AVOCENT CORP
Form 10-Q
November 05, 2008
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 26, 2008 or

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 Number)
4991 Corporate Drive **Huntsville, Alabama** (Address of Principal Executive Offices)	**35805** (Zip Code)

256-430-4000
(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, as amended, 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.

x Yes o No

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

As of October 30, 2008, the number of outstanding shares of the Registrant s Common Stock was 44,795,691.

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September 26, 2008

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AVOCENT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited, in thousands, except per share data)

	For the three months ended Sept. 26, 2008	Sept. 28, 2007	For the nine months ended Sept. 26, 2008	Sept. 28, 2007
Net sales:				
Products and services	$ 152,175	$ 136,492	$ 402,941	$ 375,475
Licenses and royalties	30,873	25,580	80,688	69,973
Total net sales	183,048	162,072	483,629	445,448
Cost of sales:				
Products and services	64,217	55,151	166,871	156,023
Licenses and royalties	566	564	1,935	1,521
Amortization of intangibles related to licenses and royalties	4,218	2,767	9,753	8,217
Total cost of sales (including stock compensation of $298 and $797 for the three and nine months ended September 26, 2008; $373 and $853 for the three and nine months ended September 28, 2007)	69,001	58,482	178,559	165,761
Gross profit	114,047	103,590	305,070	279,687
Research and development expenses (including stock compensation of $1,523 and $3,878 for the three and nine months ended September 26, 2008; $1,916 and $4,422 for the three and nine months ended September 28, 2007)	24,398	22,751	72,126	64,821
Acquired in-process research and development expenses	700		700	
Selling, general and administrative expenses (including stock compensation of $3,986 and $9,288 for the three and nine months ended September 26, 2008; $4,021 and $9,799 for the three and nine months ended September 28, 2007)	60,266	52,820	172,830	153,922
Restructuring, integration and retirement expenses (including stock compensation of $480 and $2,999 for the three and nine months ended September 26, 2008)	5,926		13,627	
Amortization of intangible assets	8,971	7,581	24,123	24,124
Total operating expenses	100,261	83,152	283,406	242,867
Income from operations	13,786	20,438	21,664	36,820
Net investment income	295	1,074	1,863	2,857
Interest expense	(2,268)	(1,853)	(5,915)	(6,355)
Other income (expense), net	2,362	207	2,722	(95)

Income before provision for income taxes	14,175	19,866	20,334	33,227
Provision for income taxes	3,214	3,749	5,199	1,364
Net income	$ 10,961	$ 16,117	$ 15,135	$ 31,863
Earnings per share:				
Basic	$ 0.24	$ 0.32	$ 0.33	$ 0.63
Diluted	$ 0.24	$ 0.32	$ 0.33	$ 0.62
Weighted average shares used in computing earnings per share:				
Basic	44,792	50,310	45,241	50,506
Diluted	45,467	51,149	45,868	51,399

See notes accompanying these condensed consolidated financial statements.

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AVOCENT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited, in thousands, except per share data)

		September 26, 2008		December 31, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	114,901	$	105,183
Investments maturing within one year				5,943
Accounts receivable, less allowance for doubtful accounts of $2,837 and $2,481 at September 26, 2008 and December 31, 2007, respectively		127,400		109,851
Other receivables		13,318		10,799
Inventories		28,813		30,103
Other current assets		6,912		4,399
Deferred tax assets, net		3,707		5,928
Total current assets		295,051		272,206
Property and equipment, net		36,984		37,298
Goodwill		613,610		584,949
Other intangible assets, net		192,440		167,982
Deferred tax asset, non-current		14,152		13,297
Other assets		3,927		2,701
Total assets	$	1,156,164	$	1,078,433
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	18,590	$	20,031
Accrued wages and commissions		30,197		25,072
Accrued liabilities		43,121		30,630
Income taxes payable		19,559		14,950
Deferred revenue, current		65,346		54,738
Total current liabilities		176,813		145,421
Long-term debt		180,000		95,000
Deferred revenue, non-current		9,250		11,325
Other non-current liabilities		580		1,025
Total liabilities		366,643		252,771
Commitments and contingencies *(see Note 13)*				
Stockholders equity:				
Preferred stock, par value $0.001 per share; 5,000 shares authorized; no shares issued and outstanding				
Common stock, par value $0.001 per share; 200,000 shares authorized; September 26, 2008 54,486 shares issued and 44,859 outstanding; December 31, 2007 53,910 shares issued and 48,283 outstanding;		54		54
Additional paid-in capital		1,223,288		1,208,674
Accumulated other comprehensive income		689		2,130
Accumulated deficit		(203,584)		(218,719)
Treasury stock, at cost; September 26, 2008 9,627 shares; December 31, 2007 5,627 shares;		(230,926)		(166,477)
Total stockholders equity		789,521		825,662

Total liabilities and stockholders equity	$	1,156,164	$	1,078,433

See notes accompanying these condensed consolidated financial statements.

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AVOCENT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	For the nine months ended September 26, 2008	September 28, 2007
Cash flows from operating activities:		
Net income	$ 15,135	$ 31,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,027	7,232
Amortization of intangible assets	34,416	32,677
Stock-based compensation	16,957	15,074
Acquired in-process research and development expense	700	
Amortization of discounts on investments		(155)
Net loss on disposition of property and equipment	548	277
Excess tax benefit from stock-based compensation	(85)	(907)
Changes in operating assets and liabilities (net of effects of acquisitions):		
Accounts receivable, net	(8,214)	11,159
Inventories	4,521	10,846
Other assets	(3,127)	(1,394)
Accounts payable	(4,252)	6,562
Accrued wages and commissions	4,170	(5,860)
Accrued other liabilities and deferred revenue	3,532	1,007
Income taxes, current and deferred	(5,167)	(9,497)
Net cash provided by operating activities	66,161	98,884
Cash flows from investing activities:		
Purchase of Ergo, net of cash received	(28,443)	
Purchase of Touchpaper, net of cash received	(47,113)	
Purchase of other intangible assets	(674)	(3,841)
Purchases of property and equipment	(6,773)	(7,027)
Purchases of investments		(70,568)
Maturities and proceeds from sales of investments	5,942	72,458
Net cash used in investing activities	(77,061)	(8,978)
Cash flows from financing activities:		
Borrowings under term loan	90,000	
Borrowings (repayments) under line of credit, net	(5,000)	(55,000)
Proceeds from employee stock option exercises	1,484	4,294
Excess tax benefit from stock-based compensation	85	907
Purchases of treasury stock	(64,449)	(26,469)
Net cash provided by (used in) financing activities	22,120	(76,268)
Effect of exchange rate changes on cash and cash equivalents	(1,502)	1,141
Net increase in cash and cash equivalents	9,718	14,779
Cash and cash equivalents at beginning of period	105,183	81,301
Cash and cash equivalents at end of period	$ 114,901	$ 96,080

See notes accompanying these condensed consolidated financial statements.

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AVOCENT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, in thousands, except share data)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the periods shown. The results of operations for these periods are not necessarily indicative of the results expected for the full fiscal year nor for any future period. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2007, which is on file with the Securities and Exchange Commission and is available at our website, www.avocent.com. The consolidated balance sheet presented in the accompanying condensed consolidated financial statements for December 31, 2007, was derived from the audited financial statements filed in our 10-K for the period ended December 31, 2007, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

We report our annual results based on years ending December 31. We report our quarterly results for the first three interim periods based on 13 week periods ending on Fridays and for the fourth interim period ending on December 31. Beginning January 1, 2009 we will report our quarterly periods based on the calendar month end.

Our financial statements are consolidated and include the accounts of Avocent Corporation and our wholly owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Note 2. Inventories

Inventories consisted of the following at:

	September 26, 2008	**December 31, 2007**

Raw materials	$	1,270	$	1,394
Work-in-process		300		1,058
Finished goods		27,243		27,651
Inventories	$	28,813	$	30,103

Inventories above have been reduced by reserves for excess and obsolete inventories of $7,227 and $7,328 as of September 26, 2008 and December 31, 2007, respectively.

Note 3. Equity and Treasury Stock

We issued common stock as a result of stock option exercise activity during the three and nine months ended September 26, 2008 and September 28, 2007 as follows:

	For the three months ended		**For the nine months ended**	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Stock option exercises	73,235	40,225	137,607	225,974

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(Unaudited, in thousands, except share data)

We issued common stock as a result of restricted stock unit (RSU) vesting activity during the three and nine months ended September 26, 2008 and September 28, 2007 as follows:

	For the three months ended		For the nine months ended	
	Sept. 26, 2008	Sept. 28, 2007	Sept. 26, 2008	Sept. 28, 2007
Net RSUs issued				
RSU s vested	27,961	1,434	617,145	350,553
Shares withheld for tax	(4,121)	(377)	(178,676)	(104,099)
Net shares issued	23,840	1,057	438,469	246,454

Share repurchase activity during the three and nine months ended September 26, 2008 and September 28, 2007 was as follows:

	For the three months ended		For the nine months ended	
	Sept. 26, 2008	Sept. 28, 2007	Sept. 26, 2008	Sept. 28, 2007
Shares repurchased		300,000	4,000,000	886,267

RSUs granted During the first nine months of 2008, our Compensation Committee approved the grant of 963,000 time-based and 588,000 market condition-based and performance conditioned-based restricted stock units to our employees, officers and directors.

RSUs accelerated During the three and nine months ended September 26, 2008, we accelerated 27,000 and 184,000 RSUs, respectively, in relation to our restructuring program (*see note 14*).

Note 4. Accumulated Other Comprehensive Income

We record unrealized gains and losses on our foreign currency translation adjustments, unrealized gains and losses on derivatives accounted for as cash flow hedges, and unrealized holding gains or losses on our available-for-sale securities, net of tax, as accumulated other comprehensive income, which is included as a separate component of stockholders equity. Comprehensive income for the nine months ended September 26, 2008 and September 28, 2007 is as follows:

	Nine months ended September 26, 2008	September 28, 2007
Net income	$ 15,135	$ 31,863
Unrealized gains on investments		87
Unrealized gains on cash flow hedges	430	142
Foreign currency translation adjustment	(1,871)	1,228
Total comprehensive income	$ 13,694	$ 33,320

As of September 26, 2008 and December 31, 2007, total accumulated other comprehensive income was $689 and $2,130, respectively.

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(Unaudited, in thousands, except share data)

Note 5. Earnings Per Share (*share data in thousands*)

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the three months ended September 26, 2008			
Basic EPS			
Net income available to common stockholders	$ 10,961	44,792	$ 0.24
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		675	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 10,961	45,467	$ 0.24
For the three months ended September 28, 2007			
Basic EPS			
Net income available to common stockholders	$ 16,177	50,310	$ 0.32
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		839	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 16,177	51,149	$ 0.32
For the nine months ended September 26, 2008			
Basic EPS			
Net income available to common stockholders	$ 15,135	45,241	$ 0.33
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		627	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 15,135	45,868	$ 0.33
For the nine months ended September 28, 2007			
Basic EPS			
Net income available to common stockholders	$ 31,863	50,506	$ 0.63
Effect of Dilutive Securities			
Stock options and unvested restricted stock awards		893	
Diluted EPS			
Net income available to common stockholders and assumed conversions	$ 31,863	51,399	$ 0.62

Anti-dilutive options to purchase common stock outstanding and anti-dilutive RSUs were excluded from the calculations above. Anti-dilutive options and anti-dilutive RSUs totaled 3,871 and 4,074 for the three and nine months ended September 26, 2008, respectively. Anti-dilutive options and anti-dilutive RSUs totaled 2,192 and 2,203 for the three and nine months ended September 28, 2007, respectively.

Note 6. Segment Reporting

In the first quarter of 2008, we dissolved our Desktops Solutions Business Unit (DS) and transferred some of its personnel and a portion of its technology into Management Systems. DS results were previously reported within our Other Business Units segment. The related revenue and expenses of DS have not been material to our consolidated results, and this business unit was dissolved rather than being merged into another business unit. Accordingly, we will continue to report historical results for DS within our Other Business Units segment. In addition, no goodwill was allocated to this business unit

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and all related intangible assets were fully amortized prior to the dissolution of the business unit. Accordingly, there was no related write-off of goodwill or write-down of intangible assets as a result of the dissolution of this business unit. Costs associated with the dissolution of DS are included in retirement and restructuring expenses for the first quarter of 2008 (*see note 14*).

In July 2008, we announced our intention to sell (or license the technology of) the majority of our emerging Connectivity and Control Business Unit. We have divided this entrepreneurial business unit into its three product lines, the Equinox branded serial business, the Broadcast business and the Pro Audio Visual business. We have folded our Broadcast product line into Management Systems and intend to sell (or license the technology of) the remaining two parts of this business. All revenues and costs associated with the Broadcast business are included within Management Systems and historical results have been adjusted to include the Broadcast business in Management Systems.

