SILICON GRAPHICS INC /CA/
Form 10-Q
May 12, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

ý	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
	For the quarterly period ended March 28, 2003.
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 1-10441

SILICON GRAPHICS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-2789662**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 Amphitheatre Pkwy., Mountain View, California 94043-1351
(Address of principal executive offices) (Zip Code)

(650) 960-1980
(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 ý No o

As of May 2, 2003 there were 204,337,064 shares of Common Stock outstanding.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o

SILICON GRAPHICS, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SILICON GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	March 28, 2003	March 29, 2002	March 28, 2003	March 29, 2002(2)
Product and other revenue	$ 113,233	$ 199,095	$ 403,593	$ 685,001
Service revenue	103,894	114,509	317,990	371,883
Total revenue	217,127	313,604	721,583	1,056,884
Costs and expenses:				
Cost of product and other revenue	75,528	109,855	246,534	365,353
Cost of service revenue	61,118	70,358	182,929	237,766
Research and development	44,911	43,093	130,474	132,808
Selling, general and administrative	80,247	100,106	241,110	354,937
Other operating expense, net(1)	3,200	10,512	17,461	42,544
Total costs and expenses	265,004	333,924	818,508	1,133,408
Operating loss	(47,877)	(20,320)	(96,925)	(76,524)
Interest and other income (expense), net	(2,395)	657	(10,403)	(10,561)
Other non-recurring income (expense), net		(2,400)		40,025
Loss before benefit for income taxes	(50,272)	(22,063)	(107,328)	(47,060)
Income tax benefit	(15,285)	(32,400)	(14,272)	(37,427)
Net (loss) income	$ (34,987)	$ 10,337	$ (93,056)	$ (9,633)
Net (loss) income per share basic	$ (0.17)	$ 0.05	$ (0.46)	$ (0.05)

Net (loss) income per share diluted	$ (0.17)	$ 0.05	$ (0.46)	$ (0.05)
Common shares outstanding basic	201,990	196,372	200,805	193,784
Common shares outstanding diluted	201,990	202,484	200,805	193,784

(1) Represents charges for and changes in previously estimated restructuring and impairment costs.

(2) We have adjusted our results for the nine month period ended March 29, 2002 from the amounts originally reported in our Quarterly Report on Form 10-Q for the period ended December 28, 2001 to reflect the reversal of a $5 million restructuring accrual and a $7 million deferred tax valuation allowance in the quarter ended December 27, 2002, which were no longer required following our November 2001 sale of a 60% interest in SGI Japan. These adjustments have an offsetting impact on our fourth quarter results of fiscal 2002 and were reflected in Note 24 Selected Quarterly Financial Data (Unaudited) to our Annual Report on Form 10-K for fiscal 2002.

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

SILICON GRAPHICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 28, 2003	June 28, 2002

		(unaudited)		
Assets:				
Current assets:				
Cash and cash equivalents	$	140,847	$	213,302
Short-term marketable investments		470		4,878
Short-term restricted investments		49,559		43,506
Accounts receivable, net		138,248		193,992
Inventories		86,511		109,410
Prepaid expenses and other current assets		60,617		66,525
Total current assets		476,252		631,613
Restricted investments		1,421		1,183
Property and equipment, net		121,684		160,282
Other assets		111,101		117,041
	$	710,458	$	910,119
Liabilities and Stockholders Deficit:				
Current liabilities:				
Accounts payable	$	85,723	$	92,326
Accrued compensation		40,915		46,734
Income taxes payable		8,957		10,369
Deferred revenue		150,746		168,283
Other current liabilities		144,129		209,020
Current portion of long-term debt		16,651		10,216
Total current liabilities		447,121		536,948
Long-term debt		295,743		308,631
Other liabilities		110,063		119,181
Stockholders deficit:				
Common stock and additional paid-in-capital		1,452,442		1,450,829
Accumulated deficit		(1,565,178)		(1,466,181)
Treasury stock		(8,988)		(17,096)
Accumulated other comprehensive loss		(20,745)		(22,193)
Total stockholders deficit		(142,469)		(54,641)
	$	710,458	$	910,119

