THORATEC CORP
Form 10-Q
November 09, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)

þ **Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2006

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: 000-49798
THORATEC CORPORATION
(Exact name of registrant as specified in its charter)

California	**94-2340464**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6035 Stoneridge Drive, Pleasanton, California	**94588**
(Address of principal executive offices)	**(Zip Code)**

(925) 847-8600
(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 is, a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Large-accelerated filer þ Accelerated filer o Non-accelerated filer 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

As of November 2, 2006, the registrant had 52,130,733 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63,331	$ 35,109
Short-term available-for-sale investments	133,712	175,827
Restricted short-term investments	3,360	3,330
Receivables, net of allowances of $511 and $634, respectively	38,370	35,904
Inventories	43,381	41,671
Deferred tax asset	5,461	5,461
Prepaid expenses and other assets	4,047	3,582
Total current assets	291,662	300,884
Property, plant and equipment, net	46,540	28,906
Restricted long-term investments		1,610
Goodwill	94,097	94,097
Purchased intangible assets, net	133,017	141,938
Other assets	11,511	6,483
Total Assets	$ 576,827	$ 573,918
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,502	$ 8,421
Accrued compensation	10,227	15,707
Accrued income taxes	4,705	3,659
Other accrued liabilities	4,877	3,804
Total current liabilities	32,311	31,591
Senior subordinated convertible notes	143,750	143,750
Long-term deferred tax liability and other	45,845	50,430
Total Liabilities	221,906	225,771
Shareholders equity:		
Common shares: authorized 100,000; issued and outstanding 52,008 and 51,737, respectively	421,584	407,531
Deferred compensation		(184)
Accumulated deficit	(66,735)	(58,801)

Accumulated other comprehensive income (loss):				
Unrealized loss on investments		(38)		(258)
Cumulative translation adjustments		110		(141)
Total accumulated other comprehensive income (loss)		72		(399)
Total Shareholders Equity		354,921		348,147
Total Liabilities and Shareholders Equity	$	576,827	$	573,918

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Product sales	$ 51,747	$ 48,841	$ 155,285	$ 146,917
Cost of product sales	22,078	18,610	64,840	57,045
Gross profit	29,669	30,231	90,445	89,872
Operating expenses:				
Selling, general and administrative	17,977	14,987	55,228	44,610
Research and development	8,766	8,093	28,108	23,737
Amortization of purchased intangible assets	2,974	2,800	8,921	8,404
Litigation			447	177
Total operating expenses	29,717	25,880	92,704	76,928
Income (loss) from operations	(48)	4,351	(2,259)	12,944
Other income and (expense):				
Interest expense	(1,051)	(1,037)	(3,159)	(3,082)
Interest income and other	2,186	1,113	5,678	2,983
Income before income tax benefit (expense)	1,087	4,427	260	12,845
Income tax benefit (expense)	403	(1,325)	637	(4,187)
Net income	$ 1,490	$ 3,102	$ 897	$ 8,658
Net income per share:				
Basic	$ 0.03	$ 0.06	$ 0.02	$ 0.18
Diluted	$ 0.03	$ 0.06	$ 0.02	$ 0.17
Shares used to compute net income per share:				
Basic	51,955	49,562	52,154	48,835
Diluted	52,755	51,419	53,510	50,168

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30, 2006	October 1, 2005
Cash flows from operating activities:		
Net income	$ 897	$ 8,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,016	14,246
Investment discount amortization	88	411
Non-cash interest and other expenses	1,483	1,286
Tax benefit related to stock options	2,418	4,106
Share-based compensation expense	7,644	779
Excess tax benefits from share-based compensation	(2,283)	
Loss on disposal of assets	9	252
Change in net deferred tax liability	(5,234)	(3,164)
Changes in assets and liabilities:		
Receivables	(2,466)	1,540
Inventories	(2,734)	(4,383)
Prepaid expenses and other assets	(464)	(1,148)
Accounts payable and other liabilities	401	4,159
Other	(258)	150
Net cash provided by operating activities	14,517	26,892
Cash flows from investing activities:		
Purchases of investments	(255,300)	(100,540)
Proceeds from sale of investments	245,359	45,233
Proceeds from maturities and redemptions of investments	53,795	27,560
Investment in convertible debenture	(5,027)	
Purchases of property, plant and equipment, net	(22,547)	(4,428)
Other	(214)	
Net cash provided by (used in) investing activities	16,066	(32,175)
Cash flows from financing activities:		
Proceeds from stock option exercises	10,447	17,404
Proceeds from stock issued under employee stock purchase plan	860	550
Excess tax benefits from share-based compensation	2,283	
Repurchase and retirement of common shares	(16,201)	(2,238)
Net cash provided by (used in) financing activities	(2,611)	15,716
Effect of exchange rate changes on cash and cash equivalents	250	(807)
Net increase in cash and cash equivalents	28,222	9,626
Cash and cash equivalents at beginning of period	35,109	16,017