We evaluate the performance of our segments based on revenue and operating income, which is calculated before corporate and unallocated costs, amortization of intangibles, acquired in-process research and development expense, restructuring, integration and retirement costs, and stock compensation costs. We do not track or use assets by segment as a measure of performance, therefore, we have not presented assets by segment. The following is a presentation of information for our two reportable segments, Management Systems and LANDesk:

	For the three months ended		For the nine months ended	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Net revenue:				
Management Systems	$ 138,011	$ 129,222	$ 370,434	$ 351,580
LANDesk	41,559	28,648	102,594	80,065
Other business units	2,972	3,819	8,561	11,788
Corporate and unallocated	506	981	2,040	3,889
Amortization of fair value adjustment to LANDesk deferred revenue		(598)		(1,874)
Total net revenue	$ 183,048	$ 162,072	$ 483,629	$ 445,448

	For the three months ended		For the nine months ended	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Operating income (loss):				
Management Systems	$ 39,649	$ 43,821	$ 97,415	$ 105,304
LANDesk	7,620	885	12,161	969
Other business units	(1,015)	(3,154)	(4,064)	(9,360)
Corporate and unallocated costs	(6,844)	(3,856)	(21,515)	(10,779)
Amortization of fair value adjustment to LANDesk deferred revenue		(598)		(1,874)
Acquired research and development expense	(700)		(700)	
Amortization of intangibles and other expenses	(13,191)	(10,350)	(34,043)	(32,366)

Restructuring, integration and retirement expenses	(5,446)		(10,628)	
Stock-based compensation expense	(6,287)	(6,310)	(16,962)	(15,074)
Total income from operations	$ 13,786	$ 20,438	$ 21,664	$ 36,820
Other income (expense)	389	(572)	(1,330)	(3,593)
Income before provision for income taxes	$ 14,175	$ 19,866	$ 20,334	$ 33,227

Sales by product line for Management Systems and LANDesk for the three and nine months ended September 26, 2008 and September 28, 2007 are as follows:

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	For the three months ended		For the nine months ended	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Management Systems net revenue:				
KVM	$ 97,101	$ 99,181	$ 268,350	$ 268,917
Serial management	13,517	13,387	39,572	37,425
Embedded software and solutions	10,229	8,662	26,981	24,136
Other	17,164	7,992	35,531	21,102
Total Management Systems net revenue	$ 138,011	$ 129,222	$ 370,434	$ 351,580

	For the three months ended		For the nine months ended	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
LANDesk net revenue:				
Licenses and royalties	$ 22,092	$ 16,741	$ 57,919	$ 46,912
Maintenance and services	19,467	11,907	44,675	33,153
Total LANDesk net revenue	$ 41,559	$ 28,648	$ 102,594	$ 80,065

We sell our products internationally to customers in several countries; however no foreign country accounted for more than 10% of sales in the first nine months of 2008 or 2007.

Following is a presentation of long-lived tangible assets by geography as of September 26, 2008 and December 31, 2007:

	September 26, 2008	**December 31, 2007**
Long-lived tangible assets:		
United States	$ 26,187	$ 26,266
International	10,797	11,032
Total	$ 36,984	$ 37,298

Note 7. Forward Contracts and Interest Rate Swap

We use forward contracts to reduce our foreign currency exposure related to the net cash flows from our international operations. The majority of these contracts are short-term contracts (three months or less) and are marked-to-market each quarter and included in trade payables, with the offsetting gain or loss included in other income (expense) in the accompanying consolidated statements of income. As of September 26, 2008, we had 4 open forward contracts with an approximate fair value of $(14). As of December 31, 2007, we had three open forward contracts with an approximate fair value of $8.

As of September 26, 2008 we have two interest rate swaps, which are recorded on our balance sheet. In 2006, we entered into an interest rate swap agreement with a notional amount of $125,000. The notional amount of the interest rate swap was $20,000 as of September 26, 2008. The swap was effective on August 31, 2006 and terminates on December 31, 2008. The swap calls for us to make fixed rate payments of 5.42% over the term of the hedge and to receive floating rate payments based on LIBOR (matching the LIBOR rate in the line of credit above) from the counter-party. On May 1, 2008, we entered into an interest rate swap agreement with a notional amount of $80,000. The notional amount of the interest rate swap was $80,000 as of September 26, 2008. The swap was effective on May 1, 2008 and terminates on December 31, 2009. The swap calls for us to make fixed rate payments of 3.05% over the term of the hedge and to receive floating rate payments based on LIBOR (matching the LIBOR rate in the line of credit above) from the counter-party.

The objective of the rate swap agreements is to provide a hedge against rising LIBOR interest rates that would have a negative effect on our cash flows due to changes in interest rates on our credit agreements. We anticipate these hedges will be settled upon maturity and are being accounted for as a cash flow hedges. The interest rate swaps are recorded at fair value

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each reporting period with the changes in the fair value of the hedge that take place through the date of maturity recorded in accumulated other comprehensive income (OCI).

At September 26, 2008, we recorded a net unrealized gain on the interest rate swaps, net of tax, of $430 in accumulated OCI. There was no significant ineffectiveness in the nine months of 2008, and we anticipate no significant ineffectiveness throughout the remainder of 2008.

Note 8. Acquisitions

Touchpaper Group Limited On June 30, 2008, we acquired Touchpaper Group Limited, a privately-held company based in Woking, U.K. (Touchpaper). Touchpaper employed approximately 200 people, located primarily in the UK. We acquired Touchpaper for $45,740 in cash consideration plus assumed liabilities and acquisitions costs. The Touchpaper product lines include software for incident management, problem management and service desk management. We believe the acquisition of Touchpaper and its products will enhance and expand our IT Operations Management solutions and products. The results of Touchpaper s operations have been included in the consolidated financial statements since the date of acquisition.

The acquisition was recorded under the purchase method of accounting, and the purchase cost was allocated based on the fair value of the assets acquired and liabilities assumed. In accordance with generally accepted accounting principles, purchased research and development costs allocated to patented and patent-pending technology were capitalized and will be amortized over the respective estimated useful lives. The remaining amounts of purchased research and development were expensed upon the closing of the transaction. The goodwill recorded as a result of the acquisition will not be amortized but will be allocated to our LANDesk business unit (see Note 9) and will be included in Avocent s annual review of goodwill for impairment. Amortization of the other intangible assets acquired and the goodwill recorded is not tax deductible. Our preliminary allocation of the purchase consideration, excluding cash received, is as follows:

Cash paid for outstanding shares	$	45,740
Acquisition costs paid by Avocent		4,248
Total purchase consideration	$	49,988

We funded the acquisition through available cash and through borrowings on the line of credit. On the closing of the Touchpaper transaction, we acquired $2,875 in cash held by Touchpaper.

The purchase consideration was allocated, on a preliminary basis, to the estimated fair values of the assets acquired and liabilities assumed, as follows:

		Purchase Price Allocation	Amortization Period
Tangible assets	$	14,583	
In-process research and development		700	
Developed technology		29,000	5 years
Maintenance contracts		8,000	5 years
Customer base		2,000	5 years
Trademarks		100	3 years
Non-compete agreements		125	3 years
Goodwill		23,630	
Deferred taxes		(10,921)	
Assumed liabilities		(17,229)	
	$	49,988	

The capitalized amounts will be amortized on a straight-line basis over the estimated life of the intangibles. An escrow account with approximately $11,200 in cash is held for indemnifiable claims for a period of 24 months after the acquisition.

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(Unaudited, in thousands, except share data)

The $700 in fair value of all of the in-process research and development (IPR&D) received in the acquisition was determined using a form of the discounted cash flow method known as the multi-period excess earnings method. These amounts were for particular research and development projects that have no alternative future uses and were therefore expensed rather than capitalized at the time of purchase.

Touchpaper s in-process research and development activities consisted of the development of its ITBM Version 7.2.6 software product. This product was completed during October 2008.

The new generations of products under development are projected to sell through sales channels and to customers that are substantially the same as current and historical sales channels and customers. Pricing and margins will not differ significantly from historical pricing and margins. Revenue for the project under development was projected through 2017. Net income attributable to IPR&D was calculated by applying Touchpapers projected gross, operating, and net profit margins to IPR&D revenue, while considering Avocent s historical results and industry prospects. This product has an estimated economic life of approximately 7 years. The discount rate used to value IPR&D was 21%.

Ergo 2000, Inc. On July 10, 2008 we acquired certain assets and assumed certain liabilities of Ergo 2000, Inc. (Ergo), a privately held provider of rack-mounted LCD consoles with approximately 35 employees based in Fullerton, California, for approximately $29,000 plus acquisition costs paid by Avocent. Ergo s products were integrated into the Management Systems business unit as part of that unit s overall product offering and related operating results were included in the consolidated financial statements since the date of acquisition.

The acquisition was recorded under the purchase method of accounting, and the purchase price was allocated based on the fair value of the assets acquired and liabilities assumed. The goodwill recorded as a result of the acquisition will be allocated to our Management Systems unit and will not be amortized but will be included in our annual review of goodwill for impairment. Amortization of the other intangible assets acquired and the goodwill recorded is tax deductible. Our preliminary allocation of the purchase consideration, excluding cash received, is as follows:

Cash consideration paid to owners	$	27,500
Cash paid to settle owners line of credit		1,505
Acquisition costs paid by Avocent		307
Total estimated purchase consideration	$	29,312

We funded the acquisition through available cash and borrowings from our line of credit. On the closing of the Ergo transaction, we acquired $869 in cash held by Ergo.

The purchase consideration was allocated, on a preliminary basis, to the estimated fair values of the assets acquired and liabilities assumed, as follows:

		Purchase Price Allocation	Amortization Period
Tangible assets	$	7,023	
Customer base		18,400	5 years
Non-compete agreements		1,000	3 years
Goodwill		5,031	
Assumed liabilities		(2,142)	
	$	29,312	

The capitalized amounts will be amortized on a straight-line basis over the estimated life of the intangibles. An escrow account with $3,500 in cash is held for indemnifiable claims until February 1, 2010.

Pro Forma Financial Information - The following unaudited pro forma summary combines the results of operations of Avocent, Touchpaper and Ergo as if the acquisitions had occurred prior to the beginning of each period presented. Certain adjustments have been made to reflect the impact of the purchase transactions. These pro forma results have been prepared

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for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made at the beginning of each period presented, or of results which may occur in the future.

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Net sales	$ 183,431	$ 179,018	$ 515,957	$ 496,292
Net income	$ 11,589	$ 14,638	$ 12,624	$ 27,430
Income per basic share	$ 0.26	$ 0.29	$ 0.28	$ 0.54
Income per diluted share	$ 0.26	$ 0.29	$ 0.28	$ 0.53

The above amounts exclude acquired in-process research and development expense of $700 for the three and nine months ended September 26, 2008 and September 28, 2007, related to the Touchpaper acquisition.

Note 9. Goodwill and Other Intangible Assets

Other intangible assets subject to amortization were as follows:

	September 26, 2008		December 31, 2007	
	Gross Carrying Amounts	**Accumulated Amortization**	**Gross Carrying Amounts**	**Accumulated Amortization**
Developed technology	$ 85,840	$ 27,483	$ 56,840	$ 17,292
Internally developed software for resale	21,900	7,604	21,900	4,867
Patents and trademarks	30,958	9,808	30,670	6,590
Customer base and certifications	119,978	38,250	99,878	25,496
Maintenance contracts	17,600	4,400	9,600	2,560
Non-compete agreements	11,325	7,747	10,624	5,432
Other	2,310	2,179	2,310	1,603
	$ 289,911	$ 97,471	$ 231,822	$ 63,840

For the three months ended September 26, 2008 and September 28, 2007, amortization expense for other intangible assets was $13,383 and $10,469, respectively. For the nine months ended September 26, 2008 and September 28, 2007, amortization expense for other intangible assets was $34,416 and $32,677, respectively. The approximate estimated annual amortization for other intangibles is as follows:

Years ending December 31:		
2008, remainder	$	13,973
2009	$	50,195
2010	$	46,194
2011	$	37,860
2012	$	28,742
Thereafter	$	15,476

We evaluate goodwill for impairment in the fourth quarter of each fiscal year, unless circumstances dictate measurement at an interim date.

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The changes in the carrying amount of goodwill for the year ended December 31, 2007, are as follows:

	Management Systems	LANDesk	Other Business Units	Total
Balance as of January 1, 2008	$ 328,011	$ 252,355	$ 4,583	$ 584,949
Transfer of Broadcast goodwill to Management Systems	1,150		(1,150)	
Acquisition of Touchpaper		23,630		23,630
Acquisition of Ergo	5,031			5,031
Balance as of September 26, 2008	$ 334,192	$ 275,985	$ 3,433	$ 613,610

The goodwill transfer from our other business units to Management Systems resulted from the transfer of our Broadcast product line (*see Note 6*). We allocated goodwill related to Connectivity and Control to its three products lines based on their relative fair Values. Approximately $1,150 was allocated to the Broadcast product line transferred to Management Systems.

We perform an annual impairment test of goodwill in the fourth quarter of each year unless circumstances call for an intirim test. We have not yet completed our impairment test in the fourth quarter of 2008 as of this filing but do not anticipate an adjustment will be required based on our recent financial results and expected future results. However, our business and operating results depend to a significant extent on economic conditions in general and on IT spending in particular. Any adverse change in IT spending 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. Recent news regarding the U.S and global economy indicate a slowing economy and our market capitalization has recently been below book value. Accordingly, and as required by SFAS 142, we will continue to monitor our goodwill for potential impairment in light of this general economic uncertainty.

Note 10. Product Warranties and Deferred Revenue

We include an accrued liability for warranty returns in our balance sheet within accrued current liabilities. The activity within the liability for warranty returns for the nine months ended September 26, 2008 was as follows:

Balance, January 1, 2008	$	1,854
Accruals for product warranties issued during the period		7,161
Assumed on acquisition		35
Settlements made during the period		(6,747)
Balance, September 26, 2008	$	2,303

We include an accrued liability for extended warranty program in our balance sheet within deferred revenue. The activity within deferred revenue for our extended warranty program for the nine months ended September 26, 2008 was as follows:

Balance, January 1, 2008	$	5,388
New extended warranty contracts		3,362
Earned revenue from amortization of deferred revenue		(2,978)
Balance, September 26, 2008	$	5,772

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We defer revenue for subscription, service and maintenance contracts until earned, which is generally over the term of the contract or when services are performed. Deferred revenue was $68,812 as of September 26, 2008 and $60,647 as of December 31, 2007.

Note 11. Income Taxes

The effective tax rate in the third quarter of 2008 was a provision of 22.7% compared to a provision of 18.9% in the third quarter of 2007. The provision for income taxes was $3,214 for the third quarter of 2008, compared to a provision of $3,749 in the third quarter of 2007. The effective tax rate for the first nine months of 2008 was a provision of 25.6% compared to a provision of 4.1% for the first nine months of 2007. The provision for income taxes was an expense of $5,199 for the first nine months of 2008, compared to an expense of $1,364 for the first nine months of 2007. The increase in the effective tax rate was primarily the result of the change in the amount and mix of our pre-tax book income within taxable jurisdictions and a tax benefit recognized during the second quarter of 2007 associated with in-process R&D previously charged to book expense.

