FORMFACTOR INC
Form 10-Q
May 04, 2011
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UNITED STATES

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 March 26, 2011

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: 000-50307

FormFactor, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3711155**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7005 Southfront Road, Livermore, California 94551

(Address of principal executive offices, including zip code)

(925) 290-4000

(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 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 27, 2011, 50,647,868 shares of the registrant s common stock, par value $0.001 per share, were outstanding.

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FORMFACTOR, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 26, 2011

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	March 26, 2011	March 27, 2010
Revenues	$ 40,428	$ 39,666
Cost of revenues	36,359	41,994
Gross profit (loss)	4,069	(2,328)
Operating expenses:		
Research and development	11,560	15,091
Selling, general and administrative	12,387	17,867
Restructuring charges, net	1,038	3,550
Impairment of long-lived assets	351	
Total operating expenses	25,336	36,508
Operating loss	(21,267)	(38,836)
Interest income, net	424	775
Other income (expense), net	(374)	117
Loss before income taxes	(21,217)	(37,944)
Provision for income taxes	207	240
Net loss	$ (21,424)	$ (38,184)
Net loss per share:		
Basic and Diluted	$ (0.42)	$ (0.77)
Weighted-average number of shares used in per share calculations:		
Basic and Diluted	50,636	49,890

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FORMFACTOR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	March 26, 2011	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 116,142	$ 121,207
Marketable securities	217,090	226,028
Restricted cash	383	383
Accounts receivable, net	23,648	28,598
Inventories	22,953	25,003
Deferred tax assets	278	329
Prepaid expenses and other current assets	11,321	14,743
Total current assets	391,815	416,291
Restricted cash	297	297
Property, plant and equipment, net	36,053	37,311
Deferred tax assets	4,877	5,445
Other assets	5,899	6,710
Total assets	$ 438,941	$ 466,054
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 16,035	$ 14,948
Accrued liabilities	15,555	24,045
Income taxes payable		1,894
Deferred revenue	4,774	4,637
Total current liabilities	36,364	45,524
Long-term income taxes payable	4,243	4,248
Deferred rent and other liabilities	5,071	5,081
Total liabilities	45,678	54,853
Commitments and contingencies (Note 16)		
Stockholders equity:		
Preferred stock, $0.001 par value:		
10,000,000 shares authorized; no shares issued and outstanding at March 26, 2011 and December 25, 2010, respectively		
Common stock, $0.001 par value:		
250,000,000 shares authorized; 50,646,409 and 50,587,917 shares issued and outstanding at March 26, 2011 and December 25, 2010, respectively	52	52
Additional paid-in capital	654,486	651,263
Accumulated other comprehensive income	2,290	2,027
Accumulated deficit	(263,565)	(242,141)
Total stockholders equity	393,263	411,201
Total liabilities and stockholders equity	$ 438,941	$ 466,054

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FORMFACTOR, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 26, 2011	Three months ended March 27, 2010
Cash flows from operating activities:		
Net loss	$ (21,424)	$ (38,184)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,935	8,573
Amortization of investments	99	89
Stock-based compensation expense	3,969	5,258
Deferred income tax benefit	(45)	(96)
Benefit from doubtful accounts receivable	(294)	(147)
Provision for excess and obsolete inventories	2,267	1,200
Loss (gain) on disposal of long-lived assets	(14)	175
Impairment of long-lived assets	351	
Foreign currency transaction (gains) losses	(242)	332
Changes in assets and liabilities:		
Accounts receivable	5,338	(5,034)
Inventories	(165)	(6,353)
Prepaid expenses and other current assets	2,579	(1,334)
Refundable income taxes	(257)	26,458
Other assets	533	
Accounts payable	1,754	89
Accrued liabilities	(8,554)	(1,478)
Income tax payable	(1,157)	(317)
Deferred rent	(103)	(149)
Deferred revenues	136	701
Net cash used in operating activities	(12,294)	(10,217)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(1,537)	(7,342)
Proceeds from sales of property, plant and equipment	15	
Purchases of marketable securities	(51,853)	(66,504)
Proceeds from maturities of marketable securities	60,665	53,771
Net cash provided by (used in) investing activities	7,290	(20,075)
Cash flows from financing activities:		
Proceeds from issuances of common stock and awards, net of issuance costs	1,534	1,550
Purchase and retirement of common stock	(1,968)	
Net cash provided by (used in) financing activities	(434)	1,550
Effect of exchange rate changes on cash and cash equivalents	373	(323)
Net decrease in cash and cash equivalents	(5,065)	(29,065)
Cash and cash equivalents, beginning of period	121,207	122,043
Cash and cash equivalents, end of period	$ 116,142	$ 92,978
Supplemental cash flow disclosures:		
	$ (653)	$ 285