Cash and cash equivalents at end of period	$	63,331	$	25,643
Supplemental disclosure of cash flow information:				
Cash paid for taxes	$	1,496	$	1,903
Cash paid for interest	$	1,707	$	1,728
Supplemental disclosure of non-cash investing and financing activities:				
Transfers of equipment from inventory	$	1,260	$	1,114

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net income	$ 1,490	$ 3,102	$ 897	$ 8,658
Other net comprehensive income (loss):				
Unrealized gain on investments (net of tax expense (benefit) of $59 and $20 for the three months ended and $146 and $69 for the nine months ended September 30, 2006 and October 1, 2005, respectively)	89	36	220	76
Foreign currency translation adjustments (net of tax expense (benefit) of $(43)and $(75) for the three months ended and $167 and $(230) for the nine months ended September 30, 2006 and October 1, 2005, respectively)	(64)	(195)	251	(807)
Comprehensive income	$ 1,515	$ 2,943	$ 1,368	$ 7,927

See notes to condensed consolidated financial statements.

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THORATEC CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

The interim condensed consolidated financial statements of Thoratec Corporation (we, our, Thoratec, or the Company) have been prepared and presented in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission (SEC), without audit, and reflect all adjustments necessary (consisting only of normal recurring adjustments) to present fairly our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. The accompanying financial statements should be read in conjunction with our fiscal 2005 consolidated financial statements, and the accompanying notes thereto, filed with the SEC in our Annual Report on Form 10-K (the 2005 Annual Report). The operating results for any interim period are not necessarily indicative of the results that may be expected for any future period.

The preparation of our condensed consolidated financial statements necessarily requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented.

2. Share-Based Compensation

Effective January 1, 2006 we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment utilizing the modified prospective transition method. Prior to the adoption of SFAS No. 123(R), we accounted for share-based compensation to employees using the intrinsic value method in accordance with Accounting Principals Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, and accordingly recognized no compensation expense for stock option grants or for our employee stock purchase plan.

Under the modified prospective transition method, SFAS No. 123(R) applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Additionally, compensation cost recognized in the first nine months of 2006 includes compensation cost for all share based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and compensation cost for all share-based payments granted after January 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Prior periods were not restated.

As a result of adopting SFAS No. 123(R) on January 1, 2006, our income before taxes, net income, basic and diluted earnings per share for the three months ended September 30, 2006 were $2.2 million, $1.3 million and $0.03 and $0.02 lower, respectively, than if we had continued to account for the share-based compensation under APB No. 25, and for the nine months ended September 30, 2006 were $7.2 million, $4.3 million and $0.08 and $0.08 lower, respectively, than if we had continued to account for share-based compensation under APB No. 25. Cash flow from operations and cash flow from financing activities for the nine months ended September 30, 2006 were $2.3 million lower and $2.3 million higher, respectively, than if we had continued to account for share-based compensation under APB No. 25.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the fair market value of the options at the date of exercise over the exercise prices of the options. Prior to the adoption of SFAS No. 123(R), we reported all tax benefits resulting from the exercise of stock options as operating cash flows in our condensed consolidated statements of cash flows. In accordance with SFAS No. 123(R), beginning in 2006 for the nine months ended September 30, 2006, our condensed consolidated statements of cash flows presentation reports the tax benefits from the exercise of stock options as financing cash flows. For the nine months ended September 30, 2006, $2.3 million of tax benefits were reported as financing cash flows rather than operating cash flows.

Cash proceeds from the exercise of stock options were $10.5 million and cash proceeds from our employee stock purchase plan were $0.9 million for the nine months ended September 30, 2006. The actual income tax benefit realized from stock option exercises was $2.4 million for the same period.