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

SILICON GRAPHICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended	
(In thousands)	**March 28, 2003**	**March 29, 2002**
Cash Flows From Operating Activities:		
Net loss	$ (93,056)	$ (9,633)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	72,630	130,609
Gain on sale of interest in SGI Japan		(63,723)
Loss on sale of real estate	4,687	3,816
Gain on sale of marketable investments		(1,713)
Restructuring charge	17,461	42,544
Other	(464)	(5,268)
Changes in operating assets and liabilities:		
Accounts receivable	55,744	73,699
Inventories	15,009	56,253
Accounts payable	(6,603)	(38,500)
Accrued liabilities	(91,684)	(138,999)
Deferred revenue	(17,537)	(57,029)
Other assets and liabilities	5,909	(38,031)
Total adjustments	55,152	(36,342)
Net cash used in operating activities	(37,904)	(45,975)
Cash Flows From Investing Activities:		
Proceeds from sale of real estate and fixed assets	6,432	26,147
Proceeds from sale of interest in SGI Japan		90,705
Purchases of marketable investments	(449)	(2,125)
Proceeds from the maturities of marketable investments	4,857	
Purchases of restricted investments	(165,704)	(355,413)
Proceeds from the maturities of restricted investments	159,413	371,940
Capital expenditures	(14,163)	(21,561)
Increase in other assets	(19,929)	(10,714)
Net cash (used in) provided by investing activities	(29,543)	98,979
Cash Flows From Financing Activities:		
Payments of debt principal	(6,615)	(13,833)
Sale of SGI common stock	1,607	4,742
Net cash used in financing activities	(5,008)	(9,091)
Net decrease in cash and cash equivalents	(72,455)	43,913

Cash and cash equivalents at beginning of period		213,302		123,129
Cash and cash equivalents at end of period	$	140,847	$	167,042

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

SILICON GRAPHICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation.

The condensed consolidated financial statements include the accounts of SGI and our wholly-owned subsidiaries. The unaudited results of operations for the interim periods shown herein are not necessarily indicative of operating results for the entire fiscal year. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The unaudited condensed consolidated financial statements included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 28, 2002 filed with the Securities and Exchange Commission.

We have incurred net losses and negative cash flows from operations during each of the past three fiscal years and the first nine months of fiscal 2003. Primarily as a result of substantial business restructuring and expense reductions, we reduced our net loss and cash consumed from operations significantly from fiscal 2001. At March 28, 2003, we had unrestricted cash and marketable investments of $141 million, net working capital of $29 million and stockholders deficit of $142 million. While a forecast of future events is inherently uncertain, we believe that our current cash resources are sufficient to meet our requirements for at least the next twelve months. We are committed to the successful execution of our operating plan and business turnaround, and will take steps to further restructure our business operations to reduce expenses, and endeavor to improve working capital.

2. Stock-Based Compensation.

We issue stock options to our employees and outside directors and provide employees the right to purchase our stock pursuant to stockholder approved stock option and employee stock purchase programs. Currently we account for our stock-based compensation plans under the intrinsic value method of accounting as defined by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees . The following table depicts the effect on net (loss) income and net (loss) income per share if we had accounted for our stock option and stock purchase plans under the fair value method of accounting under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation :

(In thousands, except per share amounts)	**Three Months Ended March 28, 2003**	**Three Months Ended March 29, 2002**	**Nine Months Ended March 28, 2003**	**Nine Months Ended March 29, 2002**
Net (loss) income	$ (34,987)	$ 10,337	$ (93,056)	$ (9,633)
Net (loss) income per share basic and diluted	$ (0.17)	$ 0.05	$ (0.46)	$ (0.05)
Stock-based employee compensation expense, net of tax effect, included in net	$ 58	$ 340	$ 208	$ 1,706

(loss) income above								
Stock-based employee compensation expense calculated under fair value based method for all awards, net of tax effect	$	1,872	$	3,068	$	6,751	$	11,092
Pro forma net (loss) income	$	(36,801)	$	7,609	$	(99,599)	$	(19,019)
Pro forma net (loss) income per share basic and diluted	$	(0.18)	$	0.04	$	(0.50)	$	(0.10)

We estimated the fair value of our options using the Black-Scholes option valuation model, which is one of the several methods that can be used to estimate options values. The Black-Scholes model requires the input of highly subjective assumptions, including the expected stock price volatility, and changes in the subjective input assumptions can materially affect the fair value estimates. Weighted average stock price volatility for fiscal 2003 is 122% compared with the weighted average volatility for fiscal 2002 of 108%, which is consistent with high market fluctuations in value of our publicly traded stock.

