DENNYS CORP
Form 10-Q
May 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2010

Commission File Number 0-18051
DENNY'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization	13-3487402 (I.R.S. Employer Identification No.)

203 East Main Street
Spartanburg, South Carolina 29319-0001
(Address of principal executive offices)
(Zip Code)

(864) 597-8000
(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 þ No ¨

Indicate by check mark whether the registrant has 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 Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ 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.

Large accelerated filer	o	Accelerated filer	þ	Non-accelerated filer (Do not check if a smaller reporting company)	o	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 ¨ No þ

As of May 5, 2010, 99,223,812 shares of the registrant’s common stock, par value $.01 per share, were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Denny’s Corporation and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Quarter Ended	
	March 31, 2010	April 1, 2009
	(In thousands, except per share amounts)	
Revenue:		
Company restaurant sales	$ 107,783	$ 135,576
Franchise and license revenue	29,789	30,184
Total operating revenue	137,572	165,760
Costs of company restaurant sales:		
Product costs	25,692	32,283
Payroll and benefits	44,176	57,760
Occupancy	7,401	9,044
Other operating expenses	15,864	20,598
Total costs of company restaurant sales	93,133	119,685
Costs of franchise and license revenue	12,366	11,298
General and administrative expenses	13,074	13,847
Depreciation and amortization	7,373	8,712
Operating (gains), losses and other changes, net	423	298
Total operating costs and expenses	126,369	153,840
Operating income	11,203	11,920
Other expenses:		
Interest expense, net	6,398	8,491
Other nonoperating income, net	(12)	(486)
Total other expenses, net	6,386	8,005
Net income before income taxes	4,817	3,915
Provision for (benefit from) income taxes	229	(392)
Net income	$ 4,588	$ 4,307
Basic and diluted net income per share	$ 0.05	$ 0.04
Weighted average shares outstanding:		
Basic	97,095	96,045
Diluted	100,153	97,606

See accompanying notes

Denny's Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2010	December 30, 2009
	(In thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 33,741	$ 26,525
Receivables, less allowance for doubtful accounts of $85 and $171, respectively	13,735	18,106
Inventories	3,812	4,165
Assets held for sale	3,024	—
Prepaid and other current assets	11,377	9,549
Total Current Assets	65,689	58,345
Property, net of accumulated depreciation of $253,462 and $258,695, respectively	125,665	131,484
Other Assets:		
Goodwill	32,440	32,440
Intangible assets, net	54,346	55,110
Deferred financing costs, net	2,406	2,676
Other noncurrent assets	33,187	32,572
Total Assets	$ 313,733	$ 312,627
Liabilities		
Current Liabilities:		
Current maturities of notes and debentures	$ 1,320	$ 900
Current maturities of capital lease obligations	3,784	3,725
Accounts payable	25,008	22,842
Other current liabilities	60,283	64,641
Total Current Liabilities	90,395	92,108
Long-Term Liabilities:		
Notes and debentures, less current maturities	248,919	254,357
Capital lease obligations, less current maturities	19,480	19,684
Liability for insurance claims, less current portion	21,256	21,687
Deferred income taxes	13,045	13,016
Other noncurrent liabilities and deferred credits	39,631	39,273
Total Long-Term Liabilities	342,331	348,017
Total Liabilities	432,726	440,125
Commitments and contingencies		
Shareholders' Deficit		
Common stock $0.01 par value; authorized - 135,000; issued - 99,098 and 96,613, respectively	991	966
Paid-in capital	546,301	542,576

Deficit		(648,239)		(652,827)
Accumulated other comprehensive loss, net of tax		(18,046)		(18,213)
Total Shareholders' Deficit		(118,993)		(127,498)
Total Liabilities and Shareholders' Deficit	$	313,733	$	312,627