Changes in accounts payable and accrued liabilities related to property and equipment purchases				
Income taxes paid	$	1,687	$	394

The accompanying notes are an integral part of these condensed consolidated financial statements.

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FORMFACTOR, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation and Summary of Significant Accounting Policies

Basis of presentation. The accompanying unaudited condensed consolidated interim financial statements of FormFactor, Inc. and our subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (the SEC). Our interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to fairly present our financial position, results of operations and cash flows have been included. Operating results for the three months ended March 26, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, or for any other period. The balance sheet at December 25, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. The condensed consolidated financial statements include our accounts as well as those of our wholly-owned subsidiaries after elimination of all significant inter-company balances and transactions.

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates, and material effects on our consolidated operating results and financial position may result.

These financial statements and notes should be read with the consolidated financial statements and notes thereto for the year ended December 25, 2010 included in our Annual Report on Form 10-K filed with the SEC on February 17, 2011.

Fiscal year. We operate on a 52/53 week fiscal year, whereby the fiscal year ends on the last Saturday of December. Fiscal 2011 will end on December 31, 2011, and will consist of 53 weeks.

Reclassifications. Certain reclassifications have been made to the prior period s Condensed Consolidated Balance Sheet, Statement of Cash Flows and Statement of Operations to conform to the current year presentation.

Significant Accounting Policies. Other than the accounting policies discussed in Note 2 Recent Accounting Pronouncements and Other Reporting Considerations, our significant accounting policies have not materially changed during the three months ended March 26, 2011 from those disclosed in our Annual Report on Form 10-K for the year ended December 25, 2010.

Note 2 Recent Accounting Pronouncements and Other Reporting Considerations

Fair Value

Effective December 26, 2010, as required, we adopted the guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. Specifically, we have adopted the guidance requiring the disclosure of the roll forward of activities on purchases, sales, issuances and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Other than requiring additional disclosures, adoption of this new guidance in the first quarter of fiscal 2011 did not have a material impact on our consolidated financial statements.

Revenue Recognition

In October 2009, additional authoritative guidance that modifies accounting for revenue arrangements with multiple deliverables was issued. The guidance eliminates the residual method of revenue recognition and establishes a hierarchy for determining the selling price of a deliverable in a sale arrangement whereby the selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE or TPE is available. As required, we adopted this guidance effective December 26, 2010 on a prospective basis for revenue arrangements entered into or materially modified after the adoption date. The adoption of the additional authoritative guidance modifying revenue recognition accounting standards did not have any impact on our consolidated financial position, results of operations, or cash flows for the three months ended March 26, 2011, nor is it expected to have a material impact on total net revenues for the year ended December 31, 2011 based on current business practices.

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Note 3 Concentration of Credit and Other Risks

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments and trade receivables. Our cash equivalents and marketable securities are held in safekeeping by large, creditworthy financial institutions. We invest our excess cash primarily in U.S. banks, government and agency bonds, money market funds and corporate obligations. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity.

We sell our products to large multinational semiconductor manufacturers primarily located in Asia and North America. Four customers represented 16%, 15%, 13% and 11% of total revenues during the three months ended March 26, 2011, and four customers represented 19%, 15%, 13% and 12% of total revenues during the three months ended March 27, 2010. No other customer accounted for more than 10% of total revenues in either of these fiscal periods.