During the second quarter of 2007, we made certain elections under the Internal Revenue Code Sec. 338(g) related to the LANDesk acquisition in August 2006. As a result of making these elections, the acquisition was treated for U.S. tax purposes as an asset acquisition where we stepped up the tax basis in assets and liabilities previously recognized in the purchase accounting. We had previously accounted for this acquisition as a qualified stock purchase, with carryover tax basis in the assets and liabilities recorded. Our preliminary purchase price allocation was based upon the initial structure of the transaction and did not take into consideration the tax impacts should those elections be made within the required time period, including the tax impacts associated with the amount assigned to in-process R&D that was charged to expense at acquisition. During the second quarter of 2007, we reconsidered the measurement of deferred taxes related to this business combination to take into consideration the tax impacts of the elections made. As a result, we adjusted the deferred tax accounts with the offset reducing the amount of goodwill previously recognized from this transaction. In addition, we recognized a tax benefit of $6,500 during the quarter ended September 28, 2007 to take into consideration the tax impacts associated with the in-process R&D previously charged to expense on a gross basis at acquisition.

As of September 26, 2008, we had total reserves for uncertain tax positions related to gross unrecognized tax benefits of $5,248, of which $3,486, if recognized, would affect our effective tax rate. We recognize potential accrued interest and penalties related to unrecognized tax benefits from our global operations within income tax expense. We recorded $394 of such expenses during the first nine months of 2008. As of September 26, 2008, we had accrued interest payable related to the unrecognized tax benefits of $842.

We conduct business globally, and as a result our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examinations by taxing authorities throughout the world including the U.S. With few exceptions, we are no longer subject to U.S. federal, state, and local, and non-U.S. income tax examinations for tax years prior to 2005.

In 2006, the Internal Revenue Service (IRS) commenced an examination of our U.S. income tax returns for 2004 and 2005. During the first quarter of 2008, the IRS proposed certain adjustments relating primarily to transfer pricing, increasing our tax liabilities for those periods. We reached a negotiated settlement with the IRS related to those adjustments resulting in an additional tax payment of $6,600, which we had accrued prior to 2008 and was paid during the first quarter of 2008. A payment for interest of $1,430, which we had previously accrued, associated with the additional tax liability was paid during the second quarter of 2008. During the third quarter of 2008, the IRS commenced an examination of our US income tax returns for 2006 and 2007. As of September 26, 2008 the IRS has not issued any proposed adjustments for those periods.

Note 12. Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* (SFAS 157), which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other

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things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities. Nonfinancial assets and nonfinancial liabilities for which we have not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, and those initially measured at fair value in a business combination.

Relative to SFAS 157, the FASB issued FASB Staff Positions (FSP) 157-1, 157-2 and 157-3. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13, *Accounting for Leases*, (SFAS 13) and its related interpretive accounting pronouncements that address leasing transactions, while FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-3 clarified the application of SFAS 157 in determining the fair value of financial assets when the markets for those assets are inactive. FSP 157-3 was effective on issuance in October 2008, including periods in which financial results have not been issued. We are currently evaluating these FSPs, but do not believe they will have a material impact on our financial statements.

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 26, 2008:

		Fair value measurements at Sept. 26, 2008		
	Total Carrying Value at Sept. 26, 2008	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Money market funds	$ 35,814	$ 35,814		
Derivative liabilities	$ 330	$	$ 330	$

The fair market value of our money market funds is measured at fair value using quoted prices in active markets. These fair value measurements are classified within Level 1 of the valuation hierarchy.

The fair market value of over-the-counter derivatives is measured at fair value using expected cash flows over the life of the trade. The fair value measurement is prepared using the closing mid-market rate/price environment on September 26, 2008, using proprietary models, available market data and reasonable assumptions. These fair value measurements are classified within Level 2 of the valuation hierarchy.

Note 13. Legal Matters

In January 2007, we filed a complaint for patent infringement in the United States District Court for the Western District of Washington against Aten Technology, Inc., Aten International Co., Ltd, Belkin Corporation, Rose Electronics and its general partners, and Trippe Manufacturing Company. The defendants filed counterclaims alleging non-infringement, unenforceability, and invalidity. In May 2007, we entered into a Settlement and License Agreement with Trippe Manufacturing, and dismissed Trippe from the lawsuit. In October 2007, the District Court stayed the action pending a re-examination of our patents by the Patent and Trademark Office. That re-examination is currently underway.

In January 2008, Avocent Redmond Corp. filed a complaint for unauthorized use of patented inventions against the United States government in the United States Court of Federal Claims. The complaint alleges that the United States

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government accepted products manufactured and sold by Rose Electronics that are covered by patents held by Avocent Redmond. The United States has answered and Rose Electronics has intervened.

In March 2007, KBM Enterprises, formerly a contract manufacturer for Avocent, filed a complaint against Avocent in the Circuit Court of Madison County, Alabama, seeking $9,500 for costs allegedly incurred by KBM in its manufacturing efforts on behalf of Avocent. We have filed an answer and counterclaims against KBM and one of its principals. Discovery is currently underway.

In April 2007, we filed a complaint for declaratory judgment against Aten International Co., Ltd. in the United States District Court for the Northern District of Alabama. We are seeking a declaratory judgment that two patents owned by Aten and asserted against Avocent are invalid and that certain of products alleged by Aten to infringe do not infringe these patents. In August 2007, Aten s motion to dismiss for lack of personal jurisdiction was granted, and we have appealed that ruling to the Federal Circuit Court of Appeals. Oral arguments were held in February 2008.

In November 2007, Gemini IP, LLC filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Avocent Corporation and our subsidiary LANDesk Software, Inc. The complaint alleges infringement of a Gemini patent through the sales of a LANDesk product. The complaint seeks injunctive relief, damages, attorneys fees, and costs. Avocent Corporation was dismissed from the lawsuit in January 2008, and we have made a claim for indemnification against the LANDesk escrow account. In April 2008, the District Court stayed the action pending a review of the Gemini Patent by the Patent and Trademark Office.

We acquired LANDesk Group Limited, a privately-held company, in August 2006, and the acquisition agreements provided for total initial consideration of approximately $407 million and a potential earn-out payment to the former shareholders of LANDesk of up to $60 million if LANDesk achieved specified revenue targets for the full year of 2006. Based on LANDesk s 2006 revenue results, we concluded that LANDesk did not achieve the minimum revenue target required to cause any earn-out payment and that no earn-out was earned or payable. Accordingly, we did not pay, and have not accrued for, any earn-out payment. The Shareholder Representative for the former shareholders of LANDesk has instituted the arbitration procedure described in the acquisition agreements and is challenging our conclusion that no earn-out was earned or payable. We are in the process of preparing for that arbitration proceeding.

We intend to vigorously defend each of these matters, but the outcome of any claim, litigation, or proceeding is always inherently uncertain. Based on the facts and circumstances currently known to us, we believe that resolution of the foregoing matters will not materially affect our operations, financial condition, or cash flows.

Note 14. Restructuring, Integration and Retirement

During the third quarter of 2008, we announced a series of restructuring actions and began the integration of our Ergo and Touchpaper acquisitions. The restructuring and integration actions are designed to enhance competitiveness, improve efficiency, and reduce our overall cost structure. The restructuring and integration costs along with costs associated with our former CEO retirement incurred in the first quarter of 2008, have been separately identified as Restructuring, integration and retirement expenses within our operating expenses. Restructuring and integration expenses include severance charges incurred for certain workforce reductions, costs associated with the reduction of certain research and development investments, cost associated with the integration of marketing functions, and the costs associated with the relocation of certain functions from our Redmond, Washington facility to Huntsville, Alabama.

We recorded $5,926 and $13,627 for the three and nine months ended September 26, 2008, respectively. These costs include stock compensation costs of $480 and $2,999 for the three and nine months ended September 26, 2008, respectively (see note 3). These costs also include $936 of integration related costs in the three and nine months ended September 26, 2008 and approximately $1,400 of costs to be settled in cash related to the retirement of our CEO in the first quarter of 2008. The balance of these costs relates to severance charges and other costs to be settled in cash. As of September 26, 2008 we had accrued approximately $6,012 related to severance costs, which was included in accrued wages and commissions in our consolidated balance sheet. All costs associated with our restructuring and integration program were carried at the corporate level, none of these costs were allocated to a specific business unit.

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A rollforward of the liability for severance charges and other costs settled in cash associated with our restructuring programs is as follows:

Balance, January 1, 2008	$	
Accruals for severance costs		8,280
Settlements made during the period		(2,268)
Balance, September 26, 2008	$	6,012

Excluding stock compensation costs, we expect to record an additional $3,000 to $4,000 in the fourth quarter of 2008, for restructuring and integration expenses. Most of these costs will be paid during the fourth quarter of 2008 and the first quarter of 2009.

Note 15. Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS No. 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We have adopted SFAS 159 and have elected not to measure any additional financial instruments or other items at fair value.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) revises the principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. The application of SFAS 141(R) will result in a significant change in accounting for future acquisitions after the effective date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161). SFAS No. 161 requires companies with derivative instruments to disclose information that would enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS No. 133) and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however, early application is encouraged. We are currently evaluating the impact of SFAS 161, but do not expect its adoption to have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Lives of Intangible Assets , which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. This interpretation is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We are currently evaluating the impact of this staff position, but do not expect its adoption to have a material impact on our financial statements.

Note 16. Credit Facility

In July 2008, we increased our debt capacity by $90,000 with an addition to our credit facility. The addition is a 3 year term loan (balance due June 2011) with a variable rate similar to our line of credit and bears an initial interest rate of 4.41%. The addition to our credit facility will provide extra capacity and provide strategic flexibility. We reduced the balance outstanding on our revolving line of credit by $90,000 with the proceeds from the term loan.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

THE INFORMATION IN THIS ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND IN OTHER PARTS OF THIS FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, STATEMENTS RELATING TO OUR FUTURE BUSINESS PROSPECTS AND ECONOMIC CONDITIONS IN GENERAL; STATEMENTS REGARDING OUR ABILITY TO PREDICT FUTURE SALES AND MANAGE INVENTORY LEVELS; STATEMENTS REGARDING PRICING PRESSURE; STATEMENTS REGARDING THE FLUCTUATION OF OUR REVENUE GROWTH IN RELATION TO ECONOMIC CONDITIONS AND IT RELATED SPENDING TRENDS; STATEMENTS REGARDING OUR PRODUCT DEVELOPMENT ACTIVITIES, OUR PRODUCT PLATFORMS, AND OUR ABILITY GROW OUR BUSINESS; STATEMENTS REGARDING FUTURE ACQUISITIONS; STATEMENTS ABOUT THE SALE OF OUR CONNECTIVITY AND CONTROL BUSINESS UNIT; STATEMENTS REGARDING OUR ANTICIPATED FUTURE GROSS MARGINS, RESEARCH AND DEVELOPMENT EXPENSES, AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES; STATEMENTS ABOUT OUR MANAGEMENT TRANSITION AND RESTRUCTURING EFFORTS; STATEMENTS ABOUT FUTURE BORROWINGS UNDER OUR CREDIT FACILITES AND THE INTEREST ON AND REPAYMENT OF THESE BORROWINGS; AND STATEMENTS REGARDING THE OUTCOME OF, AND OUR LEGAL COSTS FOR, PATENT AND OTHER LEGAL CLAIMS, LITIGATION, AND PROCEEDINGS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR 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 PART II, ITEM 1A RISK FACTORS.

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 that centralize control of servers, desktop computers, serial devices, wireless devices, mobile devices, and network appliances, thus increasing the efficiency of IT resources. Server manufacturers resell private-labeled Avocent KVM (keyboard, video, and mouse) switches 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.

In July 2008, we acquired Touchpaper Group Limited (Touchpaper), a privately-held company based in Woking, U.K. Touchpaper employed approximately 200 people, located primarily in the UK. Also in July 2008, we acquired certain assets and assumed certain liabilities of Ergo 2000, Inc. (Ergo), a privately-held provider of rack-mounted LCD consoles with approximately 35 employees based in Fullerton, California *(see Note 8 to the condensed consolidated financial statements).*

For a more complete description of our products, technologies and markets, please refer to our Form 10-K, which was filed on February 21, 2008.

Most of our revenue is derived from sales through our reseller and distributor network, sales to a limited number of OEMs (who purchase our switching systems on a private-label or branded basis for integration and sale with their own products), and sales to a limited number of direct customers. Sales to our branded customers accounted for 67% of sales in the first nine months of 2008 and 66% of sales in the first nine months of 2007. Sales to our OEM customers accounted for 33% of sales in the first nine months of 2008 and 34% of sales in the first nine months of

2007. We do not have contracts with many of our branded customers, and in general, our OEM and branded business customers are obligated to purchase products from us only pursuant to binding purchase orders. The loss of, or material decline in orders from, these customers would have a material adverse effect on our business, financial condition, results of operations, and cash flows. Our top five customers include both OEM and branded customers, and accounted for 48% and 53% of sales in the first nine months of 2008 and 2007, respectively.

We sell products to resellers, distributors, end-users, and OEMs in the United States, Canada, Europe, and Asia as well as in other foreign markets. Sales within the United States accounted for approximately 53% and 58% of first nine months sales in 2008 and 2007, respectively. No foreign country accounted for more than 10% of sales in the first nine months of 2008 or 2007.

With continued industry-wide initiatives to reduce all channel inventories and to shorten lead times, trends with our major customers are, generally, to reduce the number of weeks of forward-committed firm orders. This trend continues to affect our business with certain distributors, OEMs, and other server manufacturers, and we believe that it will continue to make our future sales more difficult to predict and inventory levels more difficult to manage.

We experience significant price competition in the market for all of our products, and we expect that pricing pressures will continue in the future. In addition, our business and operating results depend to a significant extent on economic conditions in general and on IT spending 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 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. For example, since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. This financial crisis could impact 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 and/or customer insolvencies.