See accompanying notes

Denny’s Corporation and Subsidiaries
Condensed Consolidated Statement of Shareholders’ Deficit and Comprehensive Income
(Unaudited)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Deficit	Accumulated Other Comprehensive Loss, Net	Total Shareholders' Deficit
			(In thousands)			
Balance, December 30, 2009	96,613	$ 966	$ 542,576	$ (652,827)	$ (18,213)	$ (127,498)
Comprehensive income:						
Net income	—	—	—	4,588	—	4,588
Amortization of unrealized loss on hedged transactions, net of tax	—	—	—	—	167	167
Comprehensive income	—	—	—	4,588	167	4,755
Share-based compensation on equity classified awards	—	—	634	—	—	634
Issuance of common stock for share-based compensation	198	2	(2)	—	—	—
Exercise of common stock options	2,287	23	3,093	—	—	3,116
Balance, March 31, 2010	99,098	$ 991	$ 546,301	$ (648,239)	$ (18,046)	$ (118,993)

See accompanying notes

Denny's Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Quarter Ended	
	March 31, 2010	April 1, 2009
	(In thousands)	
Cash Flows from Operating Activities:		
Net income	$ 4,588	$ 4,307
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	7,373	8,712
Operating (gains), losses and other charges, net	423	298
Amortization of deferred financing costs	259	271
(Gain) loss on early extinguishment of debt	26	(17)
(Gain) loss on interest rate swap	167	(563)
Deferred income tax expense	29	101
Share-based compensation	1,358	885
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease (increase) in assets:		
Receivables	2,692	1,769
Inventories	352	658
Other current assets	(1,828)	496
Other assets	(1,380)	(463)
Increase (decrease) in liabilities:		
Accounts payable	6,140	(1,923)
Accrued salaries and vacations	(5,822)	(1,544)
Accrued taxes	(275)	(1,261)
Other accrued liabilities	1,390	(4,059)
Other noncurrent liabilities and deferred credits	(826)	(2,594)
Net cash flows provided by operating activities	14,666	5,073
Cash Flows from Investing Activities:		
Purchase of property	(3,164)	(3,937)
Collections on notes receivable	1,890	—
Proceeds from disposition of property	4	3,391
Net cash flows used in investing activities	(1,270)	(546)
Cash Flows from Financing Activities:		
Long-term debt payments	(5,924)	(1,289)
Proceeds from exercise of stock options	3,116	5
Net bank overdrafts	(3,372)	(2,678)
Net cash flows used in financing activities	(6,180)	(3,962)
Increase in cash and cash equivalents	7,216	565
Cash and Cash Equivalents at:		
Beginning of period	26,525	21,042

End of period	$	33,741	$	21,607

See accompanying notes

Denny’s Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Introduction and Basis of Presentation

Denny’s Corporation, or Denny’s, is one of America’s largest family-style restaurant chains. At March 31, 2010, the Denny’s brand consisted of 1,559 restaurants, 1,322 (85%) of which were franchised/licensed restaurants and 237 (15%) of which were company-owned and operated.

The following table shows the unit activity for the quarter ended March 31, 2010 and April 1, 2009:

	Quarter Ended	
	March 31, 2010	April 1, 2009
Company-owned restaurants, beginning of period	233	315
Units opened	4	1
Units sold to franchisees	—	(30)
Units closed	—	—
End of period	237	286
Franchised and licensed restaurants, beginning of period	1,318	1,226
Units opened	6	10
Units purchased from Company	—	30
Units closed	(2)	(6)
End of period	1,322	1,260
Total company-owned, franchised and licensed restaurants, end of period	1,559	1,546

Our unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Therefore, certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. In our opinion, all adjustments considered necessary for a fair presentation of the interim periods presented have been included. Such adjustments are of a normal and recurring nature. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

These interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 30, 2009 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the fiscal year ended December 30, 2009. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire fiscal year ending December 29, 2010.

Note 2. Summary of Significant Accounting Policies

Newly Adopted Accounting Standards

Fair Value

Accounting Standards Update (“ASU”) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”

Effective March 31, 2010, we adopted ASU No. 2010-06, which improves disclosure requirements related to fair value measurements under the Codification. The new disclosure requirements relate to transfers in and out of Levels 1 and 2. ASU No. 2010-06 also includes separate disclosure requirements about purchases, sales, issuances and settlements relating to Level 3 measurements, which we are required to adopt in the first quarter of 2011. The adoption did not have a material impact on the disclosures included in our Condensed Consolidated Financial Statements.

