SILICON GRAPHICS INC /CA/
Form 10-Q
November 12, 2002

QuickLinks -- Click here to rapidly navigate through this document

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 **September 27, 2002.**

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 November 1, 2002 there were 199,813,583 shares of Common Stock outstanding.

SILICON GRAPHICS, INC.
QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Trademarks used in this Form 10-Q: Silicon Graphics, O2, Octane, Onyx, Onyx2, Origin, IRIX and SGI are registered trademarks, and Reality Center, O2+ Octane2 and Silicon Graphics Fuel are trademarks of Silicon Graphics, Inc. in the U.S. and/or other countries worldwide. MIPS is a registered trademark of MIPS Technologies, Inc. used under license by Silicon Graphics, Inc. UNIX is a registered trademark of The Open Group, in the U. S. and other countries. Intel, Pentium and Itanium are registered trademarks of Intel Corporation or its subsidiaries in the United States and other countries. Linux is a registered trademark of Linus Torvalds.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SILICON GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended	
(In thousands, except per share amounts)	**Sept. 27, 2002**	**Sept. 28, 2001**
Product and other revenue	$ 133,483	$ 245,744
Service revenue	108,235	133,648

	Three Months Ended	
Total revenue	241,718	379,392
Costs and expenses:		
Cost of product and other revenue	81,624	114,875
Cost of service revenue	62,655	90,762
Research and development	42,643	47,620
Selling, general and administrative	86,777	140,598
Other operating expense (1)	8,444	32,112
Total costs and expenses	282,143	425,967
Operating loss	(40,425)	(46,575)
Interest and other income (expense), net	(560)	(7,519)
Other non-recurring income (expense), net		(13,136)
Loss before provision for income taxes	(40,985)	(67,230)
Provision for income taxes	87	2,052
Net loss	$ (41,072)	$ (69,282)
Net loss per share basic and diluted	$ (0.21)	$ (0.36)
Weighted average shares used in computing net loss per common share basic and diluted	199,676	192,094

(1) Represents a charge for estimated restructuring costs in each of the three-month periods ended September 27, 2002 and September 28, 2001.

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

3

SILICON GRAPHICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	Sept. 27, 2002	June 28, 2002
	(unaudited)	(1)
Assets:		
Current assets:		
Cash and cash equivalents	$ 187,174	$ 213,302
Short-term marketable investments	3,699	4,878
Short-term restricted investments	48,934	43,506

	Sept. 27, 2002	June 28, 2002
Accounts receivable, net	133,175	193,992
Inventories	100,958	109,410
Prepaid expenses and other current assets	62,097	66,525
Total current assets	536,037	631,613
Restricted investments	1,773	1,183
Property and equipment, net	145,524	160,282
Other assets	121,314	117,041
	$ 804,648	$ 910,119
Liabilities and Stockholders' Deficit:		
Current liabilities:		
Accounts payable	$ 72,177	$ 92,326
Accrued compensation	38,851	46,734
Income taxes payable	7,733	10,369
Deferred revenue	144,848	168,283
Other current liabilities	196,132	209,020
Current portion of long-term debt	14,679	10,216
Total current liabilities	474,420	536,948
Long-term debt	303,121	308,631
Other liabilities	119,775	119,181
Stockholders' deficit:		
Common stock and additional paid-in-capital	1,450,913	1,450,829
Accumulated deficit	(1,505,062)	(1,466,181)
Treasury stock	(17,311)	(17,096)
Accumulated other comprehensive loss	(21,208)	(22,193)
Total stockholders' deficit	(92,668)	(54,641)
	$ 804,648	$ 910,119

(1) The balance sheet at June 28, 2002 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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

SILICON GRAPHICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands)	Three Months Ended Sept. 27, 2002	Sept. 28, 2001
Cash Flows From Operating Activities:		
Net loss	$ (41,072)	$ (69,282)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	24,649	51,896
Loss on sale of real estate	775	3,816
Loss on sale of marketable investments		1,320
Restructuring charge	8,444	31,642
Other	(1,668)	(753)
Changes in operating assets and liabilities:		
Accounts receivable	60,817	54,183
Inventories	5,991	(11,461)
Accounts payable	(20,149)	(29,782)
Other assets and liabilities	(45,844)	(65,260)
Total adjustments	33,015	35,601
Net cash used in operating activities	(8,057)	(33,681)
Cash Flows From Investing Activities:		
Proceeds from sale of real estate and fixed assets	2,356	26,147
Purchase of marketable investments		(532)
Proceeds from the maturities of marketable investments	1,178	
Purchases of restricted investments	(68,135)	(142,535)
Proceeds from the maturities of restricted investments	62,117	158,285
Capital expenditures, net	(2,614)	(9,273)
Increase in other assets	(12,970)	(2,290)
Net cash (used in) provided by investing activities	(18,068)	29,802
Cash Flows From Financing Activities:		
Issuance of debt	4	44
Payments of debt principal		(1,012)
Sale of SGI common stock	(7)	
Net cash used in financing activities	(3)	(968)
Net decrease in cash and cash equivalents	(26,128)	(4,847)
Cash and cash equivalents at beginning of period	213,302	123,129
Cash and cash equivalents at end of period	$ 187,174	$ 118,282