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Many of our executive officers and directors are vested in significant amounts of options to purchase shares of our common stock and restricted stock units (RSUs). These officers and directors have informed us that they have sold, and may sell additional, shares of our common stock to provide liquidity and diversify their portfolios. During the first nine months of 2008, our Board of Directors granted time-based, market condition-based and performance-based RSUs with two and three year vesting. Awards with similar terms were also granted in the second quarter of 2007.

In the first quarter of 2008, we dissolved our Desktop Solutions Business Unit and transferred some of its personnel and a portion of its technology into Management Systems. We believe our remaining business units allow us to focus on new technology and growth opportunities and to add product and shareholder value in the future. We believe this structure enhances customer service, speeds delivery of products to market and better focuses our research, development, and marketing resources. We recently announced our intention to sell the majority of our emerging Connectivity and Control Business Unit. We have divided this entrepreneurial business unit into its three product lines; the Equinox branded serial business, the Broadcast business and the Pro Audio Visual business. We have folded our Broadcast product line into Management Systems and intend to sell (or license the technology of) the remaining two parts of this business. All revenues and costs associated with our broadcast business are included within Management Systems and historical results for both Management Systems and our other business units have been adjusted to reflect this change.

Our largest business unit, Management Systems, comprised 77% of our consolidated net revenue in the first nine months of 2008 and 79% in the first nine months of 2007. LANDesk contributed 21% of net revenue to the first nine months of 2008 and 18% in the first nine months of 2007. Our other business units and unallocated revenue comprised the remaining percentage of our consolidated net revenue in 2008 and 2007. See Note 6 in the notes to the condensed consolidated financial statements contained in Part I, Item 1 of this document.

Results of Operations

The following table sets forth, for the periods indicated, selected income statement data expressed as a percentage of net sales:

	Three months ended		**Nine months ended**	
	Sept. 26, 2008	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	37.7	36.1	36.9	37.2
Gross profit	62.3	63.9	63.1	62.8
Operating expenses:				
Research and development expenses	13.3	14.0	14.9	14.5
Acquired in-process research and development expenses	0.4		0.1	
Selling, general and administrative expenses	32.9	32.6	35.7	34.6
Restructuring, integration and retirement expenses	3.2		2.8	
Amortization of intangible assets	4.9	4.7	5.0	5.4
Total operating expenses	54.7	51.3	58.5	54.5
Income from operations	7.6	12.6	4.6	8.3
Net investment income	0.2	0.7	0.4	0.6
Interest expense	(1.2)	(1.1)	(1.2)	(1.4)

Other income (expense), net	1.2	0.1	0.6	
Income before provision (benefit) for income taxes	7.8	12.3	4.4	7.5
Provision (benefit) for income taxes	1.8	2.4	1.1	0.3
Net income	6.0%	9.9%	3.3%	7.2%

Net sales. Our net sales consist of sales of KVM console switching systems, digital connectivity products and technologies, software licenses and subscriptions, support and maintenance agreements, serial connectivity devices, wireless extension products, IPMI, extension, remote access and management products and technologies, and royalties from licensing our intellectual property.

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	For the three months ended				For the nine months ended			
(dollars presented in 000 s)	Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales	Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales
Net revenue, customer distribution								
Branded	$ 124,613	68%	$ 109,657	68%	$ 325,147	67%	$ 293,455	66%
OEM	58,435	32%	52,415	32%	158,482	33%	151,993	34%
Total net revenue	$ 183,048	100%	$ 162,072	100%	$ 483,629	100%	$ 445,448	100%

The 13% growth in sales from the third quarter of 2007 compared to the third quarter of 2008 was the result of increased branded sales across our geographic regions and increased international OEM sales. In addition, the acquisition of Touchpaper, which closed early in the third quarter, contributed $7.5 million to our third quarter 2008 revenue. The acquisition of the Ergo product line, which also closed early in the third quarter, contributed $6.6 million to our third quarter 2008 revenue. Branded sales grew approximately 14% in the third quarter of 2008 from the third quarter of 2007, primarily due to the contribution of Touchpaper revenue and an increase in revenues from our secure switch products. Our OEM sales increased approximately 12% from the third quarter of 2007, primarily due to the contribution of Ergo product revenue. Our branded and OEM businesses grew in EMEA and Asia during the third quarter of 2008. We attribute the strength in our foreign markets partly to the revenue from our recent acquisitions and to our recent additions to our international sales force. Net sales increased 9% from the first nine months of 2007 compared to the first nine months of 2008 for similar reasons experienced in the third quarter of 2008.

	For the three months ended		For the nine months ended	
(dollars presented in 000 s)	Sept. 26, 2008	Sept. 28, 2007	Sept. 26, 2008	Sept. 28, 2007
Net revenue:				
Management Systems	$ 138,011	$ 129,222	$ 370,434	$ 351,580
LANDesk	41,559	28,648	102,594	80,065
Other business units	2,972	3,819	8,561	11,788
Corporate and unallocated	506	981	2,040	3,889
Amortization of fair value adjustment to LANDesk deferred revenue		(598)		(1,874)
Total net revenue	$ 183,048	$ 162,072	$ 483,629	$ 445,448

Our Management Systems Business Unit includes our traditional KVM products, our serial products and our embedded software and solutions products (see Note 6 in the notes to our condensed consolidated financial statements in Part I Item I of this document). Management Systems sales increased approximately 7% in the third quarter 2008 compared to the third quarter of 2007, primarily as a result of contribution from our Ergo acquisition and increases in the sales of our embedded software and solutions. Sales by product line for Management Systems for the three and nine months ended September 26, 2008 and September 28, 2007 were as follows:

	For the three months ended		For the nine months ended	
(dollars presented in 000 s)	Sept. 26, 2008	September 28, 2007	Sept. 26, 2008	September 28, 2007
Management Systems net revenue:				
KVM	$ 97,101	$ 99,181	$ 268,350	$ 268,917
Serial management	13,517	13,387	39,572	37,425
Embedded software and solutions	10,229	8,662	26,981	24,136
Other	17,164	7,992	35,531	21,102
Total Management Systems net revenue	$ 138,011	$ 129,222	$ 370,434	$ 351,580

LANDesk revenue is comprised of license-based revenue, primarily from the LANDesk Management Suite (LDMS) product, and subscription-based revenue, primarily from the LANDesk Security Suite products and from maintenance and support agreements related to LANDesk Management Suite. LANDesk revenue also includes revenue from our Touchpaper acquisition. Compared to the third quarter of 2007, LANDesk revenues increased 45% during the third quarter of 2008. The growth in subscription and maintenance revenue and the addition of Touchpaper also resulted in an increase to deferred revenue recorded on the balance sheet. Deferred revenue increased to $74.6 million at September 26, 2008 from $66.1 million at December 31, 2007. Sales for LANDesk for the three and nine months ended September 26, 2008 and September 28, 2007 are as follows:

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(dollars presented in 000 s)	For the three months ended Sept. 26, 2008	Sept. 28, 2007	For the nine months ended Sept. 26, 2008	Sept. 28, 2007
LANDesk net revenue:				
Licenses and royalties	$ 22,092	$ 16,741	$ 57,919	$ 46,912
Maintenance and services	19,467	11,907	44,675	33,153
Total LANDesk net revenue	$ 41,559	$ 26,648	$ 102,594	$ 80,065

For the third quarter, consolidated international sales grew 32% in 2008 compared to 2007, while sales within the United States were relatively flat in 2008 compared to 2007. As mentioned previously, our OEM and branded businesses grew in EMEA and Asia, but only our branded business grew in North America. The growth experienced in our North America branded business was not sufficient to offset the declines in our North America OEM business.

(dollars presented in 000 s)	For the three months ended Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales	For the nine months ended Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales
Net revenue, geographic region								
United States	$ 94,850	52%	$ 95,538	59%	$ 256,217	53%	$ 257,591	58%
International	88,198	48%	66,534	41%	227,412	47%	187,857	42%
Total net revenue	$ 183,048	100%	$ 162,072	100%	$ 483,629	100%	$ 445,448	100%

Gross profit. Gross profit is affected by a variety of factors, including the ratio of sales among our distribution channels; absorption of fixed costs as sales levels fluctuate; product mix and component costs; labor costs; new product introductions by us and by our competitors; increasing sales of our software products which tend to have higher gross margins; and our outsourcing of manufacturing and assembly services.

(dollars presented in 000 s)	For the three months ended Sept. 26, 2008	Gross Margin	Sept. 28, 2007	Gross Margin	For the nine months ended Sept. 26, 2008	Gross Margin	Sept. 28, 2007	Gross Margin
Management Systems	$ 81,950	59.4%	$ 79,452	61.5%	$ 222,213	60.0%	$ 212,731	60.5%
LANDesk	35,088	84.4%	25,225	88.1%	88,281	86.0%	70,342	87.9%
Other business units	926	31.2%	1,707	44.7%	3,029	35.4%	3,736	32.3%
Corporate and unallocated	599		944		2,097		3,822	
Stock-based compensation	(298)		(373)		(797)		(853)	
Intangible amortization developed technology	(4,218)		(2,767)		(9,753)		(8,217)	
Amortization of fair value adjustment to LANDesk deferred revenue			(598)				(1,874)	
	$ 114,047	62.3%	$ 103,590	63.9%	$ 305,070	63.1%	$ 279,687	62.8%

Gross profit and
margin

The decline in gross margin during the third quarter of 2008 resulted from a change in product mix as a result of the acquisitions within Management Systems and LANDesk and the price reductions on certain older analog products (see Note 6 in the notes to our condensed consolidated financial statements in Part I Item I of this document). Management Systems experienced increased sales for certain secure switch products during the third quarter of 2008. These products carry lower margins than our other Management Systems products; therefore the sales increase had a direct impact on our margins in the third quarter of 2008. In addition, margins on the Ergo products are much lower than margins on our legacy products. Similarly, margins on the Touchpaper product line are lower than the legacy LANDesk product line due to Touchpaper s higher component of professional services. In the third quarter 2008, Ergo products contributed $1.5 million to gross profit, while Touchpaper contributed $4.2 million to gross profit. As Touchpaper and Ergo become fully integrated into Avocent, we expect margins on these acquired product lines to improve. For the nine months ended September 26, 2008, compared to the nine months ended September 28, 2007, our gross profit and margin improved as a result of significantly higher revenues, especially within our LANDesk business unit which carries significantly higher gross margins, offset somewhat by the impact of the lower margins from our acquisitions.

Operating expenses.

	For the three months ended				For the nine months ended			
(dollars presented in 000 s)	Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales	Sept. 26, 2008	% of Sales	Sept. 28, 2007	% of Sales
Research and development expenses	$ 24,398	13.3%	$ 22,751	14.0%	$ 72,126	14.9%	$ 64,821	14.5%
Acquired in-process research and development expenses	700	0.4%			700	0.1%		
Selling, general and administrative expenses	60,266	32.9%	52,820	32.6%	172,830	35.7%	153,922	34.6%
Restructuring, integration and retirement expenses	5,926	3.2%			13,627	2.8%		
Amortization of intangible assets	8,971	4.9%	7,581	4.7%	24,123	5.0%	24,124	5.4%
	$ 100,261	54.7%	$ 83,152	51.3%	$ 283,406	58.5%	$ 242,867	54.5%

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Research and development expenses. Research and development expenses include compensation for engineers, support personnel, outside contracted services, and materials costs, all of which are expensed as incurred. R&D increased 7% in the third quarter of 2008 from the third quarter of 2007. Costs related to salaries, including costs for added headcount from the acquisitions, increased approximately $1.5 million in the third quarter of 2008 compared to the third quarter of 2007. Our recent acquisitions added over $700,000 to R&D costs during the third quarter of 2008 and were the primary reason behind the increased costs. R&D increased 11% from the first nine months of 2007 compared to the first nine months of 2008 for similar reasons as that experienced in the third quarter of 2008. We believe that the timely development of innovative products and enhancements to existing products is essential to maintaining our competitive position, and we will continue to make significant investments in research and development.

Acquired in-process research and development expense. Acquisition related expenses for the three and nine months ended September 26, 2008 were comprised solely of the non-recurring write-off of $700,000 of in-process research and development expense related to the acquisition of Touchpaper. There were no such charges for the three and nine months ended September 28, 2007.

Selling, general and administrative expenses. Selling, general and administrative expenses include personnel, materials, services and other related costs for administration, finance, information systems, human resources, sales and marketing and general management, rent, utilities, legal and accounting expenses, bad debts, advertising, promotional material, trade show expenses, and related travel costs. Selling, general and administrative expenses increased 14% in the third quarter of 2008 from the third quarter of 2007. Our recent acquisitions added over $4.1 million in SG&A costs during the third quarter of 2008 and were the primary reason behind the increased costs. Our integration strategy for Ergo include headcount reductions and reduced facility costs as we complete the transition of Ergo into Avocent s operations. For Touchpaper, our integration strategy will include some headcount reductions as well. The increase in selling, general and administrative expenses also resulted from increased sales commissions resulting from increased sales for the period. Compared to the third quarter of 2007, salaries, commissions and bonuses, including costs for added headcount from the acquisitions, increased approximately $4.5 million in the third quarter of 2008. Selling, general and administrative expenses increased 12% in the first nine months of 2008 from the first nine months of 2007 for similar reasons as that experienced in the third quarter of 2008 listed above.

Restructuring, integration and retirement expenses. Restructuring, integration and retirement expenses for the third quarter of 2008 relate to severance charges incurred for certain workforce reductions related to the reduction in certain research and development investments, the integration of marketing functions, shifting our Asian support operations from Shannon, Ireland to Singapore, the relocation of certain functions from our Redmond, Washington facility to Huntsville, Alabama, and the integration of our acquisitions into our operations,. In addition to the third quarter charges, restructuring, integration and retirement charges for the first nine months of 2008 includes the retirement costs for our former CEO of $2.2 million.

