinued operations	\$ 719	\$ (2,877)

The income (loss) from discontinued operations consists of operating losses incurred in the Messaging segment adjusted for an estimated gain on disposal of the segment which includes charges for transaction costs. Numerous estimates and assumptions were made in determining the net realizable value related to the discontinued assets and operating results noted above. These estimates are subject to adjustment resulting from, but not limited to, changes in estimates related to the working capital adjustment as provided in the Agreement and operations of foreign assets for IP Unity during the transitional period.

Table of Contents

GLENAYRE TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except per Share Amounts)

(Unaudited)

Loss from discontinued operations in the condensed consolidated statement of operations includes a income of \$65 for the period ended March 31, 2007 and a loss of \$248 for the period ended March 31, 2006 from our Paging discontinued operations.

The major classes of assets and liabilities, including the international operations to be transferred in 2007 included as part of the Messaging disposal group are reported as Discontinued Operations on our consolidated balance sheet are as follows:

	March 31, 2007	December 31, 2006
Current Assets		
Accounts receivable	\$	\$ 288
Tax receivable	221	397
Prepaid assets	120	140
Other current assets	341	121
	\$ 682	\$ 946
Current Liabilities		
Accounts payable	\$ 62	\$ 240
Accrued Messaging transaction costs	103	1,886
Accrued employee wages and benefits	319	768
Accrued income and other taxes	658	686
Accrued other	124	1,930
	 	