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 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. 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 through to the first quarter of fiscal 2003. Through improved operational execution and the sale of certain assets, we also improved our cash position substantially during fiscal 2002. At September 27, 2002, we had unrestricted cash and marketable investments of $191 million, net working capital of $62 million and stockholders' deficit of $93 million. While a forecast of future events is inherently uncertain, we believe that the combination of our current resources and cash expected to be generated from our business will provide sufficient funding to enable us to meet our obligations during fiscal 2003. We are committed to the successful execution of our operating plan and business turnaround, and will take steps, if necessary, to further restructure our business operations to reduce expenses and improve working capital.

2. Inventories.

(In thousands)	September 27, 2002	June 28, 2002
Components and subassemblies	$ 58,210	$ 70,497
Work-in-process	20,512	19,442
Finished goods	15,218	8,682
Demonstration systems	7,018	10,789
Total inventories	$ 100,958	$ 109,410

3. Restricted Investments.

Restricted investments consist of short- and long-term investments held under a security agreement or pledged as collateral against letters of credit. Restricted investments pledged as collateral are held in SGI's name by major financial institutions.

4. Property and Equipment.

(In thousands)	September 27, 2002	June 28, 2002
Property and equipment, at cost	$ 620,852	$ 640,936
Accumulated depreciation and amortization	(475,328)	(480,654)
Property and equipment, net	$ 145,524	$ 160,282

6

5. Other Assets.

(In thousands)	September 27, 2002	June 28, 2002
Spare parts	$ 54,915	$ 55,548
Investments	23,076	20,628
Software licenses, goodwill and other	43,323	40,865

(In thousands)	September 27, 2002	June 28, 2002
	$ 121,314	$ 117,041

6. Financing Arrangement.

Available credit under our asset-based credit facility is determined monthly based on 85% of eligible accounts receivable. At September 27, 2002, we have used our full capacity under this line to secure $48 million in letters of credit. This obligation bears interest payable monthly at the prime rate plus 0.25% (5.0% at September 27, 2002) for cash advances and at 3.25% for letters of credit. The credit facility matures in April 2003. The facility is currently secured by U.S. accounts receivable and inventory, the pledge of certain intellectual property and a $7 million cash deposit. From time to time, we also deposit additional cash, reflected in our restricted cash balances, to secure certain letters of credit or to address fluctuations within the quarter for eligible accounts receivable. At September 27, 2002, we had an additional $25 million deposited for these purposes. The credit facility also contains financial and other covenants. We were not in compliance with the financial covenants relating to EBITDA for the first quarter of fiscal 2003, and have obtained a waiver from the lender for this default. 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.

7. Other Operating Expense.

In the first quarter of fiscal 2000, we announced and began to implement a restructuring program aimed at bringing our expenses more in line 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 reevaluation of our core competencies, technology roadmap and business model, as well as development of our fiscal 2001 operating plan. This restructuring program 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 facilities to original condition.

During fiscal 2000, we reduced our estimate of the total costs associated with fiscal 1998 restructuring actions by $7 million. The adjustment primarily reflects lower than estimated severance and related charges attributable to higher than expected attrition, as well as lower per person costs. To a lesser extent, we also adjusted estimated costs of contract cancellations, operating asset impairment charges and exiting certain facilities.

During the second through fourth quarters of fiscal 2000, we lowered our estimate of the total costs associated with the fiscal 2000 restructuring activities described above. As a result, a cumulative

adjustment of approximately $37 million was recorded in fiscal 2000. The adjustment primarily reflects far more favorable settlements of lease obligations attributable to extremely high demand at that time for facilities in Mountain View, California. It also reflected our new approach to structuring our field organization. The adjustment further reflects lower than estimated severance and related charges attributable to higher than expected attrition and lower per person costs. Estimated costs of contract cancellations were also adjusted due to favorable settlements.

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, all estimated positions were eliminated and all severance-related charges were paid in relation to the fiscal 2000 restructuring.