Amortization of intangible assets. Amortization was $9.0 million in the third quarter of 2008 and $24.1 million in the first nine months of 2008 compared to amortization of $7.6 million in the third quarter of 2007 and $24.2 million in the first nine months of 2007. The increase in amortization for the quarter was due to the acquisitions of Touchpaper and Ergo. Amortization for the first nine months of 2008 was flat compared to 2007 as the completion of amortization for certain other intangibles in late 2007 offset the increase for the intangibles acquired in 2008.

Stock-based compensation. We allocate stock-based compensation expense based on the department in which an employee works. Stock compensation expenses by income statement classification for the three and nine months ended September 26, 2008 and September 28, 2007 were as follows:

	For the three months ended				For the nine months ended			
(dollars presented in 000 s)	**Sept. 26, 2008**	**% of Sales**	**Sept. 28, 2007**	**% of Sales**	**Sept. 26, 2008**	**% of Sales**	**Sept. 28, 2007**	**% of Sales**
Cost of sales	$ 298		$ 373		$ 797		$ 853	
Research and development expense	1,523		1,916		3,878		4,422	
Selling, general and administrative expense	3,986		4,021		9,288		9,799	
Restructuring and retirement expense	480				2,999			
	$ 6,287	3.4%	$ 6,310	3.9%	$ 16,962	3.5%	$ 15,074	3.4%

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Stock-based compensation remained steady in the third quarter 2008 from the third quarter 2007. However, stock-based compensation increased 13% for the nine months of 2008 compared to the first nine months of 2007. The increase is primarily a result of charges associated with the accelerated vesting for certain RSU s and other equity related charges associated with restructuring actions taken in the first half of 2008, disclosed separately above. We accelerated 194,000 RSUs during the first nine months of 2008. Additionally, we recorded charges associated with the accelerated vesting for certain RSUs and other equity related charges for the retirement of our former CEO taken in the first quarter of 2008.

Net investment income. Net investment income decreased to $295,000 in the third quarter of 2008 as compared to $1.1 million in the third quarter of 2007. Net investment income decreased to $1.9 million in the first nine months of 2008 as compared to $2.9 million in the first nine months of 2007. This decline was primarily the result of using excess cash to fund our recent acquisitions.

Interest expense. Interest expense results from borrowings under our $250 million unsecured line of credit obtained in the second quarter of 2006 and our $90 million term loan obtained in the third quarter of 2008. Interest expense increased to $2.3 million in the third quarter 2008, compared to $1.9 million in the third quarter of 2007 due to higher borrowings as we borrowed an additional $50 million to help fund the acquisitions of Touchpaper and Ergo in July 2008. Interest expense declined to $5.9 million in the first nine months of 2008, compared to $6.4 million in the first nine months of 2007 as a result of lower average borrowings during the first half of 2008, somewhat offset by increased borrowings in the third quarter of 2008.

Other income (expense), net. Other income (expense), net increased from $207,000 in the third quarter of 2007 to $2.4 million in the third quarter of 2008. We recorded a gain of approximately $3.2 million in the third quarter of 2008 from a foreign currency exchange gain related to the tax free repatriation of capital from a European subsidiary to help fund the acquisition of Touchpaper. Net other income (expense) improved from an expense of $95,000 in the first nine months of 2007 to income of $2.7 million in the first nine months of 2008 for reasons similar to the third quarter of 2008.

Provision (benefit) for income taxes. The effective tax rate in the third quarter of 2008 was a provision of 22.7% compared to a provision of 18.9% in the third quarter of 2007. The provision for income taxes was $3.2 million for the third quarter of 2008, compared to a provision of $3.7 million in the third quarter of 2007. The effective tax rate for the first nine months of 2008 was a provision of 25.6% compared to a provision of 4.1% in the first half of 2007. The provision for income taxes was $5.2 million for the first nine months of 2008, compared to a provision of $1.4 million for the first nine months of 2007. As discussed in Note 11 to the condensed consolidated financial statements, the increase in the effective tax rate was primarily the result of the change in the amount and geographical mix of our pre-tax book income and a tax benefit recognized during the second quarter of 2007 associated with in-process R&D previously charged to book expense. We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 on January 1, 2007. As of September 26, 2008, we had total reserves for uncertain tax positions related to gross unrecognized tax benefits of $5.2 million of which $3.5 million, if recognized, would affect our effective tax rate.

Net income. Net income for the second quarter of 2008 was $11.0 million compared to $16.1 million for the third quarter of 2007, as a result of the factors detailed in the above discussion. Net income, as a percentage of sales for the third quarter of 2008 was 6.0%, compared to 9.90% for the third quarter of 2007. Net income for the first nine months of 2008 was $15.1 million compared to $31.9 million for the first nine months of 2007, as a result of the factors detailed in the above discussion. Net income, as a percentage of sales for the first nine months of 2008 was 3.3%, compared to 7.2% for the first nine months of 2007.

Liquidity and Capital Resources

As of September 26, 2008, our principal sources of liquidity consisted of $115 million in cash and cash equivalents and a $160 million available balance from our $340 million credit facility that is available for general corporate purposes. In the third quarter of 2008 we amended our $250 million line of credit by adding a $90 million term loan to the existing facility. The balance of the entire facility is due in June 2011. The term loan and line of credit have similar variable interest rates. The addition to our credit facility will give us extra capacity and provide strategic flexibility.

The line of credit and term loan contain affirmative and negative covenants, including limitations on our ability to (i) make distributions, investments, and other payments unless we satisfy certain financial tests or other criteria, (ii) incur additional indebtedness, (iii) restructure our subsidiaries, and (iv) make acquisitions and capital expenditures. The financial tests include an interest coverage ratio and a total leverage ratio. We are currently in compliance with these covenants and related tests as of September 26, 2008. All of these restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The failure to comply with these covenants could result in an event of default which, if not cured or waived, could have a material

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adverse effect on us.

We used borrowings under the line of credit in July 2008 to fund the acquisitions of Touchpaper and Ergo 2000. In the future we may acquire other technologies or companies that we believe will enhance and/or complement our existing products and technologies and increase our sales. The line of credit and term loan currently bear an interest rate of LIBOR plus 175 basis points. There was $180 million outstanding under the credit facility as of September 26, 2008. We classify these obligations as long-term as they mature in June 2011. We expect to repay the borrowings from future cash flows from operations. A summary of our cash flows is as follows:

(dollars presented in 000 s)	**Nine months ended Sept. 26, 2008**	**Nine months ended Sept. 28, 2007**
Total cash provided by (used in):		
Operating activities	$ 66,161	$ 98,884
Investing activities	(77,061)	(8,978)
Financing activities	22,120	(76,268)
Effect of exchange rate changes on cash	(1,502)	1,141
Increase in cash and cash equivalents	$ 9,718	$ 14,779

The decline in cash flows from operations in the first nine months of 2008 was primarily the result of working capital increases to fund the growth in our business (changes in accounts receivable, inventories, accrued wages and commissions and income taxes payable), which were partially offset by higher accounts receivable collections during the first nine months 2007. During the first nine months of 2008, we paid approximately $8.0 million to the Internal Revenue Service related to settling previously accrued federal income tax matters. Our accounts receivable increased $8.2 million from December 31, 2007 to September 26, 2008 as a result of increased sales through September 2008. This increase in accounts receivable was somewhat minimized by continued improved cash collections. Additionally, we made significant progress in collecting older balances outstanding at our LANDesk location in the first nine months of 2007, resulting in a large decrease in receivables outstanding as of September 28, 2007. Our accrued wages and commissions have increased in 2008 compared to 2007 as a result of increased sales for the comparable periods and accrued severance related to our restructuring programs.

Our days sales outstanding (DSO) improved to 63 days at the end of the first nine months of 2008 compared to 65 days at the end of the first nine months of 2007. DSO improved as a result of higher sales in the first nine months of 2008 compared to the first nine months of 2007 and continued improvement in cash collections. Inventories decreased $4.5 million from December 31, 2007 to September 26, 2008. Our inventory turns improved significantly to 8.6 at September 26, 2008 compared to 6.8 at September 28, 2007. The improvement in 2008 was due to higher sales volume experienced in the first nine months of 2008 combined with our lower inventory balance as of September 26, 2008.

Our investing activities used over $77 million of cash flow in the first nine months of 2008, primarily as the result of the Ergo and Touchpaper acquisitions that closed early in the third quarter of 2008. We converted matured investments to cash to help fund the repurchase of 4 million shares under our stock repurchase program in the first quarter of 2008. Our investing activities used $9.0 million of cash flow in the first nine months of 2007 which included $71 million of cash payments for investment purchases.

Our financing activities used the cash provided by operations, as well as additional borrowings, to repurchase approximately 4 million shares of our common stock during the first quarter of 2008 at a cost totaling $64 million. These treasury shares were purchased through various brokers under the stock repurchase program approved by our Board of Directors. As of September 26, 2008 we have approximately 2.3 million shares available for purchase under the program.

During the second quarter of 2008, we approved a series of restructuring activities. As of September 26, 2008, we had accrued approximately $6.0 million related to restructuring costs and expect to record an additional $3 million to $4 million of restructuring and integration expenses in the fourth quarter of 2008. Most of these costs will be paid during the fourth quarter of 2008 and the first quarter of 2009.

Off-Balance Sheet Arrangements and Contractual Obligations

In the ordinary course of our business, we may at any point in time have a significant amount of contractual commitments not yet recognized in our financial statements. These commitments relate primarily to our need to schedule the purchase of inventories in advance of the related forecasted sales to customers. We have longer lead times for the products we purchase from suppliers based in Asia than those for our U.S. based and European based suppliers. Our actual contractual commitments are typically limited to products needed for one to three months of forecasted sales. The liabilities for these inventory purchases, along with the related

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inventory assets are typically recognized upon our receipt of the products. We also have, at any point in time, a variety of short term contractual commitments for services such as advertising, marketing, accounting, legal, and research and development activities. The liabilities for these services and the related expenses are typically recognized upon our receipt of the related services. In our 2007 Form 10-K, we disclosed our contractual obligations in the section entitled Liquidity and Capital Resources in Part II Item 7. At September 26, 2008, there have been no material changes to contractual obligations outside the ordinary course of business. Our debt balance increased to $180 million at September 26, 2008 from $95 million at December 31, 2007. The increase in our level of borrowings, if sustained at the higher level, will result in higher interest payments in future periods.

Other than operating leases for offices and warehouse space, we do not engage in off-balance sheet financing arrangements or have any variable-interest entities. As of September 26, 2008 we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Non-GAAP Operational Measures

To supplement our consolidated financial statements presented in accordance with GAAP, we present investors with certain non-GAAP operational measures which we use internally to manage our businesses, including net sales, gross profit, operating expenses, and the resulting operating income, income before taxes, operational net income, and operational earnings per share, all of which primarily exclude the effects of amortization and depreciation related to purchase accounting adjustments, stock-based compensation, certain restructuring and retirement costs, and acquired in-process research and development expenses. These operational measures also include the amortization of the fair value adjustment to LANDesk deferred revenue related to the purchase accounting adjustment to reduce deferred revenue at the acquisition of LANDesk. Specifically, we use the following non-GAAP measures:

	Three months ended		Nine months ended	
Non-GAAP Operational Measures (dollars presented in 000 s)	**Sept. 26, 2008**	**Sept. 28, 2007**	**Sept. 26, 2008**	**Sept. 28, 2007**
Operational net sales	$ 183,048	$ 162,670	$ 483,629	$ 447,322
Operational gross profit	$ 118,564	$ 107,329	$ 315,620	$ 290,631
Operational operating income	$ 39,410	$ 37,696	$ 83,997	$ 86,134
Operational net income	$ 30,441	$ 28,519	$ 63,289	$ 62,364
Operational diluted earnings per share	$ 0.67	$ 0.56	$ 1.38	$ 1.21

- The non-GAAP net sales operational measure consists of net sales increased by the pro-forma amortization of deferred revenue of LANDesk at the date of acquisition which was reduced to estimated fair value pursuant to purchase accounting under GAAP. This deferred revenue was completely amortized on a pro forma basis as of the third quarter of 2007.

- The non-GAAP gross profit operational measure consists of the non-GAAP net sales operational measure described above, less cost of sales excluding the impact of stock-based compensation and amortization related to purchase accounting adjustments as they relate to cost of sales.

- The non-GAAP operating expense operational measure consists of GAAP operating expenses, excluding the impact of stock-based compensation, restructuring and integration costs and amortization related to purchase accounting adjustments as they relate to the particular operating expense.

- The non-GAAP operating income operational measure consists of GAAP operating income adjusted for the non-GAAP operational measures described above.

- The non-GAAP net income operational measure consists of GAAP net income, adjusted by the non-GAAP operational measures described above and the tax effects of these non-GAAP operational measures.

- The non-GAAP earnings per share operational measure is calculated by dividing the non-GAAP net income operational measure described above by GAAP weighted average basic and diluted shares outstanding.