3. Inventories.

(In thousands)	March 28, 2003	June 28, 2002
Components and subassemblies	$ 44,171	$ 70,497
Work-in-process	17,101	19,442
Finished goods	14,140	8,682
Demonstration systems	11,099	10,789
Total inventories	$ 86,511	$ 109,410

4. Restricted Investments.

Restricted investments consist of short- and long-term investments held under a security agreement or pledged as collateral against letters of credit. See Notes 8 and 9 to the Condensed Consolidated Financial Statements, Financing Arrangement and Guarantees, respectively, for further information regarding assets held as collateral. Restricted investments pledged as collateral are held in SGI s name by major financial institutions.

5. Property and Equipment.

(In thousands)	March 28, 2003	June 28, 2002
Property and equipment, at cost	$ 584,030	$ 640,936
Accumulated depreciation and amortization	(462,346)	(480,654)
Property and equipment, net	$ 121,684	$ 160,282

6. Other Assets.

(In thousands)	March 28, 2003	June 28, 2002
Spare parts, net of accumulated amortization of $83,773 ($88,331 at June 28, 2002)	$ 48,279	$ 55,548
Equity investments	23,123	20,628
Software licenses, goodwill and other	39,699	40,865
	$ 111,101	$ 117,041

7. Goodwill.

At June 29, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets, which addresses financial accounting and reporting for acquired goodwill and other intangible assets, including the elimination of goodwill amortization, to be replaced with periodic evaluation of goodwill for impairment. The identification of our reporting units was determined per the guidelines in SFAS 142 and is consistent with our reportable segments as discussed in Note 13. We completed step one of the transitional goodwill impairment test as of December 27, 2002, and found no impairment. Since step one resulted in no impairment, no further testing of goodwill is necessary unless there is evidence of further impairment or events or changes in circumstances occur by the end of fiscal 2003 that would reduce the fair value of the reporting units containing goodwill below their carrying amounts. No such event or changes occurred in the third quarter of fiscal 2003. At June 29, 2002, we had goodwill with a carrying value of approximately $13 million.

According to SFAS 142, the results for the three and nine months ended March 29, 2002 have not been restated. The following table discloses a reconciliation of reported net (loss) income and basic and diluted net (loss) income per share to the amounts adjusted for exclusion of goodwill amortization:

(In thousands, except per share amounts)	Three Months Ended March 28, 2003	Three Months Ended March 29, 2002	Nine Months Ended March 28, 2003	Nine Months Ended March 29, 2002
Reported net (loss) income	$ (34,987)	$ 10,337	$ (93,056)	$ (9,633)
Add:				
Goodwill, net of tax		365		1,095
Adjusted net (loss) income	$ (34,987)	$ 10,702	$ (93,056)	$ (8,538)
Reported net (loss) income per share basic and diluted	$ (0.17)	$ 0.05	$ (0.46)	$ (0.05)
Add:				
Goodwill, net of tax				0.01
Adjusted net (loss) income per share basic and diluted	$ (0.17)	$ 0.05	$ (0.46)	$ (0.04)

8. Financing Arrangement.

Available credit under our asset-based credit facility is determined monthly based on 85% of eligible accounts receivable. At March 28, 2003, we have used our full capacity under this line to secure $49 million in letters of credit. We have not used this facility for cash borrowings. This obligation bears interest payable monthly at the prime rate plus 0.25% (4.5% at March 28, 2003) for cash advances and at 3.25% for letters of credit. The facility is currently secured by U.S. accounts receivable and inventory, the pledge of certain intellectual property and a $7 million cash deposit. We also deposit additional cash when eligible accounts receivable, which fluctuate within the quarter, are below the level needed to secure our letters of credit. At March 28, 2003, we had an additional $29 million deposited for this purpose, which is reflected in our restricted cash balance. The credit facility also contains financial and other covenants. We obtained waivers of compliance with the covenants of this facility from the lenders in the first and third quarters of fiscal 2003 and the second, third and fourth quarters of fiscal 2002.