We have significant accounts receivables concentrated with a few customers in the semiconductor industry. While our allowance for doubtful accounts balance is based on historical loss experience along with anticipated economic trends, unanticipated financial instability in the semiconductor industry could lead to higher than anticipated losses. As of March 26, 2011, four customers accounted for approximately 18%, 17%, 15% and 11% of gross accounts receivable. At December 25, 2010, three customers accounted for approximately 21%, 19% and 11% of gross accounts receivable. No other customer accounted for more than 10% of gross accounts receivable in either of these fiscal periods.

Note 4 Restructuring Charges

Restructuring charges include costs related to employee termination benefits, cost of long-lived assets abandoned or impaired, as well as contract termination costs.

2010 Restructuring Activities

We recorded $3.6 million in restructuring charges in the three months ended March 27, 2010 as part of our then-current regionalization strategy (the Q1 2010 Restructuring Plan). These charges consisted of termination benefits related to reductions in work force of 106 full-time positions, which were all related to severance and related benefits. Subsequently, in the second quarter of fiscal 2010 we undertook a plan to rescind the previously issued severance arrangements for certain employees impacted by this plan, resulting in the reversal of $3.3 million of the accrual for severance costs booked in conjunction with the Q1 2010 Restructuring Plan, including the accrued retention bonus to date. All activities related to this plan were completed during fiscal 2010.

In addition to the above, we executed certain additional restructuring actions during the remainder of fiscal 2010. The ending restructuring accrual of $1.8 million as of December 25, 2010 reflects the unpaid amounts related to these actions as of that date.

2011 Restructuring Activities

In the first quarter of fiscal 2011, we implemented a restructuring plan (the Q1 2011 Restructuring Plan) including reducing our global workforce by 13 full-time employees across the organization. We recorded $1.1 million in charges for severance and related benefits during the quarter related to this plan. We expect that the activities comprising this reduction in workforce will be substantially completed by the end of the second quarter of fiscal 2011.

The liabilities we have accrued represent our best estimate of the obligations we expect to incur and could be subject to adjustment as market conditions change. The remaining cash payments associated with our various reductions in workforce are expected to be paid by the end of the second quarter of fiscal 2011.

The activities in the restructuring accrual for the three months ended March 26, 2011 were as follows (in thousands):

	Employee Severance and Benefits	Contract Termination and Other	Total
Accrual at December 25, 2010	$ 1,382	$ 451	$ 1,833
Q1 2011 Restructuring Plan charges	1,082		1,082
Cash payments	(1,633)	(53)	(1,686)
Other adjustments	(40)		(40)
Accrual at March 26, 2011	$ 791	$ 398	$ 1,189

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Restructuring charges are reflected separately as Restructuring charges, net in the Condensed Consolidated Statements of Operations. The remaining accrual as of March 26, 2011 that relates to severance and related benefits is expected to be paid out by the end of the second quarter of fiscal 2011, while the remaining accrual for contract termination costs was forgiven by the counterparty subsequent to the first fiscal quarter. See Note 18 Subsequent Events of the Notes to Condensed Consolidated Financial Statements for further discussion. As such, the restructuring accrual is recorded as a current liability within Accrued liabilities in the Condensed Consolidated Balance Sheets.

Note 5 Fair Value

We use fair value measurements to record fair value adjustments to certain financial and non-financial assets and to determine fair value disclosures. Our marketable securities are financial assets recorded at fair value on a recurring basis. We also have certain manufacturing equipment held for sale which are measured at fair value on a non-recurring basis and included within Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

The accounting standard for fair value defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires disclosures about fair value measurements. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance. We apply the following fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: The accounting standard for fair value establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The standard describes a fair value hierarchy based on three levels of inputs, the first two of which are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - Inputs, other than the quoted prices in active markets, which are observable either directly or indirectly.

