CIRCOR INTERNATIONAL INC
Form 10-Q
July 30, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 28, 2009

OR

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

Commission File Number 001-14962

CIRCOR INTERNATIONAL, INC.

(A Delaware Corporation)

I.R.S. Employer Identification No. 04-3477276

c/o Circor, Inc.

25 Corporate Drive, Suite 130, Burlington, MA 01803-4238

Telephone: (781) 270-1200

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ¨ No ¨

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

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

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

As of July 27, 2009, there were 16,973,781 shares of the Registrant s Common Stock, par value $0.01, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CIRCOR INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, except per share data)	June 28, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 33,038	$ 47,473
Short-term investments	48,344	34,872
Trade accounts receivable, less allowance for doubtful accounts of $1,875 and $1,968 respectively	125,693	134,731
Inventories	161,649	183,291
Prepaid expenses and other current assets	7,722	3,825
Deferred income taxes	14,395	12,396
Insurance receivable	7,426	6,081
Assets held for sale		1,015
Total Current Assets	398,267	423,684
PROPERTY, PLANT AND EQUIPMENT, NET	86,277	82,843
OTHER ASSETS:		
Goodwill	34,983	32,092
Intangibles, net	43,882	42,123
Non-current insurance receivable		4,684
Other assets	2,155	2,597
TOTAL ASSETS	$ 565,564	$ 588,023
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 58,701	$ 94,421
Accrued expenses and other current liabilities	48,445	69,948
Accrued compensation and benefits	18,751	22,604
Asbestos liability	13,182	9,310
Income taxes payable	17,436	9,873
Notes payable and current portion of long-term debt	227	622
Total Current Liabilities	156,742	206,778
LONG-TERM DEBT, NET OF CURRENT PORTION	11,824	12,528
DEFERRED INCOME TAXES	4,379	3,496
LONG-TERM ASBESTOS LIABILITY	11,836	9,935
OTHER NON-CURRENT LIABILITIES	23,187	21,664
COMMITMENTS AND CONTINGENCIES (See Note 11)		
SHAREHOLDERS EQUITY:		
Preferred stock, $0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding		
	170	169

Common stock, $0.01 par value; 29,000,000 shares authorized; 16,973,623 and 16,898,497 shares issued and outstanding at June 28, 2009 and December 31, 2008, respectively		
Additional paid-in capital	248,162	247,196
Retained earnings	99,948	83,106
Accumulated other comprehensive income	9,316	3,151
Total Shareholders Equity	357,596	333,622
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 565,564	$ 588,023

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

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CIRCOR INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 28, 2009	**June 29, 2008**	**June 28, 2009**	**June 29, 2008**
Net revenues	$ 164,535	$ 206,605	$ 340,182	$ 383,180
Cost of revenues	116,032	139,698	235,660	261,383
GROSS PROFIT	48,503	66,907	104,522	121,797
Selling, general and administrative expenses	34,242	37,407	68,340	71,552
Asbestos charges	3,442	2,010	11,705	3,085
Special charges (recoveries)			(1,135)	160
OPERATING INCOME	10,819	27,490	25,612	47,000
Other (income) expense:				
Interest income	(167)	(305)	(314)	(506)
Interest expense	208	282	386	629
Other, net	(267)	248	(449)	648
Total other (income) expense	(226)	225	(377)	771
INCOME BEFORE INCOME TAXES	11,045	27,265	25,989	46,229
Provision for income taxes	3,313	8,840	7,797	14,909
NET INCOME	$ 7,732	$ 18,425	$ 18,192	$ 31,320
Earnings per common share:				
Basic	$ 0.46	$ 1.09	$ 1.07	$ 1.87
Diluted	$ 0.45	$ 1.08	$ 1.07	$ 1.85
Weighted average number of common shares outstanding:				
Basic	16,970	16,829	16,944	16,756
Diluted	17,066	17,053	17,040	16,965
Dividends paid per common share	$ 0.0375	$ 0.0375	$ 0.075	$ 0.075