Subsequent Events

ASU No. 2010-09,“Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements"

Effective December 31, 2010, the first day of fiscal 2010, we adopted ASC No. 2010-09, which removes the requirement to disclose the date through which subsequent events have been evaluated. The adoption did not have a material impact on the disclosures included in our Condensed Consolidated Financial Statements. See Note 17.

Variable Interest Entities

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810 “Consolidation”

Effective December 31, 2010, the first day of fiscal 2010, we adopted FASB ASC 810, which amends the guidance on the consolidation of variable interest entities for determining whether an entity is a variable interest entity and modifies the methods allowed for determining the primary beneficiary of a variable interest entity. In addition, it requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity and enhanced disclosures related to an enterprise’s involvement in a variable interest entity. The adoption did not have a material impact on our Condensed Consolidated Financial Statements.

There have been no other material changes to our significant accounting policies and estimates from the information provided in Note 2 of our Consolidated Financial Statements included in our Form 10-K for the fiscal year ended December 30, 2009.

Accounting Standards to be Adopted

Fair Value

Accounting Standards Update (“ASU”) No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”

As mentioned under the "Fair Value" section above, we are required to adopt the disclosure requirements of ASU 2010-06 about purchases, sales, issuances and settlements relating to Level 3 measurements in the first quarter of 2011. We do not anticipate the adoption to have a material impact on the disclosures included in our Condensed Consolidated Financial Statements.

Accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our Condensed Consolidated Financial Statements upon adoption.

Note 3. Notes Receivables

Notes receivable were comprised of the following:

	March 31, 2010	December 30, 2009
	(In thousands)	
Current assets (included as a component of receivables):		
Receivables related to sale of restaurants to franchisees	$ 1,824	$ 3,504
Receivables related to sale of real estate to a third party	62	61
Total current notes receivable	$ 1,886	$ 3,565
Noncurrent (included as a component of other noncurrent assets):		
	$ 1,700	$ 1,894

Receivables related to sale of restaurants to franchisees				
Receivables related to sale of real estate to a third party		95		111
Total noncurrent notes receivable	$	1,795	$	2,005

Note 4. Assets Held for Sale

Assets held for sale of $3.0 million as of March 31, 2010, include restaurants and real estate to be sold to franchisees. There were no assets held for sale as of December 30, 2009. We expect to sell each of these assets within 12 months. Our Credit Facility (defined in Note 8) requires us to make mandatory prepayments to reduce outstanding indebtedness with the net cash proceeds from the sale of specified real estate properties, restaurant assets and restaurant operations to franchisees, net of a voluntary $10.0 million annual exclusion related to proceeds from the sale of restaurant operations to franchisees and a voluntary $10.0 million annual exclusion related to proceeds from the sale of restaurant assets. As of March 31, 2010, as a result of the mandatory prepayment requirements, we classified $0.5 million of our long-term debt as a current liability in our Condensed Consolidated Balance Sheet. This amount represents the required prepayment generally based on the net book value of the specified property as of the balance sheet date. As of December 30, 2009, no reclassification of long-term debt to current liabilities was required. There were no impairment charges recognized related to assets held for sale for the quarter ended March 31, 2010. As a result of classifying certain assets as held for sale, we recognized impairment charges of $0.3 million for the quarter ended April 1, 2009. This expense is included as a component of operating (gains), losses and other charges, net in our Condensed Consolidated Statements of Operations.