During the fourth quarter of fiscal 2001, we announced and began to implement additional restructuring actions with the objective of further reducing our operating expenses to be more in line 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. Third party contract cancellation charges associated with the fiscal 2001 actions totaled $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, net of estimated sublease income, 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 headcount reduction than originally anticipated.

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. 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, net of estimated sublease income. Our plans also included consolidating our manufacturing activity in Wisconsin and closing our manufacturing facility in Switzerland, which was 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 fourth quarter of fiscal 2002, we announced and began to implement additional restructuring actions in an effort to further reduce our operating expense to be more in line 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, of which roughly 130 of the positions have been eliminated as of September 27, 2002. 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. We estimate it will require ongoing lease payments of $3 million.

The remaining restructuring accrual balance of approximately $33 million at September 27, 2002 is expected to result in cash expenditures through fiscal 2003 for severance and related charges and canceled contracts and through fiscal 2010 for facilities related expenditures, net of estimated sublease income.

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

Category	Severance & Related Charges	Canceled Contracts	Vacated Facilities	Total
Balance at June 28, 2002	$ 9,178	$ 1,418	$ 27,743	$ 38,339
Additions fiscal 2003 restructuring	4,921	29	3,494	8,444
Expenditures:				
Cash	(9,302)	(165)	(3,997)	(13,464)
Balance at Sept. 27, 2002	$ 4,797	$ 1,282	$ 27,240	$ 33,319

8. Loss Per Share.

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended	
(In thousands, except per share amounts)	**September 27, 2002**	**September 28, 2001**

	Three Months Ended	
Net loss available to common stockholders	$ (41,072)	$ (69,282)
Weighted average shares outstanding basic and diluted	199,676	192,094
Net loss per share basic and diluted	$ (0.21)	$ (0.36)
Potentially dilutive securities excluded from computations because they are anti-dilutive	17,028	14,380

9. Comprehensive Loss.

The components of comprehensive loss, net of tax, are as follows:

	Three Months Ended	
(In thousands)	**Sept. 27, 2002**	**Sept. 28, 2001**
Net loss	$ (41,072)	$ (69,282)
Change in unrealized loss on available-for-sale Investments		(165)
Reclassification adjustment of accumulated unrealized loss related to the sale of investments		1,302
Change in unrealized gain (loss) on derivative instruments designated and qualifying as cash flow hedges	1,426	(135)
Foreign currency translation adjustments	(441)	2,364
Comprehensive loss	$ (40,087)	$ (65,916)

The components of accumulated other comprehensive loss, net of tax, are as follows:

(In thousands)	**Sept. 27, 2002**	**June 28, 2002**
Unrealized loss on derivative instruments designated and qualifying as cash flow hedges	$ (543)	$ (1,969)
Foreign currency translation adjustments	(20,665)	(20,224)
Accumulated other comprehensive loss	$ (21,208)	$ (22,193)

10. Segment Information.

SGI provides products, services and solutions for use in high-performance computing, visualization and the management of large-scale complex data to customers in the scientific, technical and creative communities. We sell highly scalable servers, advanced visualization systems, desktop workstations, storage solutions and a range of software products which enable our customers to solve their most challenging problems and provide them with strategic and competitive advantages in their marketplace. We also offer a range of technical solutions, including professional services, Reality Center immersive visualization centers, customer support and education. These products and services are targeted primarily towards five market segments: Government and Defense, Science, Manufacturing, Energy and Media.

The Server segment's current products include visualization systems, high-performance servers and integrated storage solutions. The Server segment's current visualization systems include the SGI® Onyx® 300 and the SGI® Onyx® 3000 family of graphics systems. The Server segment's current high-performance servers include the SGI® Origin® 300 servers and the Origin® 3000 family of high-performance servers. The server segment's current key storage product offerings include the SGI® TP900, SGI® TP9100 and SGI® TP9400. This segment also includes prior generations of graphics systems and high-performance servers available through our Remarketed Products Group. Our servers are high-performance supercomputing systems designed to be the market leaders in technical computing applications. In addition, our servers are used as storage management servers for managing very large data repositories that contain critical information and media servers for video on demand, media streaming and broadcast television applications. These products are distributed through our direct sales force, as well as through indirect channels including resellers and distributors.

The Workstation segment's current products include the Silicon Graphics® 02+ , the Silicon Graphics Fuel , and the Silicon Graphics® Octane2 workstations. This segment also includes prior generations of workstations available through our Remarketed Products Group. Our workstations are used in a variety of applications including computer-aided design, medical imaging, 2D and 3D animation, broadcast, modeling and simulation. These products are distributed through our direct sales force, as well as through indirect channels including resellers and distributors.