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

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CIRCOR INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 28, 2009	Six Months Ended June 29, 2008
OPERATING ACTIVITIES		
Net income	$ 18,192	$ 31,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,084	5,851
Amortization	1,249	1,332
Compensation expense of share-based plans	1,585	2,642
Tax effect of share-based compensation	403	(1,639)
Gain on sale/disposal of property, plant and equipment	(33)	(60)
Loss on disposal of assets held for sale		1
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Trade accounts receivable	16,791	(13,668)
Inventories	27,371	(1,039)
Prepaid expenses and other assets	701	(3,044)
Accounts payable, accrued expenses and other liabilities	(56,594)	12,015
Net cash provided by operating activities	15,749	33,711
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(4,501)	(6,267)
Proceeds from the disposal of property, plant and equipment	43	162
Proceeds from the sale of assets held for sale		311
Business acquisitions, net of cash acquired	(7,510)	(7,263)
Purchases of short-term investments	(214,925)	(91,346)
Proceeds from the sale of short-term investments	201,826	69,306
Net cash used in investing activities	(25,067)	(35,097)
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	64,187	54,505
Payments of long-term debt	(68,545)	(53,294)
Dividends paid	(1,294)	(1,257)
Proceeds from the exercise of stock options	36	2,275
Tax effect of share-based compensation	(403)	1,639
Net cash (used in) provided by financing activities	(6,019)	3,868
Effect of exchange rate changes on cash and cash equivalents	902	1,691
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,435)	4,173
Cash and cash equivalents at beginning of period	47,473	34,662

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 33,038	$ 38,835
Supplemental Cash Flow Information:		
Cash paid during the six months for:		
Income taxes	$ 2,875	$ 7,882
Interest	$ 487	$ 1,017

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

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CIRCOR INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited, consolidated financial statements have been prepared according to the rules and regulations of the United States Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which include normal recurring adjustments, necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows of CIRCOR International, Inc. (CIRCOR or the Company or we) for the periods presented. We prepare our interim financial information using the same accounting principles as we use for our annual audited financial statements. Certain information and note disclosures normally included in the annual audited financial statements have been condensed or omitted in accordance with prescribed SEC rules. We believe that the disclosures made in our consolidated financial statements and the accompanying notes are adequate to make the information presented not misleading.

The consolidated balance sheet at December 31, 2008 is as reported in our audited financial statements as of that date. Our accounting policies are described in the notes to our December 31, 2008 financial statements, which were included in our Annual Report filed on Form 10-K. We recommend that the financial statements included in this Quarterly Report on Form 10-Q be read in conjunction with the financial statements and notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2008.

We operate and report financial information using a 52-week fiscal year ending December 31. The data periods contained within our Quarterly Reports on Form 10-Q reflect the results of operations for the 13-week, 26-week and 39-week periods which generally end on the Sunday nearest the calendar quarter-end date. Operating results for the three and six months ended June 28, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Reclassifications

Certain items in the prior period financial statements have been reclassified to conform to currently reported presentations.

