F5 NETWORKS INC
Form 10-Q
August 07, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 000-26041

F5 NETWORKS, INC.

(Exact name of registrant as specified in its charter)

WASHINGTON	**91-1714307**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

401 Elliott Avenue West
Seattle, Washington 98119
(Address of principal executive offices and zip code)
(206) 272-5555
(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 o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant s common stock as of August 5, 2009 was 78,729,016.

F5 NETWORKS, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended June 30, 2009
Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

F5 NETWORKS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	June 30, 2009	September 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 88,289	$ 78,303
Short-term investments	175,780	111,883
Accounts receivable, net of allowances of $4,273 and $4,348	91,635	97,057
Inventories	13,590	10,148
Deferred tax assets	5,827	5,910
Other current assets	26,324	20,068
Total current assets	401,445	323,369
Restricted cash	2,731	2,748
Property and equipment, net	40,237	47,557
Long-term investments	273,861	261,086
Deferred tax assets	43,982	46,917
Goodwill	231,892	231,892
Other assets, net	23,440	25,654
Total assets	$ 1,017,588	$ 939,223
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 16,386	$ 13,092
Accrued liabilities	43,080	48,051
Deferred revenue	142,699	125,678
Total current liabilities	202,165	186,821
Other long-term liabilities	13,838	14,822
Deferred revenue, long-term	27,173	19,321
Total long-term liabilities	41,011	34,143
Commitments and contingencies (Note 6)		
Shareholders equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding		
Common stock, no par value; 200,000 shares authorized, 78,515 and 79,094 shares issued and outstanding	467,391	477,299
Accumulated other comprehensive loss	(3,200)	(6,076)
Retained earnings	310,221	247,036

Total shareholders equity	774,412	718,259
Total liabilities and shareholders equity	$ 1,017,588	$ 939,223

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

3

F5 NETWORKS, INC.
CONSOLIDATED INCOME STATEMENTS
(unaudited, in thousands, except per share data)

	Three months ended June 30,		Nine months ended June 30,	
	2009	**2008**	**2009**	**2008**
Net revenues				
Products	$ 95,619	$ 114,786	$ 297,649	$ 337,139
Services	62,612	50,799	180,300	141,771
Total	158,231	165,585	477,949	478,910
Cost of net revenues				
Products	21,955	26,158	70,915	75,816
Services	11,710	12,020	35,355	34,289
Total	33,665	38,178	106,270	110,105
Gross profit	124,566	127,407	371,679	368,805
Operating expenses				
Sales and marketing	55,427	60,483	166,798	176,714
Research and development	25,070	26,277	78,149	77,027
General and administrative	12,764	13,459	40,624	41,369
Restructuring charges			4,329	
Total	93,261	100,219	289,900	295,110
Income from operations	31,305	27,188	81,779	73,695
Other income, net	3,027	3,716	8,042	15,437
Income before income taxes	34,332	30,904	89,821	89,132
Provision for income taxes	11,556	11,770	26,636	34,502
Net income	$ 22,776	$ 19,134	$ 63,185	$ 54,630
Net income per share basic	$ 0.29	$ 0.24	$ 0.80	$ 0.66
Weighted average shares basic	78,603	81,096	78,958	83,218
Net income per share diluted	$ 0.29	$ 0.23	$ 0.79	$ 0.65
Weighted average shares diluted	79,612	81,951	80,014	84,308

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

F5 NETWORKS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(unaudited, in thousands)

	Nine Months Ended June 30, 2009				
	Common Stock		Accumulated Other Comprehensive	Retained	Total Shareholders
	Shares	Amount	Gain(Loss)	Earnings	Equity
Balance, September 30, 2008	79,094	$ 477,299	$ (6,076)	$ 247,036	$ 718,259
Exercise of employee stock options	328	3,860			3,860
Issuance of stock under employee stock purchase plan	561	11,574			11,574
Issuance of restricted stock	1,210				
Repurchase of common stock	(2,678)	(63,311)			(63,311)
Tax loss from employee stock transactions		(2,758)			(2,758)
Stock-based compensation		40,727			40,727
Comprehensive income:					
Net income				63,185	
Foreign currency translation adjustment			(64)		
Unrealized gain on securities, net of tax			2,940		
Comprehensive income					66,061
Balance, June 30, 2009	78,515	$ 467,391	$ (3,200)	$ 310,221	$ 774,412