Note 5. Goodwill and Other Intangible Assets

Goodwill and intangible assets were comprised of the following:

	March 31, 2010		December 30, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Goodwill	$ 32,440	$ —	$ 32,440	$ —
Intangible assets with indefinite lives:				
Trade names	$ 42,455	$ —	$ 42,454	$ —
Liquor licenses	176	—	176	—
Intangible assets with definite lives:				
Franchise and license agreements	46,687	35,059	50,787	38,397
Foreign license agreements	241	154	241	151
Intangible assets	$ 89,559	$ 35,213	$ 93,658	$ 38,548
Other assets with definite lives:				
Software development costs	$ 33,355	28,887	$ 32,806	$ 28,401

Note 6. Operating (Gains), Losses and Other Charges, Net

Operating (gains), losses and other charges, net are comprised of the following:

	Quarter Ended	
	March 31, 2010	April 1, 2009
	(In thousands)	
Gains on sales of assets and other, net	$ (210)	$ (524)
Restructuring charges and exit costs	633	429
Impairment charges	—	393
Operating (gains), losses and other charges, net	$ 423	$ 298

Gains on Sales of Assets

Gains on the sale of assets were $0.2 million for the quarter ended March 31, 2010 as compared with $0.5 million for the quarter ended April 1, 2009. During the quarter ended March 31, 2010, we did not sell any restaurant operations to franchisees. During the quarter ended April 1, 2009, we recognized $0.5 million of gains on the sale of 30 restaurant operations to three franchisees for net proceeds of $4.8 million (which included notes receivable of $1.4 million).

Restructuring Charges and Exit Costs

Restructuring charges and exit costs were comprised of the following:

	Quarter Ended			
	March 31, 2010		April 1, 2009	
	(In thousands)			
Exit costs	$	628	$	50
Severance and other restructuring charges		5		379
Total restructuring and exit costs	$	633	$	429

The components of the change in accrued exit cost liabilities are as follows:

	(In thousands)	
Balance at December 30, 2009	$	6,555
Provisions for units closed during the year (1)		493
Changes in estimates of accrued exit costs, net (1)		135
Payments, net of sublease receipts		(984)
Interest accretion		152
Balance at March 31, 2010		6,351
Less current portion included in other current liabilities		1,942
Long-term portion included in other noncurrent liabilities	$	4,409

(1) Included as a component of operating (gains), losses and other charges, net.

Estimated net cash payments related to exit cost liabilities in the next five years are as follows:

	(In thousands)
Remainder of 2010	$ 1,931
2011	1,424
2012	1,084
2013	797
2014	675
Thereafter	1,415
Total	7,326
Less imputed interest	975
Present value of exit cost liabilities	$ 6,351

As of March 31, 2010 and December 30, 2009, we had accrued severance and other restructuring charges of $0.5 million and $0.9 million, respectively. The balance as of March 31, 2010 is expected to be paid during the next 12 months.

Note 7. Fair Value of Financial Instruments

Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements as of March 31, 2010				
	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
	(In thousands)				
Deferred compensation plan investments	$ 6,374	$ 6,374	$ —	$ —	market approach
Total	$ 6,374	$ 6,374	$ —	$ —	

In addition to the financial assets and liabilities that are measured at fair value on a recurring basis, we measure certain assets and liabilities at fair value on a nonrecurring basis. As of March 31, 2010, there were no such nonrecurring measurements.

Fair Value of Long-Term Debt

The book value and estimated fair value of our long-term debt, excluding capital lease obligations, was as follows:

	March 31, 2010	December 30, 2009
	(In thousands)	

Book value:				
Fixed rate long-term debt	$	175,238	$	175,257
Variable rate long-term debt		75,000		80,000
Long term debt excluding capital lease obligations	$	250,238	$	255,257
Estimate fair value:				
Fixed rate long-term debt	$	178,528	$	179,194
Variable rate long-term debt		75,000		80,000
Long term debt excluding capital lease obligations	$	253,528	$	259,194

The difference between the estimated fair value of long-term debt compared with its historical cost reported in our Condensed Consolidated Balance Sheets at March 31, 2010 and December 30, 2009 relates primarily to market quotations for our Denny's Holdings, Inc. 10% Senior Notes due 2012 (the "10% Notes").