(2) Summary of Significant Accounting Policies

New Accounting Standards

In May 2009, the FASB issued Statement 165, *Subsequent Events* , which defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance-sheet date. We adopted this standard as of June 28, 2009 and it had no material effect on our results of operations or financial condition. We have evaluated all subsequent events through July 30, 2009.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . SFAS 157 defines fair value, establishes a U.S. GAAP framework for measuring fair value, and expands financial statement disclosures about fair value measurements. We adopted SFAS No. 157 on January 1, 2008 for financial assets and liabilities. The adoption of this standard had no material impact on our results of operations or financial condition. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157 , which permits a one-year deferral in applying the measurement provisions of SFAS 157 to non-financial assets and non-financial liabilities (non-financial terms) that are not recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). Therefore, if the change in fair value of a non-financial item is not required to be recognized or disclosed in the financial statements on an annual basis or more frequently, the effective date of application of SFAS 157 was deferred until fiscal years beginning after November 15, 2008. The adoption of this standard as of January 1, 2009 had no material effect on our results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations Statement 141R, a replacement of SFAS No. 141 to change how an entity accounts for the acquisition of a business. In general, Statement 141R requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and non-controlling interests in the acquiree. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 and applies to all business combinations. The Company adopted this standard as of January 1, 2009 and applies it prospectively to business combinations that occur after adoption. During March 2009, we acquired the stock of Bodet Aero (Bodet) and its affiliate Atlas Productions (Atlas). For more detailed information, refer to Footnote 15, Business Acquisitions in our Notes to Consolidated

Financial Statements. The adoption of this standard had no material effect on our results of operations or financial condition although the new standard has materially changed the accounting for business combinations consummated subsequent to January 1, 2009.

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(3) Share-Based Compensation

During 2004, we began granting restricted stock units (RSU Awards) in lieu of a portion of employee stock option awards and we have not granted any stock option awards for fiscal 2009. We account for these RSU Awards by expensing their weighted average fair-value to selling, general and administrative expenses ratably over the requisite vesting period. During the six months ended June 28, 2009 and June 29, 2008, we granted 163,962 and 80,497 RSU Awards with approximate fair values of $22.23 and $47.37 per RSU, respectively.

For all of our stock option grants, the fair value of each grant was estimated at the date of grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, and the dividend yield and employee exercise behavior. Expected volatilities utilized in the model are based on the historic volatility of the Company s stock price. The risk free interest rate is derived from the U.S. Treasury Yield curve in effect at the time of the grant. The model incorporates exercise and post-vesting forfeiture assumptions based on an analysis of historical data. We have not granted any stock options since 2005.

As of June 28, 2009 we have one share-based compensation plan. The 1999 Amended and Restated Stock Option and Incentive Plan (the 1999 Stock Plan) was adopted by our Board of Directors and approved by our shareholders and permits the grant of the following types of awards to our officers, other employees and non-employee directors: incentive stock options; non-qualified stock options; deferred stock awards; restricted stock awards; unrestricted stock awards; performance share awards; stock appreciation rights (SARs) and dividend equivalent rights. The 1999 Stock Plan provides for the issuance of up to 3,000,000 shares of common stock (subject to adjustment for stock splits and similar events). New options granted under the 1999 Stock Plan could have varying vesting provisions and exercise periods. Options granted, vest in periods ranging from 1 to 6 years and expire 10 years after the grant date. Restricted stock units granted generally vest from three to six years. Vested restricted stock units will be settled in shares of our common stock. Upon exercise, vested SARs will be payable in cash. As of June 28, 2009, there were 149,080 stock options, 544,927 restricted stock units, and 9,600 SARs outstanding. In addition, there were 676,338 shares available for grant under the 1999 Stock Plan as of June 28, 2009.

The CIRCOR Management Stock Purchase Plan, which is a component of the 1999 Stock Plan, provides that eligible employees may elect to receive restricted stock units in lieu of all or a portion of their pre-tax annual incentive bonus and, in some cases, make after-tax contributions in exchange for restricted stock units (RSU MIPs). In addition, non-employee directors may elect to receive restricted stock units in lieu of all or a portion of their annual directors fees. Each RSU MIP represents a right to receive one share of our common stock after a three-year vesting period. RSU MIPs are granted at a discount of 33% from the fair market value of the shares of common stock on the date of grant. This discount is amortized as compensation expense, to selling, general and administrative expenses, over a four year period. During the six months ended June 28, 2009 and June 29, 2008, we granted under the CIRCOR Management Stock Purchase Plan 140,759 and 57,385 RSU MIPs with a fair value per unit of $7.34 and $16.06, respectively.