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The following table illustrates the effect on operating results and per share information had we accounted for our share-based compensation plans in accordance with SFAS No. 123, rather than using the intrinsic value method in accordance with APB No. 25, for the three and nine months ended October 1, 2005:

	Three Months Ended October 1, 2005	Nine Months Ended October 1, 2005
	(in thousands, except per share data)	
Net income:		
As reported	$ 3,102	$ 8,658
Add: Share-based compensation expense included in reported net income, net of related tax effects	277	595
Deduct: Total share-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,495)	(4,994)
Pro forma net income	$ 1,884	$ 4,259
Basic and diluted net income per share:		
As reported		
Basic	$ 0.06	$ 0.18
Diluted	$ 0.06	$ 0.17
Pro forma		
Basic	$ 0.04	$ 0.09
Diluted	$ 0.04	$ 0.08

On August 30, 2006, Ms. Cynthia Lucchese, our Chief Financial Officer announced her resignation, effective December 31, 2006. In accordance with SFAS No. 123(R), compensation expense from January 1, 2006 for the restricted shares and options with vest dates after year end are not included in the share-based compensation expense included in the condensed consolidated statements of operations.

Equity Plans

Pursuant to the terms of the Thoratec and Thermo Cardiosystems, Inc. (TCA) merger agreement, all TCA share-based compensation plans were assumed by Thoratec effective February 14, 2001, the date of the merger. There have been no grants under any of TCA s plans since the merger. Moreover, all outstanding options and restrictions on past TCA grants were accelerated and became fully vested as of the merger date and were converted to 971,222 shares of our common stock options at the merger conversion ratio of 0.835 to 1. Although assumed by Thoratec, the TCA stock options remain exercisable upon the same terms and conditions as under the TCA stock option plan pursuant to which they were granted and the applicable option agreement. There are no remaining options outstanding under the TCA plans.

In 1993, our Board of Directors approved the 1993 Stock Option Plan (1993 SOP), which permitted us to grant options to purchase up to 666,667 shares of our common stock. This plan expired in 2003 and no options were granted since its expiration. Prior to the expiration, all available options were granted under the plan.

In 1996, the Board of Directors and our shareholders approved the 1996 Stock Option Plan (1996 SOP) and the 1996 Non-employee Directors Stock Option Plan (Directors Option Plan). The Directors Option Plan was amended by the Board of Directors in November 1996, amended again by approval of our shareholders in May 1997, amended again by approval of our shareholders in May 1999, amended again by the Board of Directors in February 2003, amended again by approval of our shareholders in May 2003, and amended again by the Board of Directors in October 2003. The 1996 SOP consists of two parts. Part One permitted us to grant options to purchase up to 500,000 shares of common stock. This plan expired in February 2006. No options were granted during the nine month period ending September 30, 2006 under Part One of the 1996 SOP. Part Two related to the former Chief Executive Officer, D. Keith Grossman, and permitted us to grant non-qualified options to Mr. Grossman to purchase up to 333,333 shares of common stock, all of which were granted in 1996. The Directors Option Plan, as amended, permitted us to grant options for a total of up to 550,000 shares of our common stock and provided for an initial grant to a director of an option to purchase 15,000 shares upon appointment to the Board, and annual grants thereafter to purchase 7,500 shares (granted in four equal installments). Provisions also include immediate vesting of both the initial and annual grants and a five year term of the options. In addition, the plan administrator has been provided with the discretion to impose any repurchase rights in our favor on any optionee. The Directors Option Plan expired in February 2006 and no options were granted under the Directors Option Plan in the nine months ended September 30, 2006.

In 1997, the Board of Directors adopted the 1997 Stock Option Plan (1997 SOP). The 1997 SOP was amended by approval of our shareholders in February 2001, amended by the Board of Directors in December 2001, amended again by approval of our shareholders in May 2003, and amended again by the Board of Directors in March 2006. The 1997 SOP allowed us to grant up to a total of 13.7 million shares of stock in the form of stock options, restricted stock awards, and stock bonuses. This plan expired in May 2006. Prior to the plan s expiration, 1.5 million options were granted at fair market value and 0.3 million shares were granted as restricted stock awards and restricted stock units, in the nine months ended September 30, 2006.