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets Measured at Fair Value on a Recurring Basis

We measure and report certain assets and liabilities at fair value on a recurring basis, including money market funds, U.S. government securities, municipal bonds, agency securities and foreign currency derivatives (see Note 17 Derivative Financial Instruments of the Notes to Condensed Consolidated Financial Statements for discussion of fair value of foreign currency derivatives). The following tables represent the fair value hierarchy for our other financial assets (cash equivalents and marketable securities):

Fair value measured on a recurring basis as of March 26, 2011 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 76,388	$	76,388
Agency securities		5,000	5,000
Commercial paper		17,993	17,993
Marketable securities			
U. S. Treasury		109,237	109,237
Agency securities		104,853	104,853
Commercial paper		3,000	3,000
Total	$ 76,388	$ 240,083	$ 316,471

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Fair value measured on a recurring basis as of December 25, 2010 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash equivalents			
Money market funds	$ 82,996	$	$ 82,996
Commercial paper		16,991	16,991
Marketable securities			
U. S. Treasury		105,865	105,865
Agency securities		108,173	108,173
Commercial paper		11,990	11,990
Total	$ 82,996	$ 243,019	$ 326,015

The Level 1 assets consist of our money market fund deposits. The Level 2 assets consist of our available-for-sale investment portfolio, which are valued utilizing a market approach. Our investments are priced by pricing vendors who provided observable inputs for their pricing without applying significant judgments. Broker s pricing is used mainly when a quoted price is not available, the investment is not priced by our pricing vendors or when a broker price is more reflective of fair values in the market in which the investment trades. Our broker-priced investments are labeled as Level 2 investments because fair values of these investments are based on similar assets without applying significant judgments. In addition, all of our investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

We did not have any significant transfers of assets measured at fair value on a recurring basis to or from Level 1 and Level 2 during the fiscal quarters ended March 26, 2011 and March 27, 2010.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table represents the fair value hierarchy for our long-lived assets measured at fair value on a nonrecurring basis as of March 26, 2011 (in thousands):

	Level 3	Total	Total Gains (Losses) Three Months Ended March 26, 2011
Long-lived assets held for sale	$ 389	$ 389	$
Total	$ 389	$ 389	$

At the end of fiscal 2010, we had a building held for sale in Livermore, California, which was classified as Level 2 because the updated estimated fair value of the building was determined using inputs that reflected the assumptions market participants would use in pricing the building developed based on market data obtained from sources independent of us. During the quarter ended March 26, 2011 we placed this building back into service at its carrying value of $0.8 million, resulting in a reclassification of the balance from Prepaid expenses and other current assets to Property and equipment, net in the Condensed Consolidated Balance Sheet as of March 26, 2011. See Note 10 Long-lived Assets of the Notes to the Condensed Consolidated Financial Statements for more information.

At the end of fiscal 2010, we also had certain manufacturing equipment held for sale in Livermore, California which was classified as Level 3 as we used unobservable inputs in their valuation reflecting our assumptions that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity. As of both March 26, 2011 and December 25, 2010, our held for sale assets in Livermore were valued at $0.4 million and continued to be classified as Level 3 based on the fact that we used unobservable inputs in their valuation reflecting our assumptions that market participants would use in pricing this asset due to the absence of recent comparable market transactions and inherent lack of liquidity.

Other than the building previously held for sale that was put into service during the three months ended March 26, 2011, we did not have any assets that were transferred to or from Level 3 during the fiscal quarters ended March 26, 2011 and March 27, 2010.

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Our fair value processes include controls that are designed to ensure appropriate fair values are recorded. Such controls include model validation, review of key model inputs, and analysis of period-over-period fluctuations and independent recalculation of prices.

Note 6 Marketable Securities

We classify our marketable debt securities as available-for-sale . All marketable securities represent the investment of funds available for current operations, notwithstanding their contractual maturities. Such marketable securities are recorded at fair value and unrealized gains and losses are recorded in accumulated other comprehensive income until realized.

Marketable securities at March 26, 2011 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury	$ 108,951	$ 293	$ (7)	$ 109,237
Agency Securities	105,002	16	(165)	104,853
Commercial Paper	3,000			3,000
	$ 216,953	$ 309	$ (172)	$ 217,090

Marketable securities at December 25, 2010 consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U. S. Treasury	$ 105,513	$ 372	$ (20)	$ 105,865
Agency Securities	108,361	36	(224)	108,173
Commercial Paper	11,988	2		11,990
	$ 225,862	$ 410	$ (244)	$ 226,028

The marketable securities with gross unrealized losses have been in a loss position for less than 12 months as of March 26, 2011 and December 25, 2010, respectively.