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

Table of Contents

F5 NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine months ended June 30, 2009	Nine months ended June 30, 2008
Operating activities		
Net income	$ 63,185	$ 54,630
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposition of assets and investments	20	18
Stock-based compensation	40,727	45,820
Provisions for doubtful accounts and sales returns	2,552	1,887
Depreciation and amortization	20,432	17,362
Deferred income taxes	1,352	478
Gain on auction rate securities put option	(3,788)	
Loss on trading auction rate securities	3,788	
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	2,869	(8,083)
Inventories	(3,442)	1,009
Other current assets	(6,201)	(5,595)
Other assets	(512)	(1,673)
Accounts payable and accrued liabilities	(2,490)	(9,554)
Deferred revenue	24,873	38,448
Net cash provided by operating activities	143,365	134,747
Investing activities		
Purchases of investments	(329,694)	(421,697)
Maturities of investments	256,091	500,672
Investment of restricted cash	5	
Acquisition of intangible assets	(706)	
Acquisition of businesses, net of cash acquired		(995)
Purchases of property and equipment	(8,232)	(23,201)
Net cash (used in) provided by investing activities	(82,536)	54,779
Financing activities		
Tax expense from nonqualified stock options	(2,758)	(664)
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	15,326	17,075
Repurchase of common stock	(63,311)	(150,000)
Net cash used in financing activities	(50,743)	(133,589)
Net increase in cash and cash equivalents	10,086	55,937
Effect of exchange rate changes on cash and cash equivalents	(100)	(1,049)
Cash and cash equivalents, beginning of period	78,303	54,296

Cash and cash equivalents, end of period	$ 88,289	$ 109,184
Supplemental disclosure of non-cash financing activities:		
Unrealized loss on investments	$ 3,709	$ 4,223

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

Table of Contents

F5 NETWORKS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Description of Business

F5 Networks, Inc. (the Company) provides products and services to help companies manage their Internet Protocol (IP) traffic and file storage infrastructure efficiently and securely. The Company s application delivery networking products improve the performance, availability and security of applications on Internet-based networks. Internet traffic between network-based applications and clients passes through these devices where the content is inspected to ensure that it is safe and modified as necessary to ensure that it is delivered securely and in a way that optimizes the performance of both the network and the applications. The Company s storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. The Company also offers a broad range of services that include consulting, training, maintenance and other technical support services.

Basis of Presentation

The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair statement in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2008.

Revenue Recognition

The Company s products are integrated with software that is essential to the functionality of the equipment. Accordingly, the Company recognizes revenue in accordance with the guidance provided under Statement of Position (SOP) No. 97-2, *Software Revenue Recognition,* and SOP No. 98-9, *Modification of SOP No. 97-2, Software Revenue Recognition, with Respect to Certain Transactions,* Statement of Financial Accounting Standards (SFAS) No. 48, *Revenue Recognition When Right of Return Exists,* and SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition.*

The Company sells products through distributors, resellers and directly to end users. The Company recognizes product revenue upon shipment, net of estimated returns, provided that collection is determined to be probable and no significant performance obligations remain. In certain regions where the Company does not have the ability to reasonably estimate returns, the Company defers revenue on sales to its distributors until they have been notified that the distributor has sold the product. Payment terms to domestic customers are generally net 30 days to net 45 days. Payment terms to international customers range from net 30 days to net 90 days based on normal and customary trade practices in the individual markets. The Company may offer extended payment terms to certain customers, in which case, revenue is recognized when payments are due.