Note 8. Long-Term Debt

Credit Facility

Our subsidiaries, Denny's, Inc. and Denny's Realty, LLC (the "Borrowers"), have a senior secured credit agreement consisting of a $50 million revolving credit facility (including up to $10 million for a revolving letter of credit facility), a $75 million term loan and an additional $30 million letter of credit facility (together, the "Credit Facility"). At March 31, 2010, we had outstanding letters of credit of $25.0 million under our letter of credit facility. There were no outstanding letters of credit under our revolving facility and no revolving loans outstanding at March 31, 2010. These balances result in availability of $5.0 million under our letter of credit facility and $50.0 million under the revolving facility.

The revolving facility matures on December 15, 2011. The term loan and the $30 million letter of credit facility mature on March 31, 2012. The term loan amortizes in equal quarterly installments at a rate equal to approximately 1% per annum with all remaining amounts due on the maturity date. The Credit Facility is available for working capital, capital expenditures and other general corporate purposes. We will be required to make mandatory prepayments under certain circumstances (such as required payments related to asset sales) typical for this type of credit facility and may make certain optional prepayments under the Credit Facility. We believe that our estimated cash flows from operations for 2010, combined with our capacity for additional borrowings under our Credit Facility, will enable us to meet our anticipated cash requirements and fund capital expenditures over the next twelve months.

The Credit Facility is guaranteed by Denny's and its other subsidiaries and is secured by substantially all of the assets of Denny's and its subsidiaries. In addition, the Credit Facility is secured by first-priority mortgages on 99 company-owned real estate assets. The Credit Facility contains certain financial covenants (i.e., maximum total debt to EBITDA (as defined under the Credit Facility) ratio requirements, maximum senior secured debt to EBITDA ratio requirements, minimum fixed charge coverage ratio requirements and limitations on capital expenditures), negative covenants, conditions precedent, material adverse change provisions, events of default and other terms, conditions and provisions customarily found in credit agreements for facilities and transactions of this type.

A commitment fee of 0.5% is paid on the unused portion of the revolving credit facility. Interest on loans under the revolving facility is payable at per annum rates equal to LIBOR plus 250 basis points and will adjust over time based on our leverage ratio. Interest on the term loan and letter of credit facility is payable at per annum rates equal to LIBOR plus 200 basis points. The weighted-average interest rate under the term loan was 2.3% and 4.0% as of March 31, 2010 and April 1, 2009, respectively. Taking into consideration our interest rate swap, described below, the weighted-average interest rate under the term loan was 6.3% as of April 1, 2009.

Note 9. Derivative Financial Instruments

We may choose to utilize derivative financial instruments to manage our exposure to interest rate risk and commodity risk in relation to natural gas costs. We do not enter into derivative instruments for trading or speculative purposes.

As of March 31, 2010 and December 30, 2009, there were no derivative instruments included in the Condensed Consolidated Balance Sheet.

The gains (losses) recognized in our Condensed Consolidated Statements of Operations as a result of interest rate swaps and natural gas hedge contracts are as follows:

	Quarter Ended March 31, 2010	Quarter Ended April 1, 2009
	(In thousands)	
Realized gains (losses):		
Interest rate swap - included as a component of interest expense	$ —	$ (867)
Natural gas contracts - included as a component of utility expense, which is included in other operating expenses	$ —	$ (582)
Unrealized gains (losses) included as a component of nonoperating expense:		
Interest rate swap	$ (167)	$ 563

Natural gas contracts	$	—	$	6

The unrealized gains (losses) related to the interest rate swap include both the changes in the fair value of the swap and the amortization of losses previously recorded in accumulated other comprehensive income.