Compensation expense related to RSU MIPs, RSU Awards, and SARs for the six month periods ended June 28, 2009, and June 29, 2008 was $1.6 million and $2.7 million, respectively. For the six months ended June 28, 2009 and June 29, 2008, $1.6 million and $2.5 million, respectively was recorded as selling, general and administrative expense. For the three and six months ended June 29, 2008, an incremental $0.2 million associated with the retirement agreement entered into with the Company s former Chief Financial Officer, specifically the accelerated vesting of certain equity awards, was recorded as a special charge. As of June 28, 2009 there was $7.5 million of total unrecognized compensation costs related to our outstanding share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 4.23 years.

A summary of the status of all stock-options granted to employees and non-employee directors as of June 28, 2009 and changes during the six month period then ended is presented in the table below (Options in thousands):

	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	152	$ 19.35
Granted		N/A
Exercised	(2)	24.39
Forfeited	(1)	24.90
Options outstanding at end of period	149	$ 19.26
Options exercisable at end of period	134	$ 18.59

The weighted average contractual term for stock options outstanding and exercisable as of June 28, 2009 was 4.1 years and 3.9 years, respectively. There was no aggregate intrinsic value of stock options exercised during the six months ended June 28, 2009. The aggregate intrinsic value of stock options outstanding and exercisable as of June 28, 2009 was $0.8 million and $0.8 million, respectively.

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A summary of the status of all RSU Awards granted to employees and non-employee directors as of June 28, 2009 and changes during the six month period then ended is presented in the table below (RSUs in thousands):

	RSUs	Weighted Average Grant Price
RSU Awards outstanding at beginning of period	213	$ 38.35
Granted	164	22.23
Settled	(37)	36.88
Cancelled	(16)	39.70
RSU Awards outstanding at end of period	324	$ 30.47
RSU Awards vested and deferred at end of period	32	$ 29.36

The aggregate intrinsic value of RSU Awards settled during the six months ended June 28, 2009 was $1.2 million and the aggregate intrinsic value of RSU Awards outstanding and vested and deferred as of June 28, 2009 was $7.9 million and $0.8 million, respectively.

A summary of the status of all RSU MIPs granted to employees and non-employee directors as of June 28, 2009 and changes during the six month period then ended is presented in the table below (RSUs in thousands):

	RSUs	Weighted Average Grant Price
RSU MIPs outstanding at beginning of period	137	$ 20.29
Granted	141	14.89
Settled	(36)	18.67
Cancelled	(21)	18.44
RSU MIPs outstanding at end of period	221	$ 17.33
RSU MIPs vested and deferred at end of period	19	$ 10.80

The aggregate intrinsic value of RSU MIPs settled during the six months ended June 28, 2009 was $1.1 million and the aggregate intrinsic value of RSU MIPs outstanding and vested and deferred as of June 28, 2009 was $1.3 million and $0.3 million, respectively.

(4) Inventories

Inventories consist of the following (In thousands):

	June 28, 2009	December 31, 2008
Raw materials	$ 62,205	$ 68,954
Work in process	58,386	70,656
Finished goods	41,058	43,681
	$ 161,649	$ 183,291

(5) Goodwill and Intangible Assets

The following table shows goodwill, by segment, net of accumulated amortization, as of June 28, 2009 (In thousands):

	Instrumentation & Thermal Fluid Controls Products	Energy Products	Consolidated Total
Goodwill as of December 31, 2008	$ 6,801	$ 25,291	$ 32,092
Acquisitions	2,192		2,192
Purchase price adjustment of previous acquisition	392		392
Currency translation adjustments	125	182	307
Goodwill as of June 28, 2009	$ 9,510	$ 25,473	$ 34,983

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The table below presents the gross intangible assets and the related accumulated amortization as of June 28, 2009 (In thousands):