Whenever product, training and post-contract customer support (PCS) elements are combined into a package with a single bundled price, a portion of the sales price is allocated to each element of the bundled package based on their respective fair values as determined when the individual elements are sold separately. The Company determines fair value based on the type of customer and region in which the package is sold. When fair value of all elements sold within a specific region to a certain customer type cannot be established, the Company recognizes revenue on the residual method permitted under SOP 98-9 based on the fair value of undelivered elements. Revenues from the sale of products are recognized when the product has been shipped and the customer is obligated to pay for the product. When rights of return are present and the Company cannot estimate returns, it recognizes revenue when such rights of return lapse. Revenues for PCS are recognized on a straight-line basis over the service contract term. PCS includes a limited period of telephone support updates, repair or replacement of any failed product or component that fails during the term of the agreement, bug fixes and rights to upgrades, when and if available.

7

Table of Contents

Consulting services are customarily billed at fixed rates, plus out-of-pocket expenses, and revenues are recognized when the consulting has been completed. Training revenue is recognized when the training has been completed.

In accordance with Emerging Issues Task Force (EITF) 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation),* the Company accounts for taxes collected from customers and remitted to governmental authorities on a net basis and excluded from revenues.

Goodwill

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired as of the acquisition date. The Company has adopted the requirements of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). SFAS No. 142 requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. Goodwill of $150.2 million was recorded in connection with the acquisition of Acopia Networks, Inc. (Acopia) in the fourth quarter of 2007, goodwill of $32.0 million was recorded in connection with the acquisition of Swan Labs, Inc. (Swan Labs) in fiscal year 2006, goodwill of $25.5 million was recorded in connection with the acquisition of MagniFire Websystems, Inc. in fiscal year 2004 and goodwill of $24.2 million was recorded in connection with the acquisition of uRoam, Inc. in fiscal year 2003.

The Company performs its annual goodwill impairment test in accordance with SFAS No. 142 during the second fiscal quarter, or whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. The first step of the test identifies whether potential impairment may have occurred, while the second step of the test measures the amount of the impairment, if any. Impairment is recognized when the carrying amount of goodwill exceeds its fair value. For purposes of the annual impairment test, the Company considers its market capitalization on the date of the impairment test since it has only one reporting unit. In March 2009, the Company completed its annual impairment test and concluded that there was no impairment of goodwill. Additionally, as a result of the current economic environment, the Company considered potential impairment indicators at June 30, 2009 and noted no impairment.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Financial Accounting Standards Board (FASB) Statement No. 123(R), *Share-Based Payment* (FAS 123R), using the straight-line attribution method for recognizing compensation expense. The Company recognized $12.6 million and $14.8 million of stock-based compensation expense for the three months ended June 30, 2009 and 2008, respectively, and $40.7 million and $45.8 million for the nine months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, there was $42.2 million of total unrecognized stock-based compensation cost, the majority of which will be recognized over the next two years. Going forward, stock-based compensation expenses may increase as the Company issues additional equity-based awards to continue to attract and retain key employees.

The Company issues incentive awards to its employees through stock-based compensation consisting of stock options and restricted stock units (RSUs). On August 3, 2009, the Company awarded approximately 1.7 million RSUs to employees and executive officers pursuant to the Company s annual equity awards program. The value of RSUs is determined using the fair value method, which in this case, is based on the number of shares granted and the quoted price of the Company s common stock on the date of grant. Alternatively, in determining the fair value of stock options, the Company uses the Black-Scholes option pricing model that employs the following key assumptions. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate declaring dividends in the foreseeable future. Expected volatility is based on the annualized daily historical volatility of the Company s stock price commensurate with the expected life of the option. Expected term of the option is based on an evaluation of the historical employee stock option exercise behavior, the vesting terms of the respective option and a contractual life of ten years. The Company s stock price volatility and option lives involve management s best estimates at that time, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the life of the option.