When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below the amortized cost basis, review of current market liquidity, interest rate risk, the financial condition of the issuer, as well as credit rating downgrades. We believe that the unrealized losses are not other-than-temporary. We do not have a foreseeable need to liquidate the portfolio and anticipate recovering the full cost of the securities either as market conditions improve, or as the securities mature.

Contractual maturities of marketable securities as of March 26, 2011 were as follows (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	$ 106,281	$ 106,493
Due after one year to three years	110,672	110,597
	$ 216,953	$ 217,090

Realized gains and losses on sales and maturities of marketable securities were immaterial for the three months ended March 26, 2011 and March 27, 2010, respectively.

Note 7 Allowance for Doubtful Accounts

We recorded a reduction in provision for doubtful accounts of $0.6 million in the first quarter of fiscal 2011 primarily due to the receipt of payments totaling $0.3 million for accounts receivable previously reserved and the write-off of previously reserved accounts receivable in the amount of $0.3 million. The allowance for doubtful accounts consisted of the following activity (in thousands):

	Three Months Ended	
	March 26, 2011	March 27, 2010
Beginning balance	$ 847	$ 9,260
Additions		
Deductions	(610)	(147)
Ending balance	$ 237	$ 9,113

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Note 8 Inventories

Inventories consisted of the following (in thousands):

	March 26, 2011	December 25, 2010
Raw materials	$ 5,878	$ 2,736
Work-in-progress	11,777	16,807
Finished goods	5,298	5,460
	$ 22,953	$ 25,003

We record provisions for excess and obsolete inventory based on forecasts of future demand. While management believes the estimates and assumptions underlying its current forecasts are reasonable, there is risk that additional charges may be necessary if current forecasts are greater than actual demand.

Note 9 Warranty

We offer warranties on certain products and record a liability for the estimated future costs associated with warranty claims, which is based upon historical experience and our estimate of the level of future costs. Warranty costs are reflected in the Condensed Consolidated Statement of Operations as a cost of revenues. A reconciliation of the changes in our warranty liability (included in Accrued liabilities in the Condensed Consolidated Balance Sheets) is as follows (in thousands):

	Three Months Ended	
	March 26, 2011	March 27, 2010
Warranty accrual beginning balance	$ 433	$ 732
Accrual (release) of warranties during the period	(180)	(396)
Settlements made during the period	(64)	(29)
Warranty accrual ending balance	$ 189	$ 307

Note 10 Long-lived Assets

Property, plant and equipment consisted of the following (in thousands):

	March 26, 2011	December 25, 2010
Building	$ 790	$

Machinery and equipment	119,480	115,847
Computer equipment and software	35,527	35,493
Furniture and fixtures	6,196	6,180
Leasehold improvements	70,037	69,934
	232,030	227,454
Less: Accumulated depreciation, amortization and enterprise-wide impairment	(210,727)	(207,992)
	21,303	19,462
Construction-in-progress	14,750	17,849
	$ 36,053	$ 37,311

During the quarter ended March 26, 2011 we placed a building previously identified as held for sale back into service at its carrying value of $0.8 million. This amount represents the lesser of its carrying amount before the building was classified as held for sale, adjusted for any depreciation that would have been recognized had the building been continuously classified as held and used, or the fair value at the date of the subsequent decision not to sell. The building will be depreciated over its estimated remaining useful life of ten years.

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In the three months ended March 26, 2011 we wrote-off fully depreciated assets with an acquired cost of $0.2 million. In addition, we recorded an impairment of $0.4 million related to the termination of aspects of an on-going project related to certain software development for internal use that had been recorded in construction-in-progress. This impairment charge is included in Impairment of long-lived assets in the Condensed Consolidated Statements of Operations for the quarter ending March 26, 2011.

At March 26, 2011, the carrying amount of our intangible asset, which consists of purchased intellectual property, was $4.1 million, with $5.9 million as the gross amount and $1.8 million as the accumulated amortization. We recorded $0.3 million amortization expense for our intangible asset during the first fiscal quarter of 2011, of which $0.2 million was charged to cost of revenues and $0.1 million was charged to selling, general and administrative expense. The intangible asset had a remaining amortization period of 3.5 years at March 26, 2011. The intangible asset is included in Other assets in the Condensed Consolidated Balance Sheets.