We provide the following reconciliations between GAAP and our operational measures:

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	GAAP Financial Measures	Stock-based Compensation	Purchase Accounting Adjustments	Restructuring, Integration and Retirement Expenses	Non-GAAP Operational Measures
For the three months ended September 26, 2008					
Operational net sales	$ 183,048				$ 183,048
Operational gross profit	$ 114,047	298	4,219		$ 118,564
Operational operating income	$ 13,786	6,287	13,891	5,446	$ 39,410
Operational net income	$ 10,961	4,802	10,518	4,160	$ 30,441
Operational diluted earnings per share	$ 0.24	0.11	0.23	0.09	$ 0.67
For the three months ended September 28, 2007					
Operational net sales	$ 162,072		598		$ 162,670
Operational gross profit	$ 103,590	373	3,366		$ 107,329
Operational operating income	$ 20,438	6,310	10,948		$ 37,696
Operational net income	$ 16,117	4,859	7,543		$ 28,519
Operational diluted earnings per share	$ 0.32	0.09	0.15		$ 0.56
For the nine months ended September 26, 2008					
Operational net sales	$ 483,629				$ 483,629
Operational gross profit	$ 305,070	797	9,753		$ 315,620
Operational operating income	$ 21,664	16,962	34,743	10,628	$ 83,997
Operational net income	$ 15,135	12,978	27,044	8,132	$ 63,289
Operational diluted earnings per share	$ 0.33	0.28	0.59	0.18	$ 1.38
For the nine months ended September 28, 2007					
Operational net sales	$ 445,448		1,874		$ 447,322
Operational gross profit	$ 279,687	853	10,091		$ 290,631
Operational operating income	$ 36,820	15,074	34,240		$ 86,134
Operational net income	$ 31,863	11,390	19,111		$ 62,364
Operational diluted earnings per share	$ 0.62	0.22	0.37		$ 1.21

We believe that excluding depreciation and amortization associated with purchase accounting adjustments as well as the tax impact of certain purchase accounting elections for prior acquisitions provides meaningful supplemental information and an alternative presentation useful to investors understanding our core operating results and trends between periods. Not only are these depreciation and amortization and tax impact adjustments based on amounts assigned in purchase accounting, that may have little bearing on present or future replacement costs, but they also are based on management s estimates of remaining useful lives.

Similarly, we believe that excluding stock-based compensation and restructuring, integration and retirement expenses provides meaningful supplemental information and an alternative presentation useful to investors understanding of our core operating results and trends, especially when comparing those results on a consistent basis to results for previous periods and anticipated results for future periods.

We also believe that, in excluding stock-based compensation and restructuring, integration and retirement expenses and depreciation and amortization associated with purchase accounting adjustments (together with the related tax effects), our non-GAAP financial measures provide investors with transparency into the information and basis used by management and our Board of Directors

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to measure and forecast our results of operations, to compare on a consistent basis our results of operations for the current period to that of prior periods, to compare our results of operations on a more consistent basis against that of other companies in making financial and operating decisions, and to establish targets for management incentive compensation.

These non-GAAP operational measures have historically been used as key performance metrics by our senior management as they evaluate both the performance of the consolidated financial results as well as those of individual business segments. These non-GAAP operational measures are reviewed individually as well as in total in measuring our performance against internal and external expectations for the period and the expectations for such key non-GAAP operational measures are the basis for any financial guidance provided by management for future periods. We believe that the use of each of these non-GAAP financial measures provides enhanced consistency and comparability with our past financial reports, and also facilitates comparisons with other companies in our industry, many of which use similar non-GAAP financial measures to supplement their GAAP results. We provide this information to investors to enable them to perform additional analyses of past, present and future operating performance, compare us to other companies, and evaluate our ongoing financial operations.

We believe that each of these operational measures is useful to investors in their assessment of our operating performance and the valuation of our company. Operational net sales, gross profit, operating income, operational net income, and operational earnings per share are significant measures used by management for:

- Reporting our financial results and forecasts to our Board of Directors;
- Evaluating the operating performance of our company;
- Managing and comparing performance internally across our businesses and externally against our peers; and
- Establishing internal operating targets.

These non-GAAP operational measures, including operational net sales, operational gross profit, operational operating income, operational net income, and operational earnings per share are used by us as broad measures of financial performance that encompass our operating performance, cash, capital structure, investment management, and income tax planning effectiveness. These operational measures are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. These operational measures have limitations in that they do not reflect all of the costs or reductions to revenues associated with the operations of our business as determined in accordance with GAAP. In addition, these operational measures may not be comparable to non-GAAP financial measures reported by other companies. As a result, one should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis, prominently disclosing GAAP results and providing reconciliations from GAAP results to non-GAAP operational measures. We expect to continue to incur expenses similar to the non-GAAP adjustments described above, and the exclusion or inclusion of these items from our non-GAAP financial measures should not be construed as an inference that these costs are unusual or infrequent. Some of the limitations in relying on our non-GAAP financial measures are:

- The non-GAAP net sales operational measure is a measure which we have defined for internal and investor purposes. A further limitation associated with this measure is that it includes certain revenues and the related impact on non-GAAP gross profit, operating income, income before taxes, net income, and earnings per share operational measures that impact our GAAP based measures.

- The non-GAAP gross profit, operating income, net income, and earnings per share operational measures are limited in that they do not include the impact of stock-based compensation expense or specific costs and benefits associated with certain purchase accounting adjustments or restructuring and retirement costs.

We compensate for these limitations by prominently disclosing the reported GAAP results and providing investors with reconciliations from GAAP to the non-GAAP measures in the financial tables above.

Recently Issued Accounting Standards and Regulatory Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which clarifies that fair value estimates should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under SFAS 157, fair value measurements would

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be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB delayed the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. We adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional discussion on fair value measurements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We have adopted SFAS 159 and have elected not to measure any additional financial instruments or other items at fair value.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after an entity s fiscal year that begins after December 15, 2008. We will assess the impact of SFAS 141(R) on future acquisitions, however the application of SFAS 141(R) will result in a significant change in accounting for any such future acquisitions after the effective date.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires companies with derivative instruments to disclose information that would enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (SFAS 133) and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The new requirements apply to derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of SFAS 161, but do not expect its adoption to have a material impact on our financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Lives of Intangible Assets , which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of an intangible asset. This interpretation is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. We are currently evaluating the impact of this staff position, but do not expect its adoption to have a material impact on our financial statements.

Updates to Critical Accounting Estimates

As discussed below and in Note 12 to the Condensed Consolidated Financial Statements, we have adopted SFAS 157 as of January 1, 2008, with the exception of the application of the statement to nonfinancial assets and nonfinancial liabilities, the deferral of which was permitted under FSP 157-2. Other than this change, there have been no significant changes in our critical accounting estimates during the first nine months of 2008.

Substantially all of our financial assets and liabilities are measured at fair value based upon Level 2 inputs, as defined under SFAS 157. The fair value measurement is prepared using the closing mid-market rate/price environment on September 26, 2008, using proprietary models, available market data, and reasonable assumptions.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our primary market risk is the interest rate risk on our bank line of credit and term loan, which currently bear interest at a variable rate of LIBOR plus 175 basis points. We have partially hedged this exposure to interest rate risk with interest rate swaps, which have a collective remaining notional amount of $100 million as of September 26, 2008, through Regions Bank.

We also face foreign currency exchange rate risk to the extent that the value of certain foreign currencies relative to the U.S. dollar affects our financial results. Our international operations transact a significant portion of our business in currencies other than the U.S. dollar, predominantly the euro, and changes in exchange rates may positively or negatively affect our revenue, gross margins, operating expenses, and retained earnings since these transactions are reported by us in U.S. dollars. We occasionally purchase foreign currency forwards aimed at limiting the impact of currency fluctuations. These instruments provide only limited protection against currency exchange risks, and there can be no assurance that such an approach will be successful, especially if a significant and sudden decline occurs in the value of local currencies. As of September 26, 2008, we had four open forward contracts with an approximate fair value of $(14,000).

Item 4. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of September 26, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective.

(b) *Changes in internal control over financial reporting*. Except as they relate to the acquisitions of Touchpaper and Ergo, there were no changes in our internal controls over financial reporting during the quarter ended September 26, 2008 that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting. We expect both Ergo and Touchpaper to be completely integrated into our systems and to have adopted our procedures by early 2009.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In January 2007, we filed a complaint for patent infringement in the United States District Court for the Western District of Washington against Aten Technology, Inc., Aten International Co., Ltd, Belkin Corporation, Rose Electronics and its general partners, and Trippe Manufacturing Company. The defendants filed counterclaims alleging non-infringement, unenforceability, and invalidity. In May 2007, we entered into a Settlement and License Agreement with Trippe Manufacturing, and dismissed Trippe from the lawsuit. In October 2007, the District Court stayed the action pending a re-examination of our patents by the Patent and Trademark Office. That re-examination is currently underway.

In January 2008, Avocent Redmond Corp. filed a complaint for unauthorized use of patented inventions against the United States government in the United States Court of Federal Claims. The complaint alleges that the United States government accepted products manufactured and sold by Rose Electronics that are covered by patents held by Avocent Redmond. The United States has answered and Rose Electronics has intervened.

In March 2007, KBM Enterprises, formerly a contract manufacturer for Avocent, filed a complaint against us in the Circuit Court of Madison County, Alabama, seeking $9.5 million for costs allegedly incurred by KBM in its manufacturing efforts on behalf of Avocent. We have filed an answer and counterclaims against KBM and one of its principals. Discovery is currently underway.

In April 2007, we filed a complaint for declaratory judgment against Aten International Co., Ltd. in the United States District Court for the Northern District of Alabama. We are seeking a declaratory judgment that two patents owned by Aten and asserted against us are invalid and that certain of products alleged by Aten to infringe do not infringe these patents. In August 2007, Aten s motion to dismiss for lack of personal jurisdiction was granted, and we have appealed that ruling to the Federal Circuit Court of Appeals. Oral arguments were held in February 2008.

In November 2007, Gemini IP, LLC filed a complaint for patent infringement in the United States District Court for the Eastern District of Texas, Sherman Division, against Avocent Corporation and our subsidiary LANDesk Software, Inc. The complaint alleges infringement of a Gemini patent through the sales of a LANDesk product. The complaint seeks injunctive relief, damages, attorneys fees, and costs. Avocent Corporation was dismissed from the lawsuit in January 2008, and we have made a claim for indemnification against the LANDesk escrow account. In April 2008, the District Court stayed the action pending a review of the Gemini Patent by the Patent and Trademark Office.

We acquired LANDesk Group Limited, a privately-held company, in August 2006, and the acquisition agreements provided for total initial consideration of approximately $407 million and a potential earn-out payment to the former shareholders of LANDesk of up to $60 million if LANDesk achieved specified revenue targets for the full year of 2006. Based on LANDesk s 2006 revenue results, we concluded that LANDesk did not achieve the minimum revenue target required to cause any earn-out payment and that no earn-out was earned or payable. Accordingly, we did not pay, and have not accrued for, any earn-out payment. The Shareholder Representative for the former shareholders of LANDesk has instituted the arbitration procedure described in the acquisition agreements and is challenging our conclusion that no earn-out was earned or payable. We are in the process of preparing for that arbitration proceeding.

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Item 1A. Risk Factors.

THIS QUARTERLY REPORT CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE DISCUSSED IN THIS QUARTERLY REPORT. THESE RISKS AND UNCERTAINTIES INCLUDING 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. For example, since mid-2007, global credit and other financial markets have suffered substantial stress, volatility, illiquidity and disruption. This financial crisis could impact 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 and/or 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 our distributor and reseller customers.

Our ability to effectively manage during changing economic conditions will require us to continue to implement and improve our operational, financial, and information systems and internal controls and will likely require additional management personnel. In addition, we believe that we must continue to develop improved engineering, financial, marketing, sales, and customer service capabilities in order to develop new products and technologies, secure new customers, and effectively serve the evolving needs of present and future customers. We may not be successful in strengthening these capabilities. Without adequate management, engineering, financial, product development, marketing, sales, and customer service capabilities, our ability to effectively manage during changing economic conditions, expand and enhance our product lines, further penetrate existing markets, and develop new markets will be significantly limited. If we are unable to effectively manage during 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 (such as software) or geographical areas in which we have no or limited direct experience and where our competitors may have stronger market positions;

- Loss of management, sales, technical, or other key personnel (at either Avocent or in the acquired company) or the loss of customers, distributors, resellers, vendors, or other business relationships as a result of the acquisition;

- 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 and other 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;

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- 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;

- Dilution of existing stockholders as a result of issuing equity securities, including the assumption of any stock options or other stock awards to employees 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 claims or other litigation 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.

Intense competition from new and existing competitors or consolidation in the server and systems management sectors 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 and 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 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, our gross margin 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.

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, 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. If Microsoft is successful in delivering software products that are competitive with our products, our ability to grow our software business may be limited.

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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 hardware 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, Symantec, and Microsoft, 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 or security 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 due to 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 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. We must make long-term investments, develop or obtain appropriate intellectual property, and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. After we develop a product, we must then accurately forecast volumes and configurations that meet customer requirements, manufacture appropriate hardware volumes quickly and at low cost and develop cost-effective software solutions, and train our sales force and resellers. Any delay in the development, production, marketing of, or training for new products or technologies could result in our not being among the first to market, which could further harm our competitive position.

Sales of switching, extension, and remote access 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 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 hardware products combine components, such as printed circuit boards, connectors, semiconductors, memory, cable assemblies, power supplies and enclosures that are manufactured by other companies and are generally available to competitors and potential competitors. Our software products combine software or content from third parties, such as open source software or technology, drivers, security, 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 technology, and 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 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.

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Due to our significant reliance on OEM relationships, our hardware development efforts may often be focused on developing new products, technologies, or enhancements for OEM customers. As a result, our OEM relationships may negatively affect our ability to develop new and enhanced products and technologies for our non-OEM customers. Moreover, these new products, technologies, or enhancements for OEM customers may not be available to, or readily marketable to, other customers without significant modification and delay. The expansion, termination, or significant disruption of our relationship with certain OEMs or other customers for whom we devote significant product development resources is likely to result in lost opportunities with respect to the development of products, technologies, or enhancements for our other customers.

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

Our future success depends in part upon our ability to 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 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 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. Additionally, 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 involving the company may impact our operating results or financial condition.

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

In fiscal July 2008, 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 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 110 positions or approximately 5% 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;

- 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;

- 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 or price reductions;
- 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;
- 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;

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- 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 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.

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;

- Changes in 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;

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- 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.

A substantial 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 substantial 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 56% of net sales in 2007, 56% of net sales in 2006, and 48% of net sales in 2005. 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.

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We will need to expand sales through distributors and resellers in order to develop our business and increase revenue.