FAS 123R also requires the Company to recognize compensation expense for only the portion of options or stock units that are expected to vest. Therefore, the Company applies estimated forfeiture rates that are derived from historical employee termination behavior. Based on historical differences with forfeitures of stock-based awards granted to the Company s executive officers and Board of Directors versus grants awarded to all other employees, the Company has developed separate forfeiture expectations for these two groups. The Company s estimated forfeiture rate in the third quarter of fiscal 2009 is 3.2% for grants awarded to the

Table of Contents

Company s executive officers and Board of Directors, and 11.3% for grants awarded to all other employees. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

Compensation cost recognized for the three and nine month periods ended June 30, 2009 includes:
(a) compensation cost for all share-based payments granted prior to, but not yet vested as of July 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation* and (b) compensation cost for all share-based payments granted or modified subsequent to July 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R.

In August 2008, the Company granted 383,400 RSUs to certain current executive officers. Fifty percent of the aggregate number of RSUs granted at such time vest in equal quarterly increments over two years, until such portion of the grant is fully vested on August 1, 2010. Twenty-five percent of the RSU grant, or a portion thereof, is subject to the Company achieving specified percentage increases in total revenue during the period beginning in the fourth quarter of fiscal year 2008 through the third quarter of fiscal year 2009, relative to the same periods in fiscal years 2007 and 2008 (the 2008 Performance Award). The executive officers can earn 125% of the 2008 Performance Award if the revenue increase is 20%, 100% of the 2008 Performance Award if the revenue increase is 11%, and 75% of the 2008 Performance Award if the revenue increase is 6%. No portion of the 2008 Performance Award is earned if the revenue increase is less than 6%. The remaining twenty-five percent is subject to the Company achieving specified percentage increases in total revenue during the period beginning in the fourth quarter of fiscal year 2009 through the third quarter of fiscal year 2010, relative to the same periods in fiscal years 2008 and 2009, as will be set by the Compensation Committee of the Company s Board of Directors.

In August 2007, the Company granted 276,400 RSUs to certain current executive officers. Fifty percent of the aggregate number of RSUs granted at such time vest in equal quarterly increments over two years, until such portion of the grant is fully vested on August 1, 2009. Twenty-five percent of the RSU grant is subject to the Company achieving specified percentage increases in total revenue during the period beginning in the fourth quarter of fiscal year 2007 through the third quarter of fiscal year 2008, relative to the same periods in fiscal years 2006 and 2007. This twenty-five percent was fully earned in fiscal 2008. The remaining twenty-five percent is subject to the Company achieving specified percentage increases in total revenue during the period beginning in the fourth quarter of fiscal year 2008 through the third quarter of fiscal year 2009, relative to the same periods in fiscal years 2007 and 2008, set by the Compensation Committee of the Company s Board of Directors for the 2008 Performance Award.

The Company recognizes compensation costs for awards with performance conditions when it concludes it is probable that the performance condition will be achieved. The Company reassesses the probability of vesting at each balance sheet date and adjusts compensation costs based on the probability assessment. Performance conditions for these awards were not met in the third fiscal quarter of 2009 and as such, no compensation cost was incurred.

Common Stock Repurchase

On October 22, 2008, the Company announced that its Board of Directors approved a new program to repurchase up to an additional $200 million of the Company s outstanding common stock. Acquisitions for the share repurchase program will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements. The program may be discontinued at any time. As of August 5, 2009, the Company had repurchased and retired 2,869,326 shares at an average price of $24.42 per share in fiscal 2009.

Earnings Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common stock equivalent shares outstanding during the period.

