

PARADYNE NETWORKS INC  
Form 10-Q  
August 14, 2003  
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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### FORM 10-Q

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

For the quarterly period ended June 30, 2003

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-26485

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## Paradyne Networks, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

75-2658219  
(IRS Employer Identification No.)

8545 126th Avenue North

Largo, Florida 33773

(Address of principal executive offices, zip code)

(727) 530-2000

(Registrant's telephone number, including area code)

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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

The number of shares of the registrant's common stock outstanding at August 11, 2003, the latest practicable date, was 43,350,532.

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## PARADYNE NETWORKS, INC.

## CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	<b>JUNE 30, 2003</b>	<b>DECEMBER 31, 2002</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44,538	\$ 47,706
Accounts receivable less allowance for doubtful accounts of \$1,864 and \$2,227 at June 30, 2003 and December 31, 2002, respectively	8,493	13,072
Inventories	16,952	16,661
Prepaid expenses and other current assets	1,318	2,896
	<u>          </u>	<u>          </u>
Total current assets	71,301	80,335
Property, plant and equipment, net	7,884	10,396
Intangible assets, net	5,480	6,092
Other assets	344	433
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 85,009</u>	<u>\$ 97,256</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,366	\$ 6,333
Debt	130	396
Payroll and benefit related liabilities	2,463	3,445
Other current liabilities	7,494	9,087
	<u>          </u>	<u>          </u>
Total current liabilities	14,453	19,261
	<u>          </u>	<u>          </u>
Total liabilities	<u>\$ 14,453</u>	<u>\$ 19,261</u>
Stockholders equity:		
Preferred stock, par value \$.001; 5,000,000 shares authorized, none issued or outstanding		
Common stock, par value \$.001; 80,000,000 shares authorized, 43,265,838 and 42,862,443 shares issued and outstanding as of June 30, 2003 and December 31, 2002, respectively	43	43
Additional paid-in capital	139,974	139,482
Accumulated deficit	(68,960)	(60,530)
Notes receivable for common stock	(106)	(114)
Other equity adjustments	(395)	(886)
	<u>          </u>	<u>          </u>

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Total stockholders' equity	70,556	77,995
Total liabilities and stockholders' equity	\$ 85,009	\$ 97,256

See accompanying Notes to Condensed Unaudited Consolidated Financial Statements

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## PARADYNE NETWORKS, INC.

## CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
<b>Revenues:</b>				
Sales	\$ 16,966	\$ 25,429	\$ 34,700	\$ 62,452
Services	1,749	1,112	3,313	2,141
Royalties	800	191	800	697
<b>Total revenues</b>	<b>19,515</b>	<b>26,732</b>	<b>38,813</b>	<b>65,290</b>
Total cost of sales	10,163	11,421	19,728	32,790
<b>Gross margin</b>	<b>9,352</b>	<b>15,311</b>	<b>19,085</b>	<b>32,500</b>
<b>Operating expenses:</b>				
Research and development (includes \$2,830 of purchased in-process R&D in March 2002)	5,597	6,525	11,206	14,669
Selling, general & administrative	6,695	9,484	13,945	17,356
Amortization of intangible assets and deferred stock compensation	374	428	797	615
Business restructuring charges	1,742		1,742	1,011
<b>Total operating expenses</b>	<b>\$ 14,408</b>	<b>\$ 16,437</b>	<b>\$ 27,690</b>	<b>\$ 33,651</b>
<b>Operating loss</b>	<b>(5,056)</b>	<b>(1,126)</b>	<b>(8,605)</b>	<b>(1,151)</b>
<b>Other (income) expenses:</b>				
Interest, net	(162)	(263)	(316)	(413)
Other, net	48	(137)	141	(76)
<b>Loss before provision for income taxes</b>	<b>(4,942)</b>	<b>(726)</b>	<b>(8,430)</b>	<b>(662)</b>
Benefit for income taxes				(859)
<b>Net income (loss)</b>	<b>\$ (4,942)</b>	<b>\$ (726)</b>	<b>\$ (8,430)</b>	<b>\$ 197</b>
<b>Weighted average number of common shares outstanding</b>				
Basic	43,121	42,252	42,992	39,206
Diluted	43,121	42,252	42,992	41,824
<b>Earnings (loss) per common share</b>				
Basic	\$ (0.11)	\$ (0.02)	\$ (0.20)	\$ 0.01
Diluted	(0.11)	(0.02)	(0.20)	0.00
<b>Consolidated Statements of Comprehensive Income (Loss)</b>				
Net income (loss)	(4,942)	(726)	(8,430)	197
Translation adjustments	162	27	305	49
<b>Comprehensive income (loss)</b>	<b>\$ (4,780)</b>	<b>\$ (699)</b>	<b>\$ (8,125)</b>	<b>\$ 246</b>

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See accompanying Notes to Condensed Unaudited Consolidated Financial Statements

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## PARADYNE NETWORKS, INC.

## CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2003</b>	<b>2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (8,430)	\$ 197
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Income from reversal of inventory write-down	(1,494)	(2,825)
Loss on sale of assets		168
Decrease in allowance for bad debts	(363)	(108)
Depreciation and amortization	3,721	3,946
Purchased in-process research and development		2,830
Decrease in assets, net of effects of acquisition:		
Receivables	4,947	3,028
Restricted cash committed for inventory purchases		5,067
Inventories	1,203	5,581
Other assets	1,662	106
Decrease in liabilities, net of effects of acquisition:		
Accounts payable	(1,967)	(7,948)
Payroll and related liabilities	(982)	(3,359)
Other current liabilities	(1,593)	(802)
	<u>          </u>	<u>          </u>
Net cash (used in) provided by operating activities	\$ (3,296)	\$ 5,881
	<u>          </u>	<u>          </u>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Cash used to acquire net assets in business acquisitions		(3,225)
Cash acquired in business acquisition, net of transaction costs		8,814
Capital expenditures	(413)	(931)