Interest Rate Swap

In 2007, we entered into an interest rate swap with a notional amount of $150 million that was designated as a cash flow hedge of our interest rate exposure. Under the terms of the swap, we paid a fixed rate of 4.8925% on the notional amount and received payments from the counterparties based on the 3-month LIBOR rate for a term ending on March 30, 2010, effectively resulting in a fixed rate of 6.8925% on the notional amount. Interest rate differentials paid or received under the swap agreement were recognized as adjustments to interest expense. At the end of 2007, we determined that a portion of the underlying cash flows related to the swap were no longer probable of occurring over the term of the swap as a result of the probability of paying the debt down below the notional amount. As a result, we discontinued hedge accounting treatment. The losses included in accumulated other comprehensive income as of December 26, 2007 were amortized to other nonoperating expense over the remaining term of the swap. In 2008, we terminated $50 million of the notional amount of the swap. In the fourth quarter of 2009 we terminated the remaining $100 million of the notional amount of the swap. The 2009 termination resulted in a $1.3 million cash payment, which was made in the fourth quarter of 2009. There were no interest rate swaps outstanding as of December 30, 2009 or March 31, 2010.

Natural Gas Hedge Contracts

Realized gains (losses) on the contracts are recorded as utility cost which is a component of other operating expenses. The contracts are not accounted for under hedge accounting; therefore, changes in the contracts' fair value are recorded in other nonoperating expense.

Note 10. Defined Benefit Plans

The components of net periodic benefit cost were as follows:

	Pension Plan Quarter Ended		Other Defined Benefit Plans Quarter Ended	
	March 31, 2010	April 1, 2009	March 31, 2010	April 1, 2009
	(In thousands)			
Service cost	$ 94	$ 88	$ —	$ —
Interest cost	858	864	35	38
Expected return on plan assets	(985)	(868)	—	—
Amortization of net loss	217	340	5	4
Net periodic benefit cost	$ 184	$ 424	$ 40	$ 42

We did not make any contributions to our qualified pension plan during the quarter ended March 31, 2010. We made contributions of $0.3 million to our qualified pension plan in the quarter April 1, 2009. We made contributions of $0.1 million and $0.1 million to our other defined benefit plans during the quarters ended March 31, 2010 and April 1, 2009, respectively. We do not expect to contribute to our qualified pension plan during 2010. We expect to contribute an additional $0.1 million to our other defined benefit plans over the remainder of fiscal 2010.

Additional minimum pension liability of $18.0 million is reported as a component of accumulated other comprehensive loss in the Condensed Consolidated Statement of Shareholders’ Deficit and Comprehensive Income as of March 31, 2010 and December 30, 2009.

Note 11. Share-Based Compensation

Total share-based compensation included as a component of net income was as follows:

	Quarter Ended	
	March 31, 2010	April 1, 2009
	(In thousands)	
Share-based compensation related to liability classified restricted stock units	$ 724	$ 73
Share-based compensation related to equity classified awards:		
Stock options	$ 310	$ 142
Restricted stock units	303	662
Board deferred stock units	21	8
Total share-based compensation related to equity classified awards	634	812
Total share-based compensation	$ 1,358	$ 885

Stock Options

During the quarter ended March 31, 2010, we granted approximately 0.6 million stock options to certain employees. These stock options vest evenly over 3 years and have a 10-year contractual life.

The weighted average fair value per option for options granted during the quarter ended March 31, 2010 was $1.21. The fair value of these stock options was estimated at the date of grant using the Black-Scholes option pricing model. Use of this option pricing model requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimate of the fair value of share-based compensation and, consequently, the related amount recognized in the Condensed Consolidated Statements of Operations.

We used the following weighted average assumptions for the stock option grants for the quarter ended March 31, 2010:

Dividend yield	0.0%
Expected volatility	60.2%
Risk-free interest rate	2.48%
Weighted average expected term	4.7 years

The dividend yield assumption was based on our dividend payment history and expectations of future dividend payments. The expected volatility was based on the historical volatility of our stock for a period approximating the expected life. The risk-free interest rate was based on published U.S. Treasury spot rates in effect at the time of grant with terms approximating the expected life of the option. The weighted average expected term of the options represents the period of time the options are expected to be outstanding based on historical trends.

As of March 31, 2010, we had approximately $1.5 million of unrecognized compensation cost related to unvested stock option awards outstanding, which is expected to be recognized over a weighted average of 2.1 years.