Our asset-based credit facility matured in April 2003. Upon maturity, we renewed this credit facility for a two year term maturing in April 2005, subject to acceleration upon various events of default, including if we do not successfully extend the maturity of at least 90% of our senior convertible notes due 2004 on or before March 5, 2004. The facility is secured by U.S. and Canadian accounts receivable, U.S. inventory and equipment, and the pledge of certain intellectual property. We are currently using our full capacity under this line to secure letters of credit in the same manner as under the previous arrangement. This obligation bears interest payable monthly at the prime rate plus 0.25% for cash advances and at 2.0% for letters of credit. The credit facility contains financial and other covenants similar in nature to that of the previous facility. In the event we are not able to comply with the financial and other covenants of this facility in the future, or there is a material adverse change impairing our ability to repay the outstanding balance, the facility may be declared to be in default. If a default is declared and not waived, or if the facility matures and is not renewed or replaced, it could have a significant impact on our working capital. See Risks That Affect Our Business.

9. Guarantees.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures, in both interim and annual financial statements, by a guarantor, about obligations associated with guarantees issued. FIN 45 disclosure requirements are effective starting our fiscal quarter ended December 27, 2002 and the initial recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

SGI, as the guarantor, enters into 4 categories of guarantees, namely financial guarantees, performance guarantees, indemnifications and indirect guarantees of the indebtedness of others.

Financial guarantees include contracts that contingently require us to make payments to the beneficiary of the guarantee based on changes in an underlying variable (e.g. a specified interest rate, security price or other variable) that is related to an asset, liability or equity security of the guaranteed party. Currently, we have issued guarantees: to cover rent on leased facilities and equipment; in favor of government authorities and certain other parties to cover liabilities associated with the importation of goods; and to support payments in advance of future delivery on our goods and services. The majority of our guarantees within this category have terms no greater than one year.

Performance guarantees include contracts that contingently require us to make payments to the beneficiary of the guarantee based on another entity s failure to perform under an obligating agreement. We had no outstanding performance guarantees at March 28, 2003 that are subject to the disclosure requirements of FIN 45.

Indemnifications include agreements that contingently require us to make payments to an indemnified party based on changes in an underlying variable (e.g. a specified interest rate, security price or other variable) that is related to an asset, liability, or an equity security of the indemnified party. Indemnifications include agreements to indemnify the guaranteed party for an adverse judgement in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law. Currently, we have issued indemnifications to cover potential exposure related to the imposition of additional taxes. The term of an indemnification is based on the length of time required to settle the dispute.

Indirect guarantees include agreements between SGI and a lender requiring us to transfer funds to the lender upon the occurrence of specified events. Indirect guarantees include SGI s guarantee of our subsidiary s debt to a third party and our subsidiary s guarantee of the debt owed to a third party by either SGI or another subsidiary of SGI. This category of guarantees has terms that are consistent with those of the debt agreements.

The following table discloses our obligations under guarantees as of March 28, 2003:

(In thousands)	**Maximum Potential Amount of Future Payments**	**Assets Held as Collateral**
Financial Guarantees	$ 56,549	$ 56,549
Indemnifications	1,864	1,481
Indirect guarantees	6,421	
Total	$ 64,834	$ 58,030

The following table depicts product warranty activity during the first nine months of fiscal 2003 (in thousands):

Balance at June 28, 2002	$ 8,958
New warranties issued	7,758
Warranty activity including changes in estimates	(10,232)
Balance at March 28, 2003	$ 6,484

10. Other Operating Expense.

Restructuring In the first quarter of fiscal 2000, we announced and began to implement a restructuring program to better align our expenses with expected revenue levels. These actions resulted in aggregate charges of $145 million (before the effect of the adjustments noted below). This restructuring program included a re-evaluation of our core competencies, technology roadmap and business model, as well as development of our fiscal 2001 operating plan and covered virtually all aspects of our products, operations and processes. The fiscal 2000 actions resulted in the elimination of approximately 1,100 positions, writing down certain operating assets, vacating certain leased facilities and canceling certain contracts. Severance payments and related charges of $66 million consisted primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. Fiscal 2000 restructuring actions also were comprised of vacating approximately 1,500,000 square feet of leased sales and administrative facilities throughout the world, with lease terms expiring through fiscal 2004. We estimated this would require ongoing lease payments of $26 million until subleases could be arranged and $7 million in exit costs, including costs to restore vacated facilities to their original condition. During fiscal 2000, we also reduced by $7 million our prior estimate of the total costs associated with a similar restructuring initiated in fiscal 1998. This adjustment primarily reflects a decrease in severance and related charges resulting from higher attrition and lower per person costs than we had estimated. During the second through fourth quarters of fiscal 2000, we further lowered our estimate of the total costs associated with the fiscal 2000 restructuring activities described above. As a result, a cumulative reversal of approximately $37 million was recorded in fiscal 2000. This decrease relates primarily to lease obligations, as we were able to settle these obligations on far more favorable terms than we had estimated due to extremely high demand at that time for facilities in Mountain View, California.