In April 2006, the Board of Directors approved the 2006 Incentive Stock Plan (2006 Plan), in May 2006 the 2006 Plan was amended by the Board of Directors and approved by our shareholders. The 2006 Plan allows us to grant to employees and directors of, and consultants to, the Company up to a total of 2.2 million shares of stock in the form of options, restricted stock bonuses, restricted stock purchases, restricted stock units, stock appreciation rights, phantom stock units, performance share bonuses, and performance share units. The 2006 Plan stipulates that no more than 50% of the authorized shares may be issued as restricted stock bonuses, restricted stock units, phantom stock units, performance share bonuses or performance share units. Following the approval of this plan, 56,000 options were granted at fair market value and 80,000 shares of restricted stock and restricted stock units were granted under this plan in the nine months ended September 30, 2006. At September 30, 2006, 2.1 million shares remained available for grant under the 2006 Plan.

Stock Options

Five of the common stock option plans or equity incentive plans described above had options outstanding at September 30, 2006, with only the 2006 Plan available for future grants. Options under the 2006 Plan may be granted by the Board of Directors at the fair market value on the date of grant and generally become fully exercisable within four years after the grant date and expire between five and ten years from the date of grant. Options granted to officers contain a provision which provides for acceleration of vesting upon a change of control of the Company.

The fair value of each option granted is estimated at the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the United States Treasury yield curve in effect at the time of grant. Expected volatilities are based on the historical volatility of our stock. The expected term of options represents the period of time that options are expected to be outstanding. Beginning in 2006, we have used separate assumptions for groups of employees (for example, officers) that have similar historical exercise behavior. The range below reflects the expected option impact of these separate groups. The following assumptions were used for grants made in the three and nine months ended September 30, 2006 and October 1, 2005:

	Three Months Ended		**Nine Months Ended**	
	September 30, 2006	**October 1, 2005**	**September 30, 2006**	**October 1, 2005**
Risk-free interest rate (weighted average)	4.87%	4.15%	4.53%	4.20%
Expected volatility	40%	40%	40%	45%
Expected option life (years)	3.90	3.93	3.84 to 5.22	3.75
Dividends	None	None	None	None

At September 30, 2006, there was $7.1 million of unrecognized compensation expense related to stock options, which expense we expect to recognize over a weighted average period of 1.33 years. The aggregate intrinsic value of in-the-money options outstanding, based on a market price of the Company s common shares on September 29, 2006, the last trading day in the three months ended September 30, 2006, of $15.61, was $16.5 million, and the aggregate intrinsic value of options exercisable was $12.5 million. The total intrinsic value of options exercised was $0.4 million and $5.8 million for the three and nine months ended September 30, 2006, respectively.

Stock option activity is summarized as follows:

	Number of Options	**Weighted Average Exercise**	**Weighted Average Remaining Contract Life (years)**

	(in thousands)		Price Per Share	
Outstanding options at January 1, 2006	6,445	$	12.80	6.90
Granted	1,523		21.04	
Exercised	(846)		12.42	
Forfeited or expired	(299)		15.50	
Outstanding options at September 30, 2006	6,823		14.57	6.92
Outstanding options exercisable at September 30, 2006	4,033	$	12.81	5.81

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Restricted Stock

The 1997 SOP allowed and the 2006 Plan allows for the issuance of restricted stock awards and restricted stock units, which awards or units may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned share-based compensation related to these awards is being amortized to compensation expense over the period of the restrictions, generally four years. The expense for these awards was determined based on the market price of our shares on the date of grant applied to the total number of shares that were granted. The restricted stock awards to executive officers, and to a consultant described below, were the only such awards issued prior to January 1, 2006.

In 2001, an award of 250,000 shares of restricted stock was made to our then Chief Executive Officer, Mr. Grossman, under our 1997 SOP. This award was valued at $4.1 million, recorded as deferred compensation, and was being amortized over the restriction lapse period prior to the acceleration described below. In 2002, a similar award of 50,000 shares was made to another of our executive officers. This award was valued at $0.3 million, was recorded as deferred compensation, and was being amortized over the restriction lapse period. This award was forfeited in December 2004 upon the resignation of the executive officer and the previously recognized amortization of deferred compensation of $0.2 million was reversed. In addition, 25,000 shares of restricted stock were granted to a consultant in December 2004. This award is re-valued each period at the current market rate and expense is recognized ratably over the restriction lapse period of three years. In anticipation of the settlement of the securities litigation cases, the remaining expense related to the award of $0.2 million was recorded in the second quarter of 2006. In August 2005, Mr. Grossman announced his resignation and entered into an agreement which amended his employment contract and provided that he would remain employed by the Company for up to three months following the appointment of the replacement CEO in order to assist in the transition. The transition period ended on February 2, 2006. Mr. Grossman remains a member of the Company s Board of Directors and will provide consulting services to the Company until November 2, 2006, pursuant to a Consulting Agreement dated August 15, 2005. Pursuant to the terms of the amended employment agreement with Mr. Grossman, the restriction on the remaining 125,000 shares of such restricted common stock was removed on an accelerated basis. The share-based compensation for the consultant and Mr. Grossman was none and $0.4 million for the three months ended September 30, 2006 and October 1, 2005, respectively, and $0.4 million and $0.8 million for the nine months ended September 30, 2006 and October 1, 2005, respectively.