We expect to rely increasingly on distributors and resellers, VARs (including LANDesk VARs who are also referred to as Expert Service Providers or ESPs), 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 relationships with current distributors and resellers. 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 substantial 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 substantial portion of our sales is concentrated among a limited number of OEM customers. Sales to these OEMs represented approximately 35% of net sales in 2007, 40% of net sales in 2006, and 48% of net sales in 2005. Sales to Hewlett-Packard represented approximately 12% of net sales in 2007, 14% of our net sales in 2006, and 20% of our net sales in 2005. Sales to Dell represented approximately 12% of net sales in 2007, 14% of net sales in 2006, and 15% of our net sales in 2005.

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.

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;

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- 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.

The loss of one or more large OEM customers would materially harm our business. While we have contracts with some of our existing OEM customers, none of our OEM customers is obligated to purchase products from us except pursuant to binding purchase orders. Consequently, any OEM customer could cease doing business with us at any time. Our dependence upon a few OEMs also results 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, 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.

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.

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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 all 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 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 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, 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 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 component of net sales, our business could become more vulnerable to the risks inherent in doing business on an international level, including:

- Difficulties in managing foreign distributors and resellers;

- Longer payment cycles and problems in collecting accounts receivable;
- The effects of seasonal customer demand;
- Differing license terms and conditions to meet local requirements;
- Changes in regulatory requirements;
- Difficulties in meeting the requirements of different international product regulations, including import and export requirements, tariffs, and other trade barriers;
- Risks relating to the protection of our intellectual property rights;
- The impact on our marketing expenses and our research and development resources as we localize our product offerings to meet local user requirements such as language translations and hardware compatibility issues;

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- Fluctuations in currency exchange rates; and
- Potentially adverse tax consequences and political instability.

The existence or occurrence of any one or more of these factors could have a material adverse effect on our business, financial condition, and results of operations.

Due to the international nature of our business, political or economic changes or other factors could harm our future revenue, increase our costs and expenses, and impair our financial condition.

We are a global company with sales, manufacturing, and research and development efforts around the world. Sales outside the United States generate approximately half of our revenue, over half of our manufacturing takes place outside the United States, and we have research and development centers in several locations outside the United States. Accordingly, our business, operating results, future revenue, gross margin, expenses, and financial condition could suffer due to a variety of international factors, including:

- Ongoing instability or changes in a country s or region s economic or political conditions, including inflation, recession, interest rate fluctuations, and actual or anticipated military or political conflicts, particularly in areas where we have offices or other facilities;
- Currency fluctuations, which could contribute to variations in sales of products and technologies and could also affect our reported results expressed in U.S. dollars;
- Longer accounts receivable cycles and financial instability among customers;
- Tax or trade regulations, tariffs, duties, and procedures and actions affecting production, pricing, and marketing of or payments for products;
- Local labor conditions and other regulations;

- Differing technology standards or customer requirements;

- Limited or unfavorable intellectual property protection in certain foreign countries including the loss of proprietary information due to piracy or misappropriation;

- Fluctuations in freight costs and disruptions at important geographic points of exit and entry;

- Natural or manmade disasters, such as earthquakes, tsunamis, flooding, hurricanes, typhoons, fires, power shortages, blackouts, telecommunications failures, terrorism, or computer viruses;

- Medical epidemics, such as avian flu or Severe Acute Respiratory Syndrome (SARS);

- Seasonal reductions in business activity in certain foreign countries, such as the summer months in Europe;

- Compliance with a wide variety of complex laws, treaties, and regulations that increase the risks of doing business in certain foreign countries;

- Restrictions against repatriation of earnings from our international operations;

- Difficulties in staffing and managing international operations, including the difficulty in managing a geographically dispersed workforce;

- Possible non-compliance with our Code of Conduct or other corporate policies due to inconsistent laws, interpretations, and/or application of corporate standards in foreign countries;

- Increased financial accounting and reporting burdens and complexities; and

- The need to localize our products.

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The factors described above also could disrupt our product development and manufacturing, key suppliers, and OEMs and resellers located outside of the United States. For example, we rely on manufacturers in Asia and Europe for the assembly and manufacture of many of our hardware products, and we conduct substantial software development and testing operations in China and Taiwan. Accordingly, we are directly affected by economic, political, and military conditions in the regions where we have operations, including China and Taiwan. In particular, any interruption or curtailment of trade between China and its present trading partners could materially adversely affect our product development, product releases, support, business, operating results, and financial condition.

Continued or increased international political instability, evidenced by the threat or occurrence of terrorist attacks, enhanced national security measures in the United States, sustained military action or other conflicts, or strained international relations may impair our ability to do business, increase our costs and adversely affect our stock price. Increased international instability may negatively impact our ability to obtain adequate insurance at reasonable rates or require us to take extra security precautions for our domestic and international operations.

Fluctuations in the value of foreign currencies could result in currency exchange losses.

Currently, a majority of our international business is conducted in U.S. dollars. However, as we expand our international operations, it is likely that international business will increasingly be conducted in foreign currencies. Fluctuations in the value of foreign currencies relative to the U.S. dollar have caused, and are expected to increasingly cause, currency transaction gains and losses. In addition, currency fluctuations could also affect our reported results expressed in U.S. dollars. While we attempt to hedge our foreign currency exposure, we cannot predict the effect of exchange rate fluctuations upon future quarterly and annual operating results, and we may experience currency losses in the future.

The sales cycle for our software products is unpredictable, making it difficult to forecast operating results for any given period.

The sales cycle for our software products is typically ninety to one hundred eighty days or longer. This sales cycle is subject to a number of significant risks over which we have little or no control, including:

- Customers budgetary constraints, fluctuations, or uncertainty, internal acceptance requirements, and procurement procedures;

- Concerns about the actions or announcements of our competitors and their products;

- Concerns about the future or performance of our company; and

- Changes in economic conditions generally and in the technology market specifically.

Moreover, our software revenue is heavily weighted toward the end of each quarter, with as much as ninety percent of LANDesk s revenue recorded in the third month of a quarter, making it difficult to forecast operating results for any quarter or give accurate guidance. For large opportunities, especially for enterprise-wide sales, the sales cycle is often significantly longer than our average sales cycle. In addition, these large opportunities are more difficult to forecast, and if we do not correctly forecast the timing in a given period, the amount of revenue we recognize in a period could be higher or lower than we expect, which could significantly affect our operating results for the then current period and future periods over which revenue would have been recognized. In addition, the terms and conditions of the legal agreements for these large opportunities are often based on our customers purchase agreements and may contain terms that are generally less favorable to us than our standard terms and conditions. As a result, revenue recognition may be delayed or otherwise negatively affected, and if we fail to meet expectations, the price of our common stock could be negatively affected.

A significant percentage of our software revenue is dependent on sales to existing customers or the renewal of annual software upgrade protection or maintenance services by existing customers.

Our LANDesk Business Unit has historically derived, and plans to continue to derive, a significant portion of our total software revenue from existing customers who purchase additional products or annual maintenance or upgrade protection. We depend on our installed base of software customers for future revenue from the purchase of annual software upgrade protection or maintenance services. As we introduce new software products, our current customers may not require or desire the functionality of our new products and may choose not to license these products or renew their agreements for maintenance or upgrade protection. If our customers do not purchase additional products or increased numbers of products already in use, or renew annual software upgrade protection or maintenance services, our ability to increase or maintain revenue levels could be limited to only new customers.

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Maintenance revenue related to the licensing of our software products is a significant part of our current and future operating revenue. In general, maintenance fees increase with the increase in the use of our software. Accordingly, we receive higher maintenance fees with new license agreements and as existing customers install more of our software products on additional systems. Due to increased discounting for larger sales opportunities, maintenance fees on a per unit basis for such large deals can be lower than average. In addition, customers are generally provided annual maintenance discounts for entering into long-term maintenance agreements. Declines in our license bookings, increases in long-term maintenance agreements, customers electing to migrate to competitive products or find alternatives to our products, and/or increased discounting could lead to reduced software maintenance revenue and reduced gross margins.

Our software products are designed with interoperability or compatibility with many third-party platforms, systems, and applications, the absence of which may harm our business.

Our software products are designed for use with specific third-party platforms, systems, and applications. We believe the breadth of our integration with such platforms, systems and applications is a significant competitive advantage. Any significant change in these third-party products could result in the loss of interoperability or compatibility with our products, making our products less attractive, increasing our research and development costs in order to modify our products, license new solutions, or develop new products, and potentially harming our future revenue. Our failure to anticipate, manage and adapt to these risks could result in significant delays in our product releases, changes in our product roadmaps, loss of current customers for whom the lost compatibility is an issue, and damage to our operating results.

Our software products include licensed third-party content or code upon which we rely for the interoperability, integration, development, or updates of our products, and disruption of our access to such code or content could delay product releases, inhibit our compatibility with third-party products, and harm our business.

The principal components of our software products are proprietary code and content. We do, however, rely on some licensed third-party code, content, or other intellectual property, and we expect to use such third-party code, content, or intellectual property in future products. Although we believe that there are usually adequate alternative sources for the third-party technology licensed to us, any significant interruption in the availability of these third-party software products on commercially acceptable terms or any defects in these products could delay development of future products or enhancement of our future products and harm our revenue. Use of such third-party code, content, or other intellectual property presents risks such as:

- Owners or licensees of third-party systems could adopt more restrictive policies or impose unfavorable or unacceptable terms and conditions for access to their products making it more difficult for us to make our products compatible with their products and resulting in higher research and development costs for us for the enhancement or modification of our existing products and the development of new products;

- Functionality provided by third-party code, content, or other intellectual property in our products may become obsolete, defective, or incompatible with future versions of our products, may not be adequately maintained or updated, and we may be unable to find viable alternatives or develop our own proprietary solution;

- Quality, warranty, and support terms vary dramatically when licensing third-party code, content, or other intellectual property and we have limited ability to control quality issues with third-party code, content, or other intellectual property and we must depend on our own research and development personnel to evaluate and select third-party code, content, or other intellectual property that we believe is of the most value to our customers; and

- Technical difficulties in integrating our products and third-party code, content, or other intellectual property to create a combined solution, and the risk that customers will not perceive the need for such integrated solutions.

Any significant termination of a third-party license, change in third-party license provisions, increase in the cost of such third-party code, content or other intellectual property, failure of a code, content or other intellectual property provider to remain competitive in functionality, or defect in or a quality issue could delay or interrupt our ability to develop and deliver software products to customers on a timely basis. This could delay our revenue recognition and adversely affect our business, financial condition, and results of operations and possibly expose us to claims under license agreements with our customers and possibly increased litigation fees and expenses. Our failure to anticipate, manage, and adapt to these risks could result in significant delays in our products releases, changes in our product roadmaps, and damage to our operating results.

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Software errors or bugs, and possible product liability claims related to such errors or bugs, could result in increased costs, damage to our reputation, and loss of market share.

Our software products are generally large and intricate programs. As a result, our current software products, updates, upgrades, or future products may contain errors, failures, or bugs, some of which may not become known until after the product has been released by us for use by customers. While we routinely test our products for such errors and identify and correct bugs through our customer support group, these problems are inevitable. Any significant errors may result in, among other things, loss of, or delay in, the market acceptance or our products, lost revenue and sales of our products, reallocation of, or increases in, development and customer support resources, impairment to our reputation, loss of future renewal or maintenance revenue, and increased service and warranty costs. Errors could also result in significant delays in the release of updates, upgrades, or new products while such errors are corrected. Moreover, because our products primarily support other systems and applications, any software errors or bugs in these other systems or applications may affect the performance of our software, and it may be difficult or impossible to determine where the errors reside. As a result, product errors, failures, or bugs could result in significant harm to our business and have a material adverse effect on our results of operations.

We may be subject to legal actions or claims for damages related to product errors which could, whether or not successful, increase costs and distract our management and our development and support teams and could harm our business, result in unexpected expenses and damage our reputation. Our license agreements with our customers typically contain provisions designed to limit exposure to potential product liability claims, and, to the extent permitted by governing law, our standard agreements in many jurisdictions also provide that we will not be liable for indirect or consequential damages caused by the failure of our products. In certain jurisdictions, however, warranty and limitation of liability provisions are not effective.

Use of free or open source software or technology in our products or in the development of our products may reduce our ability to control the quality and support for products and may result in damage to our operating results.

Free or open source software is software that is made widely available by its authors or other third parties and is often licensed on an as is basis for a nominal fee or, in some cases, at no charge. We have incorporated some free and open source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs. In addition, we may use free or open source tools in the development of our products. While we have not experienced any material problems as a result of our use of free or open source software, use of free or open source software entails significant risks including:

- Free or open source software or technology becoming competitive with our proprietary technology, which could cause sales of our products to decline or force us to reduce the fees we charge for our products, which could have a material adverse impact on our revenue and operating margins;

- Requiring that we make available the source code for any modifications or derivative works we make to or from the free or open source software, and that we license or contribute such modifications or derivative works under the terms of a particular free or open source license or other license granting third parties certain rights of further use;

- Our proprietary software could be combined with open source software in such a way that we would be required to release the source code of our proprietary software; and

- The lack of any warranty, maintenance, or support for most open source software or technology.

We have established processes to help minimize these risks to the extent within our control, including a review process for screening requests from our development organizations for the use of free or open source, but we cannot be sure that all free or open source software, technology, or tools are submitted for approval prior to use in our products or in the development of our products or that all use is in compliance with our corporate policies. These risks, if not eliminated, could negatively affect our ability to sell and license our products and could materially impact our business.

Executive officers and other key personnel may depart, which could adversely affect our results of operations and harm our ability to grow the business.

We are greatly dependent on the ability to retain key management, sales, and technical personnel, and our future success is highly dependent upon the personal efforts of our management, sales, and technical personnel and other key employees. The loss of services of key personnel could have a material adverse effect on our business, financial condition, and results of operations. We have attempted to mitigate these risks by offering key employees retention bonuses (payable only if they continue employment with us for specified periods) and equity awards that vest over time, but there is the risk that we could nevertheless lose key management, sales, and technical employees.