	Gross Carrying Amount	Accumulated Amortization
Patents	$ 6,043	$ (5,417)
Trademarks and trade names	17,855	
Land procurement	426	(38)
Customer relationships	25,386	(6,470)
Other	8,766	(2,669)
Total	$ 58,476	$ (14,594)
Net carrying value of intangible assets	$ 43,882	

The table below presents estimated remaining amortization expense for intangible assets recorded as of June 28, 2009 (In thousands):

	2009	2010	2011	2012	2013	After 2013
Estimated amortization expense	$ 1,346	$ 2,692	$ 2,692	$ 2,368	$ 2,341	$ 14,588

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(6) Segment Information

The following table presents certain reportable segment information (In thousands):

	Instrumentation & Thermal Fluid Controls Products	Energy Products	Corporate/ Eliminations	Consolidated Total
Three Months Ended June 28, 2009				
Net revenues	$ 87,721	$ 76,814	$	$ 164,535
Intersegment revenues	14	128	(142)	
Operating income	6,947	9,461	(5,589)	10,819
Interest income				(167)
Interest expense				208
Other income, net				(267)
Income before income taxes				$ 11,045
Identifiable assets	276,779	342,992	(54,207)	565,564
Capital expenditures	1,318	492	115	1,925
Depreciation and amortization	2,465	1,358	49	3,872
Three Months Ended June 29, 2008				
Net revenues	$ 98,867	$ 107,738	$	$ 206,605
Intersegment revenues		180	(180)	
Operating income	10,823	21,938	(5,271)	27,490
Interest income				(305)
Interest expense				282
Other expense, net				248
Income before income taxes				$ 27,265
Identifiable assets	423,961	369,805	(50,214)	743,552
Capital expenditures	2,416	985	32	3,433
Depreciation and amortization	2,205	1,402	46	3,653
Six Months Ended June 28, 2009				
Net revenues	$ 174,061	$ 166,121	$	$ 340,182
Intersegment revenues	15	349	(364)	
Operating income	9,800	26,765	(10,953)	25,612
Interest income				(314)
Interest expense				386
Other income, net				(449)
Income before income taxes				$ 25,989
Identifiable assets	276,779	342,992	(54,207)	565,564
Capital expenditures	2,964	1,366	171	4,501
Depreciation and amortization	4,564	2,683	86	7,333
Six Months Ended June 29, 2008				
Net revenues	$ 187,317	$ 195,863	$	$ 383,180
Intersegment revenues		192	(192)	
Operating income	20,817	36,241	(10,058)	47,000
Interest income				(506)

Interest expense					629
Other expense, net					648
Income before income taxes				$	46,229
Identifiable assets	423,961	369,805	(50,214)		743,552
Capital expenditures	4,626	1,609	32		6,267
Depreciation and amortization	4,306	2,786	91		7,183

Each reporting segment is individually managed and has separate financial results that are reviewed by our chief operating decision-maker. Each segment contains closely related products that are unique to the particular segment. For further discussion of the products included in each segment, refer to Note 1 of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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In calculating operating income for each reporting segment, substantial administrative expenses incurred at the corporate level for the benefit of other reporting segments were allocated to the segments based upon specific identification of costs, employment related information or net revenues.

Corporate / Eliminations are reported on a net after allocations basis. Inter-segment intercompany transactions affecting net operating profit have been eliminated within the respective operating segments.

The operating loss reported in the Corporate / Eliminations column in the preceding table consists primarily of the following corporate expenses: compensation and fringe benefit costs for executive management and other corporate staff; corporate development costs (relating to mergers and acquisitions); human resource development and benefit plan administration expenses; legal, accounting and other professional and consulting fees; facilities, equipment and maintenance costs; travel and various other administrative costs. The above costs are incurred in the course of furthering the business prospects of the Company and relate to activities such as: implementing strategic business growth opportunities; corporate governance; risk management; treasury; investor relations and shareholder services; regulatory compliance; and stock transfer agent costs.