Note 11 Comprehensive Loss

Comprehensive loss includes foreign currency translation adjustments and unrealized gains (losses) on available-for-sale securities, the impact of which has been excluded from net income and reflected as components of stockholders equity.

Components of comprehensive loss were as follows (in thousands):

	Three Months Ended	
	March 26, 2011	**March 27, 2010**
Net loss	$ (21,424)	$ (38,184)
Unrealized gain (loss) on investments, net	(27)	14
Cumulative translation adjustments	290	(118)
Comprehensive loss	$ (21,161)	$ (38,288)

Components of accumulated other comprehensive income were as follows (in thousands):

	March 26, 2011	**December 25, 2010**
Unrealized loss on marketable securities, net of tax of $299 at March 26, 2011 and December 25, 2010, respectively	$ (163)	$ (136)
Cumulative translation adjustments	2,453	2,163
Accumulated other comprehensive income	$ 2,290	$ 2,027

Note 12 Stockholders Equity

Common Stock Repurchase Program

On October 20, 2010, our Board of Directors authorized a program to repurchase up to $50.0 million of outstanding common stock. Under the authorized stock repurchase program, we may repurchase shares from time to time on the open market; the pace of repurchase activity will depend on levels of cash generation, current stock price, and other factors. The stock repurchase program was announced on October 26, 2010 and expires on October 19, 2011. The program may be modified or discontinued at any time. During fiscal year 2010 we repurchased and retired 70,000 shares of common stock for $0.6 million under this repurchase authorization. During the first fiscal quarter of 2011 we repurchased and retired an additional 262,712 shares for $2.3 million.

Repurchased shares are retired upon the settlement of the related trade transactions. Our policy related to repurchases of our common stock is to charge the excess of cost over par value to additional paid-in capital. All repurchases were made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

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Equity Incentive Plans

We have three equity incentive plans: Incentive Option Plan and Management Incentive Option Plan (together, the Prior Plans), and 2002 Equity Incentive Plan (the 2002 Plan), which became effective in April 2002. Upon the effectiveness of the 2002 Plan, we ceased granting any equity awards under the Prior Plans, although forfeited, repurchased, cancelled or terminated Prior Plan shares were transferred to the 2002 Plan.

Stock Options

Stock option activity under the Prior Plans and the 2002 Plan during the three months ended March 26, 2011 is set forth below:

	Options Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years		Aggregate Intrinsic Value
Balances, December 25, 2010	5,318,387	$	14.53			
Options granted	202,250		8.94			
Options exercised	(12,515)		6.23			
Options cancelled:						
Forfeited	(70,275)		9.86			
Expired	(105,289)		29.18			
Balances, March 26, 2011	5,332,558	$	14.11	4.57	$	4,493,296
Vested and expected to vest at March 26, 2011	4,786,013	$	14.61	4.39	$	3,998,104
Exercisable at March 26, 2011	2,007,799	$	21.08	2.09	$	1,368,343

The intrinsic value of option exercises during the three months ended March 26, 2011 was $43,000. Cash received from stock option exercises during the three months ended March 26, 2011 was $0.1 million. We did not realize any gross tax benefits in connection with these exercises.

Restricted Stock Units

Restricted stock unit activity under the 2002 Plan during the three months ended March 26, 2011 is set forth below:

	Units		Weighted Average Grant Date Fair Value
Non-vested restricted stock units at December 25, 2010	1,372,912	$	16.29

Awards granted	51,600		8.89
Awards released	(103,525)		17.92
Awards cancelled	(112,118)		17.08
Non-vested restricted stock units at March 26, 2011	1,208,869	$	15.77

Note 13 Stock-Based Compensation

We account for all stock-based compensation to employees and directors, including grants of stock options, as stock-based compensation costs in the Condensed Consolidated Financial Statements based on the fair value measured as of the date of grant. These costs are recognized as an expense in the Condensed Consolidated Statements of Operations over the requisite service period and increase additional paid-in capital.

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The table below shows the stock-based compensation charges included in the Condensed Consolidated Statements of Operations (in thousands):