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We have historically used stock options and are currently using restricted stock units, including both time-based, performance-based and market conditioned-based shares, as a key component in our executive and employee compensation programs in order to align employees interests with the interests of our stockholders, encourage employee retention, and provide competitive compensation packages. Many of our employee stock options are fully vested, but most of these outstanding and vested options are currently underwater. This could affect our ability to retain present employees. In addition, we are now required to record a charge to earnings for employee stock option grants and other equity incentives. Moreover, applicable stock exchange listing standards relating to obtaining stockholder approval of equity compensation plans could make it more difficult or expensive for us to make equity awards to employees in the future. As a result, we may incur increased compensation costs, change our equity compensation strategy, or find it difficult to attract, retain, and motivate employees, any of which could materially adversely affect our business.

As we expand our international operations, we will be required to recruit and retain experienced management, sales and technical personnel in our international offices, and we expect that the identification, recruitment, training and retention of such personnel will require significant management time and effort and resources. Competition for employees with the skills required, particularly management, engineering and other technical personnel, is intense, and there can be no assurance that we will be able to attract and retain highly skilled employees in sufficient numbers to sustain our current business or to support future growth. We may need to pay recruiting or agency fees and offer additional compensation or incentives to attract and retain these and other employees, resulting in an increase to our operating expenses.

In addition, for the last several years, we have acquired several companies and these acquisitions have resulted in increased responsibilities and placed significant strain on our managerial, operational, and financial resources and resulted in new and increased responsibilities for management personnel. There can be no assurance that our management, personnel, systems, procedures, and controls are, or will be, adequate to support our existing and future operations or that we will continue to grow. If we fail to recruit and retain sufficient and qualified managerial, operational, or financial personnel or to implement or maintain internal systems that enable us to effectively manage our growing business and operations worldwide, our financial results in any given period may be adversely affected and our business and financial condition could be materially harmed.

Our management changes may disrupt our business or affect our profitability.

In January 2008, John R. Cooper, our Chief Executive Officer and the Chairman of the Board of Directors at that time, announced his resignation, effective March 31, 2008. Edwin L. Harper, one of our Directors, was elected as Chairman of our Board of Directors in January 2008 and as Interim Chief Executive Officers effective April 1, 2008. Our Board of Directors elected Michael J. Borman as our new Chief Executive Officer and a member of our Board of Directors, effective July 15, 2008. The transition to a new chief executive officer could create uncertainty and confusion among our employees, customers, and stockholders. In addition, this transition may adversely affect or delay customer purchase decisions or decisions about the strategic direction of our business and raised concerns among our employees, customers, and stockholders, all of which could affect our sales, profitability, or results of operations.

Our line of credit or term loan could adversely affect us and our operations.

In the second quarter of 2006, we obtained a $250 million unsecured, five-year, revolving, bank line of credit, and we used borrowings under this line of credit to fund a portion of the LANDesk acquisition and the purchase of our shares under our recently-expanded stock repurchase program. In July 2008, we amended the line of credit and borrowed an additional $90 million under a three-year term note. We may increase this bank debt or seek other bank debt in the future. The balance outstanding on our debt agreements was $180 million as of September 26, 2008. Interest expense on borrowings under the term loan and additional future borrowings under the line of credit could adversely affect our future net income, margins, expenses, and financial conditions by:

- Requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, which would reduce the availability of our cash flow to fund internal growth through working capital and capital expenditures and for other general corporate purposes;

- Increasing our vulnerability to economic downturns in our industry;

- Increasing our vulnerability to interest rate increases to the extent any of our variable rate debt is not hedged;

- Placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;

- Limiting our flexibility in planning for or reacting to changes in our business and our industry;

- Limiting, among other things, our ability to borrow additional funds, refinance the line of credit, or obtain other financing capacity; and

- Subjecting us to a risk of noncompliance with financial and other restrictive covenants in our indebtedness.

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The line of credit and term loan contain affirmative and negative covenants, including limitations on our ability to (i) make distributions, investments, and other payments unless we satisfy certain financial tests or other criteria, (ii) incur additional indebtedness, (iii) restructure our subsidiaries, and (iv) make acquisitions and capital expenditures. All of these restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The failure to comply with these covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on us.

Our ability to comply with these provisions of our line of credit and term loan may be affected by changes in the economic or business conditions or other events beyond our control. If we do not comply with these covenants and restrictions, we could be in default under our line of credit and/or the term loan, and our debt, together with accrued interest, could then be declared immediately due and payable. There can be no assurance that we will be able to obtain sufficient funds to enable us to repay or refinance our debt obligations on commercially reasonable terms or at all. We also face interest rate risk on our bank line of credit and term loan which currently bears interest at a variable rate of LIBOR plus 175 basis points. We have partially hedged this exposure to interest rate risk with interest rate swaps, which have a remaining notional amount of $100 million, through a well established financial institution.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in different jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, in the valuation of deferred tax assets and liabilities, in tax laws and treaties, or by material audit assessments, which could affect our profitability. In addition, the amount of income taxes we pay is subject to audit in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

Failure to maintain adequate internal systems and effective internal controls over our financial reporting and information systems could result in our management and auditors being unable to certify the effectiveness of our internal controls over financial reporting and information systems, which could harm our business reputation and cause our stock price to decline.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we implement and maintain adequate internal systems and effective internal controls over financial reporting and information systems. The absence of such controls could have a material adverse effect on our business, financial condition, and results of operations. In addition, correction of any significant deficiencies or material weaknesses (as defined under PCAOB guidelines) could require additional remedial measures including hiring additional personnel, which could be costly and time-consuming. If a significant deficiency or material weakness exists at any year-end (including a material weakness identified prior to year-end for which there is an insufficient period of time to evaluate and confirm the effectiveness of the corrections or related new procedures), our management and our auditors will be unable to report favorably as to the effectiveness of our control over financial reporting or information systems. This could result in a loss of investor confidence in the accuracy and completeness of our financial reports and our management, which could result in a decline of our stock price, damage to our business reputation, and potential litigation.

Changes in accounting standards or the interpretation of accounting standards, especially changes related to revenue recognition, could cause significant impact on our revenue or earnings.

Based on our interpretation of current accounting standards, we believe we have properly reported our current sales and license revenue. New accounting standards or regulations, changes to current accounting standards, or different interpretations of existing accounting standards in the future could result in corresponding changes in our revenue recognition or other accounting policies that could have a material adverse effect on our financial condition and operating results.

Unforeseen environmental costs could negatively affect our future earnings.

Some of our operations use substances regulated under various federal, state, and international laws governing the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. Many of our products are subject to various federal, state, and international laws governing chemical substances in products, including those regulating the manufacture and distribution of chemical substances and those restricting the presence of certain substances in electronics products. We could incur substantial costs, including cleanup costs, fines, civil or criminal sanctions, third-party property damage, or personal injury claims if we were to violate or become

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liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and certain other substances that will apply to specified electronics products put on the market in the European Union as of July 1, 2006 (Restriction of Hazardous Substances Directive) and similar legislation in China and other countries. The ultimate costs under environmental laws and the timing of these costs are difficult to predict, and liability under some environmental laws relating to contaminated sites can be imposed retroactively and on a joint and several basis.

We could also face significant costs and liabilities in connection with product take-back legislation. The European Union has finalized the Waste Electrical and Electronic Equipment Directive (WEEE), which makes producers of electrical goods, including computers and peripherals, financially responsible for specified collection, recycling, treatment, and disposal of past and future covered products. This deadline to enact and implement the directive by individual European Union governments generally was August 13, 2004, although extensions were granted to some countries (such legislation, together with the directive, the WEEE Legislation), and producers are financially responsible under the WEEE Legislation beginning in August 2005. Similar legislation has been or may be enacted in other geographies, including in the United States and Japan, the cumulative impact of which could be significant for us. We have incurred some costs and will continue to incur costs under the WEEE legislation but the amount and timing of these costs are difficult to predict.

Provisions in our charter documents and in Delaware law may discourage potential acquisition bids for us and may prevent changes in management that stockholders may favor.

Provisions in our charter documents could discourage potential acquisition proposals and could delay or prevent a change in control transaction that stockholders may favor. These provisions could have the effect of discouraging others from making tender offers for shares, and as a result, these provisions may prevent the market price of our common stock from reflecting the effects of actual or rumored takeover attempts and may prevent stockholders from reselling their shares at or above the price at which they purchased their shares. These provisions may also prevent changes in management that stockholders may favor. Our charter documents do not permit stockholders to act by written consent, limit the ability of stockholders to call a stockholders meeting, and provide for a classified Board of Directors, which means stockholders can only elect, or remove, a limited number of directors in any given year. Furthermore, the Board of Directors has the authority to issue up to five million shares of preferred stock in one or more series. The Board of Directors can fix the price, rights, preferences, privileges, and restrictions of such preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders.

In addition, Delaware law may inhibit potential acquisition bids for us. Delaware law prevents certain Delaware corporations, including Avocent, from engaging, under certain circumstances, in a business combination with any interested stockholder for three years following the date that such stockholder became an interested stockholder.

Our stock price may be volatile.

Our stock has experienced significant volatility in price, in particular whenever there has been a difference between our actual financial results and the published expectations of analysts. We have also experienced changes in our stock price as a result of speculation in the press or investment community about our strategic position, financial position, results of operations, business, or significant transactions or acquisitions. The stock market in general has experienced price and volume fluctuations that have negatively affected the market price of many publicly-held companies in ways seemingly unrelated to the actual operating performance of these companies. For instance, in the past several weeks stock prices in the U.S. have reacted dramatically in connection with recent events in the U.S. and global economy. Our stock price has been similarly volatile. These factors, as well as general economic and political conditions and the announcement of proposed and completed acquisitions or other significant transactions, or any difficulties associated with such transactions, by us or our current or potential competitors, may materially adversely affect the market price of our common stock in the future. Additionally, volatility, lack of positive performance in our stock price or changes to our overall compensation program including our stock incentive program may adversely affect our ability to retain key employees, virtually all of whom are compensated, in part, based on the performance of our stock price.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In 2004 our Board of Directors approved a stock repurchase program whereby we may purchase shares of our common stock. Our Board has approved a total of 19 million shares to be repurchased under this program, including 4 million additional shares approved by our Board in January 2008. The plan has no expiration date. Details of purchases made during the three and nine months ended September 26, 2008 are as follows:

Period:	Total Number of Shares Purchased During the Period		Average Price Paid Per Share for Period Presented	Total Cumulative Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares Remaining to Purchase Under the Plan
January 1, 2008 January 25, 2008	1,587,575	$	15.59	14,287,575	4,712,425
January 26, 2008 February 22, 2008	1,462,425	$	16.56	15,750,000	3,250,000
February 23, 2008 March 28, 2008	862,300	$	16.22	16,612,300	2,387,700
Quarter ended March 28, 2008	3,912,300	$	16.09		
March 29, 2008 April 25, 2008	87,700	$	17.02	16,700,000	2,300,000
April 26, 2008 May 23, 2008				16,700,000	2,300,000
May 24, 2008 June 27, 2008				16,700,000	2,300,000
Quarter ended June 27, 2008	87,700	$	17.02		
Six Months ended June 27, 2008	4,000,000	$	16.11		

There were no shares repurchased during the three months ended September 26, 2008. Approximately 172,000 shares were withheld as payment for employee payroll withholding taxes at the release of vested restricted stock units in the first nine months of 2008 (*see Note 3 to our condensed consolidated financial statements contained in Part I, Item 1 of this quarterly report*). The 172,000 shares were considered to be treasury shares; however, these treasury shares were immediately retired and are not considered in the table above.

Item 5. Other Information.

Amendment to Avocent Corporation Amended and Restated Bylaws

Effective October 31, 2008, our Board of Directors amended Sections 2.3 and 2.5 of the Amended and Restated Bylaws of Avocent Corporation to address when a special meeting of stockholders can be held and the advance notice procedures for director elections and stockholder proposals. The amendment to Section 2.3 specifies that action by our Board of Directors means a resolution adopted by a majority of the total number of authorized directors whether or not any vacancies exist in previously authorized director positions, and the amendment to Section 2.5 sets forth three separate and distinct processes for advance notice of stockholder business, advance notice of director nominations at annual meetings, and advance notice of director nominations for special meetings. Section 2.5 also details the dates by which the Company must receive notice of any such proposal or nomination and the information that must be provided to the Company. A copy of the amendment is filed as Exhibit 3.2 hereto and is incorporated herein by reference.

Form of Revised Equity Agreements for 2005 Equity Incentive Plan and 2008 Inducement Equity Incentive Plan

On October 31, 2008, our Board of Directors approved amended forms of a restricted stock unit agreement and a performance share agreement under the Avocent Corporation 2005 Equity Incentive Plan and the Avocent Corporation 2008 Inducement Equity Incentive Plan to bring such forms into compliance with Section 409A of the Internal Revenue Code. These forms of agreement are filed as Exhibit 90.20 hereto and incorporated herein by reference.

Amended Employee Stock Purchase Plan

On October 31, 2008, our Board of Directors approved the resumption of our 2000 Employee Stock Purchase Plan (the Plan), which we had suspended at the end of 2005, and approved an amended Plan. Under the amended Plan, eligible employees are offered the opportunity to purchase shares of our common stock at a 10% discount off the market value of the stock at the end of two six-month purchase periods each year. The amended Plan is filed as Exhibit 90.21 hereto and incorporated herein by reference.

Item 6. Exhibits.

(a) Exhibits

3.2 Amended and Restated Bylaws of Avocent Corporation

31.1 Sarbanes-Oxley Act of 2002 Section 302(a) Certification of the Chief Executive Officer

31.2 Sarbanes-Oxley Act of 2002 Section 302(a) Certification of the Chief Financial Officer

32.1 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.20 Form of Amended and Restated Agreements under 2005 and 2008 Equity Plans

99.21 Amended and Restated Employee Stock Purchase Plan

ITEMS 3 AND 4 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVOCENT CORPORATION
(Registrant)

Date: November 5, 2008

/s/ Edward H. Blankenship
Edward H. Blankenship
Senior Vice President of Finance, Chief Financial
Officer, and Assistant Secretary (Principal Financial Officer)