Table of Contents

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
Numerator				
Net income	$ 22,776	$ 19,134	$ 63,185	$ 54,630
Denominator				
Weighted average shares outstanding basic	78,603	81,096	78,958	83,218
Dilutive effect of common shares from stock options and restricted stock units	1,009	855	1,056	1,090
Weighted average shares outstanding diluted	79,612	81,951	80,014	84,308
Basic net income per share	$ 0.29	$ 0.24	$ 0.80	$ 0.66
Diluted net income per share	$ 0.29	$ 0.23	$ 0.79	$ 0.65

Approximately 0.3 million and 0.7 million of common shares potentially issuable from stock options for the three months ended June 30, 2009 and 2008, respectively, are excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of common stock for the respective period. Approximately 0.5 million and 0.6 million of common shares potentially issuable from stock options for the nine months ended June 30, 2009 and 2008, respectively, are excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the Company s common stock for the respective period.

Comprehensive Income

Comprehensive income includes certain changes in equity that are excluded from net income. Specifically, unrealized gains (losses) on securities and foreign currency translation adjustments are included in accumulated other comprehensive loss. Comprehensive income and its components were as follows (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
Net Income	$ 22,776	$ 19,134	$ 63,185	$ 54,630
Unrealized gain (loss) on securities, net of tax	372	(2,156)	2,940	(3,888)
Foreign currency translation adjustment	300	(177)	(64)	(1,065)
Total comprehensive income	$ 23,448	$ 16,801	$ 66,061	$ 49,677

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160), which amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for the Company s fiscal years beginning October 1, 2009. The Company does not expect the adoption of SFAS 160 to have a material impact on its consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS 141R), which establishes principles and requirements for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in an acquisition, at their fair value as of the acquisition date. SFAS 141R is effective for business combinations for which the acquisition date is on or after October 1, 2009. This standard will change the Company s accounting treatment for business combinations on a prospective basis.

In April 2008, the FASB issued Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors to be considered in assumptions used to determine the useful lives of recognized intangible assets recognized under SFAS No. 142. The new guidance applies to intangible assets with contractual lives that are acquired individually or with a group of assets as well as those assets acquired in a business combination. The new guidance is effective for fiscal years beginning after December 15, 2008 and interim periods. The Company will adopt the statement on October 1, 2009 which is the beginning of its fiscal year 2010. The Company does not expect the adoption of FSP 142-3 to have a significant impact on its consolidated financial position, results of operations or cash flows.

Table of Contents

In April 2009, the FASB issued Staff Position No. 157-4, *Determining Fair Value When Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities when the volume and level of activity for the asset/liability has significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques. The Company adopted FSP 157-4 in the third quarter of fiscal year 2009. The adoption of FSP 157-4 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In April 2009, the FASB issued Staff Position No. 115-2 and 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2/124-2). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. The Company adopted FSP 115-2/124-2 in the third quarter of fiscal year 2009. The adoption of FSP 115-2/124-2 did not impact the Company as there have been no credit losses or other-than-temporary impairment losses on the Company s available-for-sale securities in prior periods.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, *Interim Disclosure about Fair Value of Financial Instruments* (FSP 107-1/APB 28-1). FSP 107-1/APB 28-1 requires interim disclosures regarding the fair values of financial instruments that are within the scope of FAS 107, *Disclosures about the Fair Value of Financial Instruments.* Additionally, FSP 107-1/APB 28-1 requires disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. The Company adopted FSP 107-1/APB 28-1 in the third quarter of fiscal year 2009. The adoption of FSP 107-1/APB 28-1 does not change the accounting treatment for these financial instruments.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company adopted SFAS 165 in the third quarter of fiscal year 2009. The adoption of SFAS 165 did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

2. Restructuring Charges

In January 2009, the Company initiated a restructuring plan to reduce its operating expenses which included the consolidation of facilities, accelerated depreciation on tenant improvements and a reduction in workforce in accordance with Statement of Financial Accounting Standards (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146). These initiatives are intended to conserve or generate cash in response to the uncertainties associated with the recent deterioration in the global economy. As a result of these initiatives, the Company recorded a restructuring charge of $4.3 million in the second quarter of fiscal 2009. As of June 30, 2009, there was $0.8 million in accrued expenses that will offset futures lease payments through September 2012.

During the six months ended June 30, 2009, the following activity was recorded (in thousands):