During the first quarter of fiscal 2001, we again lowered our estimate of the total costs associated with the fiscal 2000 restructuring activities and recorded an adjustment of $6 million. The adjustment primarily reflected lower than estimated facilities closure costs due to negotiating better than anticipated sublease arrangements. As of March 31, 2001, we had eliminated all the positions covered by our estimate and paid all severance-related charges incurred in the fiscal 2000 restructuring.

During the fourth quarter of fiscal 2001, we announced and began to implement additional restructuring actions to further reduce our operating expenses to be better aligned with expected revenue levels. These actions resulted in aggregate charges of $88 million and were broad-based and covered virtually all aspects of our products, operations and processes. Fiscal 2001 restructuring actions resulted in the elimination of approximately 1,000 positions, across all levels and functions, all of which were eliminated as of March 29, 2002. Severance payments and related charges of

$45 million consisted primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. The cancellation of contracts associated with the fiscal 2001 actions resulted in charges of $2 million. Our plans include vacating approximately 3,000,000 square feet of leased sales and administrative facilities throughout the world, with lease terms expiring through April 2010. We estimate this will require ongoing lease payments of $32 million and $9 million in exit costs, including costs to restore facilities to their original condition. During the fourth quarter of fiscal 2002, we lowered our estimate of the total costs associated with the fiscal 2001 restructuring activities and recorded an adjustment of $5 million. The adjustment primarily reflected lower than estimated severance and related costs primarily due to the sale of our 60% interest in SGI Japan which resulted in a smaller reduction in staff than originally anticipated. As of December 27, 2002, all severance related charges were paid in relation to the fiscal 2001 restructuring and we determined that the remaining severance accrual associated with the fiscal 2001 restructuring activities was unnecessary and recorded an adjustment of approximately $0.3 million. The adjustment primarily reflects lower than estimated severance and related costs attributable to higher than expected attrition and lower per person costs. During the third quarter of 2003, we lowered our estimate of the facilities costs associated with the fiscal 2001 restructuring activities and recorded an adjustment of $0.2 million, which primarily reflected a new sublease deal negotiated for one of the closed offices.

During fiscal 2002, we announced and began to implement additional restructuring actions consistent with the objective of the fiscal 2001 restructuring. These actions resulted in aggregate charges of $46 million and the elimination of approximately 1,000 positions across all levels and functions, all of which were eliminated as of June 28, 2002. Severance payments and related charges of $37 million consist primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. Third party contract cancellation charges associated with the fiscal 2002 actions totaled $3 million. Our plans include vacating approximately 176,000 square feet of administrative facilities throughout the world, with lease terms expiring through fiscal 2007. We estimate this will require ongoing lease payments of $5 million. Our plans also included consolidating our manufacturing activity in Wisconsin and closing our manufacturing facility in Switzerland, which were completed in December 2001. During the fourth quarter of fiscal 2002, we lowered our estimate of the total costs associated with the fiscal 2002 restructuring activities and recorded an adjustment of $1 million, which reflected lower than estimated severance and related costs. During the second quarter of fiscal 2003 we reduced our estimate of severance and related charges associated with the fiscal 2002 restructuring and recorded an adjustment of $0.7 million, which reflected lower than estimated severance and related costs attributable to higher than expected attrition. As of March 28, 2003, all severance related charges were paid in relation to the fiscal 2002 restructuring and we determined that the remaining severance accrual associated with the fiscal 2002 restructuring activities was unnecessary and recorded an adjustment of approximately $0.8 million. The adjustment primarily reflects lower than estimated severance and related costs attributable to higher than expected attrition and lower per person costs.

During the fourth quarter of fiscal 2002, we announced and began to implement additional restructuring actions (fiscal 2003 restructuring plan) in an effort to further reduce our operating expense to be better aligned with expected revenue levels. These actions resulted in aggregate charges of $4 million and elimination of approximately 100 positions across all levels and functions. In the first quarter of fiscal 2003 we continued the restructuring actions under the plan initiated in the fourth quarter of fiscal 2002. These actions resulted in additional aggregate charges of $8 million comprising the elimination of approximately 150 positions across all levels and functions. Severance payments and related charges of $5 million consist primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. Our plans include vacating approximately 52,000 square feet of leased facilities in the US, with lease terms expiring through fiscal 2007, which will require ongoing lease payments of $3 million.