In the first nine months of 2006, we issued restricted stock to employees and directors under the 1997 SOP and the 2006 Plan. Share-based compensation expense related to these restricted stock grants was $1.0 million for the nine months ended September 30, 2006. As of September 30, 2006, we had $3.6 million of unrecognized compensation expense associated with these restricted stock awards, which amount we expect to recognize over a weighted average period of 2.7 years. The total fair value of the shares for which the restriction period lapsed during the nine months ended September 30, 2006 was $2.4 million.

The following table summarizes the restricted stock award activity in the first nine months of 2006:

	Number of Shares (in thousands)	**Weighted Average Grant Date Fair Value**
Outstanding unvested restricted stock at January 1, 2006	150	$ 14.89
Granted	416	18.23
Vested	(152)	15.91
Forfeited or expired	(15)	19.98
Outstanding unvested restricted stock at September 30, 2006	399	$ 17.80

Restricted Stock Units

In the first nine months of 2006, we granted restricted stock units to certain of our non-U.S. employees under the 1997 SOP and the 2006 Plan. At September 30, 2006, there was $0.1 million of unrecognized compensation expense related to these restricted stock units, which amount we expect to recognize over a weighted average period of 1.96 years. The aggregate intrinsic value of the units outstanding, based on the Company s stock price on September 30, 2006, was $0.1 million and no units vested during the nine months ended September 30, 2006.

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Restricted stock unit activity is summarized as follows:

	Number of Units (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contract (in years)
Outstanding units at January 1, 2006			
Granted	10	$ 19.46	
Released			
Forfeited or expired			
Outstanding units at September 30, 2006	10	$ 19.46	1.96

Employee Stock Purchase Plan

In May 2002, our shareholders approved the Company s Employee Stock Purchase Plan (ESPP) under which 500,000 shares of common stock were reserved for issuance. In addition, the ESPP provides for an annual, automatic increase of up to 250,000 shares in the total number of shares available for issuance thereunder on March 1 of each year. Under this provision, on March 1, 2006, an additional 250,000 shares were reserved for issuance under the ESPP. Eligible employees may purchase a limited number of shares of the Company s common stock at 85% of the lower of the market value on the offering date or the market value on the purchase date. During the nine months ended September 30, 2006, 56,184 shares of common stock were issued under the ESPP. As of September 30, 2006, approximately 281,000 shares remained available for issuance under this plan.

The estimated subscription date fair value of the current offering under the ESPP is approximately $0.3 million using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate (weighted average)	4.98%
Expected volatility	40%
Expected option life (years)	0.5
Dividends	None

At September 30, 2006, there was approximately $0.1 million of unrecognized compensation expense related to ESPP subscriptions that began on April 1, 2006, which amount we expect to recognize during the last three months of 2006.

3. Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance related to derecognition, classification, interest and penalties, accounting in interim periods and disclosure. We are currently evaluating the accounting and disclosure requirements of FIN 48 in order to determine the impact that this guidance will have on our results of operations or financial condition when we adopt FIN 48 at the beginning of our fiscal year 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. We are currently evaluating the accounting and disclosure requirements that this guidance will have on our results of operations or financial condition when we adopt SFAS No. 157 at the beginning of our fiscal year 2008.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108. Due to diversity in practice among registrants, SAB No. 108 expresses the views of the SEC staff in evaluating misstatements in financial statements to determine whether financial statement restatements are necessary. SAB No. 108 is effective for fiscal years ending after November 15, 2006. We do not believe SAB No. 108 will have a material impact on our reported results from operations or financial position.

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