The Global Services segment supports our computer hardware and software products and provides professional services to help customers realize the full value of their information technology investments. Our Professional Services organization provides technology consulting, education and managed services. We evaluate each of these segments based on profit or loss from operations before interest and taxes.

Expenses of the research and development, sales and marketing, manufacturing, finance and administration groups are allocated to the reportable segments and are included in the results reported. The revenue and related expenses of our wholly-owned software subsidiary Alias/Wavefront, as well as certain corporate-level revenue and expenses are not allocated and are included in "Other" in the reconciliation of reported revenue and operating profit.

We do not identify or allocate assets or depreciation by operating segment, nor do we evaluate segments on these criteria. Operating segments do not sell product to each other, and accordingly, there is no inter-segment revenue to be reported.

Information on reportable segments is as follows (in thousands):

	Servers	Workstations	Global Services
Three months ended September 27, 2002:			
Revenue from external customers	$ 85,362	$ 41,777	$ 100,697
Segment (loss) profit	$ (40,532)	$ (14,241)	$ 26,250
Three months ended September 28, 2001:			
Revenue from external customers	$ 114,749	$ 59,029	$ 124,825
Segment (loss) profit	$ (59,144)	$ (31,675)	$ 16,673

Reconciliation to SGI as reported (in thousands):

	Three Months Ended	
	Sept. 27, 2002	Sept. 28, 2001
Revenue:		
Total reportable segments	$ 227,836	$ 298,603
Other	13,882	80,789
Total SGI consolidated	$ 241,718	$ 379,392
Operating loss:		
Total reportable segments	$ (28,523)	$ (74,146)
Other	(3,458)	71,802
Restructuring	(8,444)	(32,112)
Enterprise Resource Planning implementation expense		(12,119)
Total SGI consolidated	$ (40,425)	$ (46,575)

11. Recent Accounting Pronouncements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which establishes new standards for goodwill and other intangible assets, including the elimination of goodwill amortization, to be replaced with periodic evaluation of goodwill for impairment. We adopted SFAS 142 on June 29, 2002, at which time we were required to evaluate our existing goodwill and make any necessary reclassifications in order to comply with the new criteria in SFAS 142. Currently, our only intangible asset is goodwill. To the extent that any intangible asset is identified as having an indefinite useful life, SFAS 142 requires us to test the intangible asset for impairment and recognize any impairment losses as a cumulative effect of change in accounting principle in the first interim period. After the identification and assessment of intangible assets discussed above, we are required, under SFAS 142, to identify reporting units and assign all related assets and liabilities and goodwill to the reporting units. We must then complete the two-step transitional goodwill impairment test. The first step, which must be completed within six months of adoption of SFAS 142, requires us to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent that a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and we are required to complete step two of the transitional goodwill impairment test as soon as possible, but no later than June 27, 2003. Step two requires us to compare the implied fair value of the reporting unit to its carrying amount as of June 29, 2002. Any transitional impairment loss will be recognized as a cumulative change in accounting principle in the first interim period. We have not yet completed our analysis to determine the impact, if any, on our

financial results. At June 28, 2002, we had goodwill of $13 million subject to SFAS 142. Amortization expense for goodwill amounted to $1.5 million for the year ended June 28, 2002. The net impact on the 2003 statement of operations from the adoption of SFAS 142 is expected to be a reduction in amortization of approximately $1.5 million.

As required by SFAS 142, the results for the quarter ended September 28, 2001 have not been restated. The following table discloses the effect on net loss and basic and diluted net loss per share as if we accounted for goodwill under SFAS 142 for all periods presented:

	Three Months Ended	
(In thousands, except per share amounts)	**September 27, 2002**	**September 28, 2001**
Reported net loss	$ (41,072)	$ (69,282)
Add:		
Goodwill, net of tax		
Adjusted net loss	$ (41,072)	$ (68,917)
Reported net loss per share basic and diluted	$ (0.21)	$ (0.36)
Add:		
Goodwill, net of tax		365
Adjusted net loss per share basic and diluted	$ (0.21)	$ (0.36)

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which is applicable to financial statements issued for fiscal years beginning after December 15, 2001, with transition provisions for certain matters. The FASB's new rules on asset impairment supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and provide a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The new rules also will supersede the provisions of APB Opinion 30 with regard to reporting the effects of a disposal of a segment of a business and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred (rather than as of the measurement date as presently required). The adoption of SFAS 144 had no significant impact on our consolidated financial statements for the three months ended September 27, 2002.

In June 2002 the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between Statement 146 and Issue 94-3 relates to Statement 146's requirements for recognition of a liability for a cost associated with an exit or disposal activity. Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liabili