During the second quarter of fiscal 2003 we continued implementing restructuring activities under the fiscal 2003 restructuring plan. These actions resulted in aggregate charges of $7 million and the elimination of approximately 90 positions across all levels and functions in our overseas offices. Severance payments and related charges of $5 million consist primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. Our plans include vacating approximately 8,000 square feet of leased sales and administrative facilities throughout the world, with lease terms expiring through fiscal 2009. We estimate it will require ongoing lease payments of $2 million.

During the third quarter of fiscal 2003 we initiated additional restructuring activities under the fiscal 2003 restructuring plan. These actions resulted in aggregate charges of $4 million and elimination of approximately 130 positions across all levels and functions. Severance payments and related charges of $4 million consist primarily of salary and expected payroll taxes, extended medical benefits, statutory legal obligations and outplacement services. These actions were accounted for in accordance with the provisions of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , which is effective for exit or disposal activities initiated after December 31, 2002.

The remaining restructuring accrual balance of approximately $25 million at March 28, 2003 is expected to result in cash expenditures of approximately $5 million through the fourth quarter of fiscal 2003 for severance and related charges and facilities related expenditures, and approximately $20 million through fiscal 2010 for facilities related expenditures, net of estimated sublease income of $5 million.

Impairment As a result of the fiscal 2001 restructuring activities described above, we wrote down approximately $10 million of fixed assets, primarily associated with leasehold improvements and associated furniture and fixtures held for disposal. We wrote down approximately $6 million related to canceled projects and demonstration units as a result of the decision to discontinue the Pentium III product line. In addition, we also recorded approximately $4 million in impairments charges for internally developed software projects that were discontinued in fiscal 2002 as a result of the functionality provided by the new enterprise resource planning system. The fair value and remaining carrying value of all of these assets at June 30, 2001 was immaterial.

As a result of the fiscal 2002 restructuring activities described above, we wrote down approximately $12 million of fixed assets held for disposal which includes a $7 million write-down for our Switzerland manufacturing facility that was closed during the second quarter.

As a result of the fiscal 2003 restructuring activities described above, we wrote down approximately $1 million of fixed assets, which included leasehold improvements and associated furniture and fixtures held for disposal in the closed offices.

The following table depicts the restructuring activity during the first nine months of fiscal 2003 (in thousands):

Category	**Severance & Related Charges**	**Canceled Contracts**	**Vacated Facilities**	**Impairment**	**Total**
Balance at June 28, 2002	$ 9,178	$ 1,418	$ 27,743	$	$ 38,339
Additions fiscal 2003 restructuring	4,921	29	2,776	718	8,444
Expenditures:					
Cash	(9,302)	(165)	(3,997)		(13,464)
Non-cash				(718)	(718)
Balance at September 27, 2002	$ 4,797	$ 1,282	$ 26,522	$	$ 32,601
Additions fiscal 2003 restructuring	4,541	8	1,935	333	6,817
Adjustments:					
(Decreases)	(1,000)				(1,000)
Expenditures:					
Cash	(3,878)	(970)	(3,490)		(8,338)
Non-cash				(333)	(333)
Balance at December 27, 2002	$ 4,460	$ 320	$ 24,967	$	$ 29,747
Additions fiscal 2003 restructuring	4,194				4,194
Adjustments:					
(Decreases)	(750)		(244)		(994)
Expenditures:					
Cash	(5,143)	(320)	(2,906)		(8,369)
Non-cash					
Balance at March 28, 2003	$ 2,761	$	$ 21,817	$	$ 24,578

In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , the total amount of severance and related charges for each reportable segment incurred in the third quarter of fiscal 2003 is presented in the following table (in thousands):

Category	Servers	Workstations	Global Services	Total
Additions fiscal 2003 restructuring:				
Severance & Related Charges	$ 1,791	$ 822	$ 1,581	$ 4,194

11. (Loss) Earnings Per Share.

The following table sets forth the computation of basic and diluted net (loss) income per share:

	Three Months Ended	Nine Months Ended
(In thousands, except per share amounts)		