Restricted Stock Units

In January 2010, we granted approximately 0.1 million performance shares and 0.1 million performance units to certain employees. As these awards contain a market condition, a Monte Carlo valuation was used to determine the performance shares grant date fair value of $2.69 per share. The awards granted to our named executive officers also contain a performance condition based on certain operating measures for the fiscal year ended December 29, 2010. The performance units were valued at $2.00 per unit. The performance period is the three year fiscal period beginning December 31, 2009 and ending December 26, 2012. The performance shares and units will vest and be earned (from 0% to 150% of the target award for each such increment) at the end of the performance period based on the Total Shareholder Return of our stock compared to the Total Shareholder Returns of a group of peer companies.

During the quarter ended March 31, 2010, we made payments of $0.9 million (before taxes) in cash and issued 0.2 million shares of common stock related to the restricted stock unit awards that vested as of December 30, 2009.

Accrued compensation expense included as a component of the Condensed Consolidated Balance Sheet was as follows:

	March 31, 2010	December 30, 2009
	(In thousands)	
Liability classified restricted stock units:		
Other current liabilities	$ 649	$ 1,303
Other noncurrent liabilities	$ 900	$ 506
Equity classified restricted stock units:		
Additional paid-in capital	$ 5,102	$ 5,237

As of March 31, 2010, we had approximately $2.4 million of unrecognized compensation cost (approximately $0.9 million for liability classified units and approximately $1.5 million for equity classified units) related to all unvested restricted stock unit awards outstanding, which is expected to be recognized over a weighted average of 1.3 years.

Board Deferred Stock Units

During the quarter ended March 31, 2010, we granted less than 0.1 million deferred stock units (which are equity classified) with a weighted average grant date fair value of $2.84 per unit to non-employee members of our Board of Directors. The directors may elect to convert these awards into shares of common stock either on a specific date in the future (while still serving as a member of the Board of Directors) or upon termination as a member of the Board of Directors.

Note 12. Comprehensive Income and Accumulated Other Comprehensive Loss

Total comprehensive income was $4.8 million and $4.5 million for the quarters ended March 31, 2010 and April 1, 2009, respectively.

The components of Accumulated Other Comprehensive Loss, Net in the Condensed Consolidated Statement of Shareholder’s Deficit and Comprehensive Loss are as follows:

	March 31, 2010	December 30, 2009

	(In thousands)			
Additional minimum pension liability	$	(18,046)	$	(18,046)
Unrealized loss on interest rate swap		—		(167)
Accumulated other comprehensive loss	$	(18,046)	$	(18,213)

Note 13. Income Taxes

The provision for income taxes was $0.2 million for the quarter ended March 31, 2010 compared to a benefit from income taxes of $0.4 million for the quarter ended April 1, 2009. The provision for and benefit from income taxes for the first quarters of 2010 and 2009 were determined using our effective rate estimated for the entire fiscal year. The increase in our effective tax rate for the quarter ended March 31, 2010 results primarily from the recognition of $0.7 million of current tax benefits during the quarter ended April 1, 2009 related to the enactment of certain federal laws during the first quarter of 2009. We have provided valuation allowances related to any benefits from income taxes resulting from the application of a statutory tax rate to our net operating losses (“NOL”) generated in previous periods.

Note 14. Net Income Per Share

	Quarter Ended March 31, 2010	Quarter Ended April 1, 2009
	(In thousands, except per share amounts)	
Numerator:		
Numerator for basic and diluted net income per share - net income	$ 4,588	$ 4,307
Denominator:		
Denominator for basic net income per share - weighted average shares	97,095	96,045
Effect of dilutive securities:		
Options	1,877	978
Restricted stock units and awards	1,181	583
Denominator for diluted net income per share - adjusted weighted average shares and assumed conversions of dilutive securities	100,153	97,606
Basic and diluted net income per share	$ 0.05	$ 0.04
Stock options excluded (1)	3,068	5,768
Restricted stock units and awards excluded (1)	—	1,549

(1) Excluded from diluted weighted-average shares outstanding as the impact would have been antidilutive.

Note 15. Supplemental Cash Flow Information

	Quarter Ended March 31, 2010	Quarter Ended April 1, 2009