The total assets for each operating segment have been reported as the Identifiable Assets for that segment, including inter-segment intercompany receivables, payables and investments in other CIRCOR companies. Identifiable assets reported in Corporate / Eliminations include both corporate assets, such as cash, deferred taxes, prepaid and other assets, fixed assets, plus the elimination of all inter-segment intercompany assets. The elimination of intercompany assets results in negative amounts reported in Corporate / Eliminations for Identifiable Assets as of June 28, 2009 and June 29, 2008. Corporate Identifiable Assets, after elimination of intercompany assets were $13.7 million and $11.3 million as of June 28, 2009 and June 29, 2008, respectively.

(7) Special Charges (Recoveries)

For the three months ended June 28, 2009, we had no special charges. For the six months ended June 28, 2009, we classified payments of $1.1 million received related to a 2007 asset sale within our Energy Products Segment as income in special charges (recoveries).

(8) Earnings Per Common Share (In thousands, except per share amounts):

	Three Months Ended					
	June 28, 2009			June 29, 2008		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	$ 7,732	16,970	$ 0.46	$ 18,425	16,829	$ 1.09
Dilutive securities, principally common stock options		96	(0.01)		224	(0.01)
Diluted EPS	$ 7,732	17,066	$ 0.45	$ 18,425	17,053	$ 1.08

	Six Months Ended					
	June 28, 2009			June 29, 2008		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	$ 18,192	16,944	$ 1.07	$ 31,320	16,756	$ 1.87
Dilutive securities, principally common stock options		96			209	(0.02)
Diluted EPS	$ 18,192	17,040	$ 1.07	$ 31,320	16,965	$ 1.85

There were 277,066 and zero anti-dilutive stock options and RSUs for the six months ended June 28, 2009 and June 29, 2008, respectively.

(9) Financial Instruments

Fair Value

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. Short-term investments (principally bank repurchase agreements) are carried at cost which approximates fair value at the balance sheet date. The fair value of our variable rate debt approximates its carrying value.

In the normal course of our business, we manage risk associated with foreign exchange rates through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. As a matter of policy, we ordinarily do not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the underlying hedged items. We do not use derivative instruments for speculative trading purposes.

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Accounting Policies

Using qualifying criteria defined in Statement No. 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. If the effective portion of fair value or cash flow hedges were to cease to qualify for hedge accounting, or to be terminated, it would continue to be carried on the balance sheet at fair value until settled; however, hedge accounting would be discontinued prospectively. If forecasted transactions were no longer probable of occurring within the specified time period or within an additional two month period thereafter, amounts previously deferred in accumulated other comprehensive income or loss would be recognized immediately in earnings. During the six months ended June 28, 2009 and June 29, 2008, we did not have any hedges that qualified for hedge accounting.

Foreign Currency Risk

We use forward contracts to manage the currency risk related to certain business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. Our foreign currency forward contracts have not been designated as hedging instruments and, therefore, do not qualify for fair value or cash flow hedge treatment under the criteria of SFAS No. 133. Therefore, any unrealized gains and losses on our contracts are recognized as a component of other expense in the consolidated statements of operations. As of June 28, 2009, we had ten forward contracts to sell currencies, principally US dollar contracts held by our foreign subsidiaries, with a contract value of $15.7 million. The fair value at June 28, 2009 of these derivative forward contracts was not material. This compares to five forward contracts to sell currencies with a contract value of $1.2 million as of June 29, 2008.

We have determined that the majority of the inputs used to value our foreign currency forward contracts fall within Level 2 of the SFAS No. 157 fair value hierarchy. The credit valuation adjustments, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties are Level 3 inputs. However, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our foreign currency forward contracts and determined that the credit valuation adjustments are not significant to the overall valuation. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

We do not use derivative financial instruments for trading purposes. Risk management strategies are reviewed and approved by senior management before implementation.

(10) Comprehensive Income

Comprehensive income for the three and six months ended June 28, 2009 and June 29, 2008 consists of the following (In thousands):