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AETHER SYSTEMS INC
Form 8-K
August 03, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported) August 1, 2001
Commission File Number 000-27707

AETHER SYSTEMS, INC.
(Exact name of registrant)

Delaware
(State of organization)

52-2186634
(I.R.S. Employer Identification Number)

11460 Cronridge Drive, Owings Mills, Maryland 21117
(Address of principal executive offices and zip code)

(410) 654-6400
(Registrant's telephone number)

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ITEM 5. OTHER EVENTS

Aether Systems, Inc. made a preliminary announcement on August 1, 2001 of its financial results for the quarter and six month periods ended June 30, 2001. In the announcement Aether advised that continued demand for Aether wireless data solutions drove total revenue to \$32.1 million, a three-fold increase over the second quarter of last year. The results include recurring services revenue of \$11.4 million, engineering services revenue of \$2.8 million, software product revenue of \$9.9 million, and device sales of \$8.0 million.

In the same period last year, total revenue was \$10.8 million with recurring services revenue of \$6.2 million, engineering services revenue of \$1.6 million, software product revenue of \$2.4 million and device sales of approximately \$578,000. Aether's Q2 2001 revenue of \$32.1 million represents a 4.6 percent increase over Q1 2001 revenue of \$30.7 million.

Non-cash charges include a restructuring charge associated with Aether's integration efforts, the amortization and impairment of goodwill relating to acquisitions, the impairment of the company's investments, the company's share of losses in joint ventures under equity method accounting, and non-cash expenses relating to options and warrants, partially offset by a gain due to the early extinguishment of debt.

As part of Aether's integration strategy to consolidate excess facilities and eliminate redundant positions from acquired companies, the company recognized a restructuring charge of \$15.9 million. This charge relates

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to a workforce reduction of 250 positions and the closing of six facilities.

Gross margins improved during the quarter to 42 percent compared to 35 percent during Q1 2001. All revenue categories realized improvements.

Results include an extraordinary gain related to the early extinguishment of \$20 million in senior convertible notes payable.

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For the first six months of 2001, Aether reported a four-fold increase in revenue to \$62.7 million, compared with \$16.2 million for the same period in 2000. The results include recurring services revenue of \$21.8 million, engineering services revenue of \$5.1 million, software product revenue of \$21.7 million and device sales of \$14.1 million. In the same period last year, Aether recorded recurring services of \$9.0 million, engineering services revenue of \$3.0 million, software product revenue of \$3.4 million and device sales revenue of approximately \$713,000.

SAFE HARBOR STATEMENT

This statement includes forward-looking statements based on the current expectations of Aether about future events. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about Aether that could cause actual results to differ materially from those in such forward-looking statements. Potential risks and uncertainties include, but are not limited to, market acceptance of the products developed or to be developed by Aether, the ability of Aether to develop new technologies and projects, future decisions regarding investments and acquisitions and future market values of similar businesses, the success of Aether's efforts to reduce marginal costs while increasing sales, and the success of joint efforts with partner companies. These risks and other risk factors are described under the caption, "Risk Factors" in Aether's filings with the Securities and Exchange Commission. Aether undertakes no obligation to update the forward-looking statements contained in this press release.

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AETHER SYSTEMS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
in thousands except per share data		
Subscriber revenue	\$11,408	\$6,178
Engineering services revenue	2,781	1,637
Software and related services	9,873	2,362
Device sales	8,022	578
	32,084	10,755
Total revenue		
Cost of subscriber revenue	6,617	3,154
Cost of engineering services revenue	1,487	1,027
Cost of software and related services	2,574	851
Cost of device sales	7,922	595

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Total cost of revenue	18,600	5,627
Gross profit	13,484	5,128
Operating expenses:		
Research and development	18,705	5,014
General and administrative	23,680	8,507
Selling and marketing	20,511	16,544
In process research and development related to acquisitions	-	60
Depreciation and amortization	29,448	67,041
Option and warrant expense	4,358	3,605
Impairment of goodwill associated with acquisitions	2,211	-
Restructuring Charge	15,859	-
	114,772	100,771
Operating loss	(101,288)	(95,643)
Other income (expense):		
Interest income (expense), net	3,195	14,787
Equity in losses of investment	(17,007)	(10,721)
Investment loss, including impairments	(1,147)	-
Minority Interest	4,483	1,662
loss before Income taxes	(111,764)	(89,915)
Income tax benefit	440	-
Net loss before extraordinary item and cumulative effect of a change in accounting principle	(111,324)	(89,915)
Extraordinary item relating to early extinguishment of debt	7,684	-
Net loss before cumulative effect of a change in accounting principle	(103,640)	(89,915)
Cumulative effect of change in accounting principle relating to adoption of SFAS 133, Accounting for Derivatives	-	-
Net loss	(103,640)	(89,915)
Net loss per share - basic and diluted before extraordinary item and cumulative effect of a change in accounting principle	(\$2.74)	(\$2.36)
Extraordinary item relating to early extinguishment of debt	\$0.19	\$0.00
Cumulative effect of a change in accounting principle relating to adoption of SFAS 133, Accounting for Derivatives	\$0.00	\$0.00
Net loss per share - basic and diluted	(\$2.55)	(\$2.36)
Weighted average shares outstanding - basic and diluted	40,576	38,031

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	JUNE 30, 2001	December 31, 2000
in thousands	(unaudited)	
Current assets:		
Cash and cash equivalents	\$651,376	\$872,700
Short-term investments	2,444	2,600
Trade accounts receivable	28,111	30,200
Inventory	44,109	19,100
Prepaid expenses and other current assets	18,981	17,000
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Total current assets	745,021	941,800
Furniture, computers, and equipment, net	72,454	53,200
Intangibles and other assets	506,366	1,682,200
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	\$1,323,841	\$2,677,300
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$8,780	\$9,700
Accrued expenses	44,961	66,900
Accrued employee compensation and benefits	10,991	12,500
Deferred revenue	17,727	14,100
Notes payable	14,914	18,800
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Total current liabilities	97,373	122,200
Long-term liabilities:		
Convertible subordinated notes payable and other notes payable	310,845	321,200
Deferred tax liability	9,820	10,600
Minority interest in net assets of subsidiary	47,394	55,500
Stockholders' equity	858,409	2,167,600
Commitments and contingencies		
	\$1,323,841	\$2,677,300
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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 hereunto duly authorized.

Aether Systems, Inc.

By: /s/ David C. Reymann

David C. Reymann
Chief Financial Officer

Dated: August 3, 2001

