NAVTEQ CORP
Form 10-Q
November 07, 2006

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 October 1, 2006

OR

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

Commission File Number 0-21323

NAVTEQ CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**77-0170321**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
222 Merchandise Mart, Suite 900 **Chicago, Illinois 60654**	**(312) 894-7000**
(Address of Principal Executive Offices, including Zip Code)	(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer x 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 x.

The number of shares of the registrant s Common Stock, $0.001 par value, outstanding as of October 20, 2006 was 93,358,223.

References in this Quarterly Report on Form 10-Q to NAVTEQ, the Company, we, us, and our refer to NAVTEQ Corporation and its subsidiaries.

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not historical facts but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, may, will, should and estimates, and variations of these words and similar expressions, are intended forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed, implied or forecast in the forward-looking statements. In addition, the forward-looking events discussed in this quarterly report might not occur. These risks and uncertainties include, among others, those set forth under Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, Part II Item 1A. Risk Factors in the Company s Quarterly Report on Form 10-Q for the quarter ended July 2, 2006 and elsewhere in this document. Readers are cautioned not to place undue reliance on these forward-looking statements. Readers should read this quarterly report, and the documents that we refer to in this quarterly report and have filed as exhibits to this quarterly report, with the understanding that actual future results and events may be materially different from what we currently expect.

The forward-looking statements included in this quarterly report reflect our views and assumptions only as of the date of this quarterly report. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

NAVTEQ is a trademark of NAVTEQ Corporation.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

NAVTEQ CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except per share amounts)

	December 31, 2005	October 1, 2006 (Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 85,070	66,403
Short-term marketable securities	84,299	151,419
Accounts receivable, net of allowance for doubtful accounts of $4,852 and $5,617 in 2005 and 2006, respectively	82,352	108,634
Deferred income taxes, net	42,584	17,327
Prepaid expenses and other current assets	15,203	18,848
Total current assets	309,508	362,631
Property and equipment, net	20,828	22,898
Capitalized software development costs, net	25,761	21,115
Long-term deferred income taxes, net	169,264	189,327
Long-term marketable securities	49,429	60,881
Acquired intangible assets, net	16,815	17,265
Goodwill	11,778	15,148
Deposits and other assets	12,505	11,796
Total assets	$ 615,888	701,061
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 19,572	12,519
Accrued payroll and related liabilities	28,365	26,587
Other accrued expenses	28,658	32,417
Deferred revenue	38,703	35,625
Fair value of foreign currency derivative	3,265	
Total current liabilities	118,563	107,148
Long-term deferred revenue	3,446	2,638
Other long-term liabilities	3,815	2,145
Total liabilities	125,824	111,931
Stockholders equity:		
Common stock, $0.001 par value; 400,000 shares authorized; 92,086 and 93,342 shares issued and outstanding in 2005 and 2006, respectively	92	93
Additional paid-in capital	822,356	840,479
Deferred compensation expense	(9,096)	
Accumulated other comprehensive loss:		
Cumulative translation adjustment	(25,890)	(21,372)
Unrealized holding loss on available-for-sale marketable securities, net of tax	(514)	(213)
Total accumulated other comprehensive loss	(26,404)	(21,585)
Accumulated deficit	(296,884)	(229,857)
Total stockholders equity	490,064	589,130
Total liabilities and stockholders equity	$ 615,888	701,061

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Quarter Ended September 25, 2005	October 1, 2006	Nine Months Ended September 25, 2005	October 1, 2006
Net revenue	$ 123,005	142,658	$ 350,534	400,928
Operating costs and expenses:				
Database creation and distribution costs	60,906	69,397	169,227	197,934
Selling, general and administrative expenses	31,676	36,217	88,611	112,101
Total operating costs and expenses	92,582	105,614	257,838	310,035
Operating income	30,423	37,044	92,696	90,893
Other income (expense):				
Interest income, net	1,117	3,004	2,550	7,807
Foreign currency gain (loss)	96	(77)	86	(501)
Other income (expense)	(11)	(2)	4	(13)
Income before income taxes	31,625	39,969	95,336	98,186
Income tax (benefit) expense	(69,490)	12,890	(47,828)	31,665
Net income before cumulative effect of change in accounting principle	101,115	27,079	143,164	66,521
Cumulative effect of change in accounting principle, net of income tax of $312				506
Net income	$ 101,115	27,079	$ 143,164	67,027
Earnings per share of common stock before cumulative effect of change in accounting principle:				
Basic	$ 1.11	0.29	$ 1.60	0.72
Diluted	$ 1.07	0.28	$ 1.52	0.70
Cumulative effect of change in accounting principle per share of common stock:				
Basic	$		$	0.01
Diluted	$		$	0.01
Earnings per share of common stock:				
Basic	$ 1.11	0.29	$ 1.60	0.72
Diluted	$ 1.07	0.28	$ 1.52	0.70
Weighted average shares of common stock outstanding:				
Basic	90,701	93,293	89,700	92,884
Diluted	94,521	95,718	93,959	95,668

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 25, 2005	October 1, 2006
Cash flows from operating activities:		
Net income	$ 143,164	67,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle		(506)
Deferred income taxes	(88,768)	6,497
Depreciation and amortization	6,278	8,394
Amortization of software development costs	9,491	10,978
Amortization of acquired intangible assets	756	2,582
Foreign currency (gain) loss	(86)	501
Provision for bad debts	1,826	1,605
Stock compensation expense	6,887	11,197
Tax benefit on non-qualified stock options	37,611	
Non-cash other	941	1,224
Changes in operating assets and liabilities:		
Accounts receivable	(32,919)	(24,612)
Prepaid expenses and other current assets	(5,868)	(3,919)
Deposits and other assets	(1,783)	1,507
Accounts payable	(333)	(7,594)
Accrued payroll and related liabilities	1,470	(2,588)
Other accrued expenses	(2,893)	(1,815)
Deferred revenue	803	(5,252)
Other long-term liabilities	903	(1,866)
Net cash provided by operating activities	77,480	63,360
Cash flows from investing activities:		
Acquisition of property and equipment	(5,086)	(10,305)
Capitalized software development costs	(8,948)	(6,332)
Purchases of marketable securities	(148,162)	(262,569)
Sales of marketable securities	101,042	183,965
Payments for acquisitions	(8,234)	(5,044)
Purchase of investments	(1,201)	
Note receivable		(300)
Net cash used in investing activities	(70,589)	(100,585)
Cash flows from financing activities:		
Issuance of common stock and related tax benefits	5,147	16,841
Net cash provided by financing activities	5,147	16,841
Effect of exchange rate changes on cash	(2,183)	1,717
Net increase (decrease) in cash and cash equivalents	9,855	(18,667)
Cash and cash equivalents at beginning of period	30,101	85,070
Cash and cash equivalents at end of period	$ 39,956	66,403
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 16	8
Cash paid during the period for income taxes	$ 569	7,817
Non-cash transactions:		
Value of common stock issued in connection with acquisition	$ 19,977	

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited, amounts in thousands, except per share amounts)

(1) Unaudited Financial Statements

NAVTEQ Corporation and subsidiaries (the Company) is a leading provider of digital map information and related software and services used in a wide range of navigation, mapping and geographic-related applications, including products and services that provide maps, driving directions, turn-by-turn route guidance, fleet management and tracking and geographic information systems. These products and services are provided to end users by our customers on various platforms, including: self-contained hardware and software systems installed in vehicles; personal computing devices, such as personal navigation devices (PNDs) and mobile phones; server-based systems, including internet and wireless services; and paper media.

The Company is engaged primarily in the creation, updating, enhancing, licensing and distribution of its database for North America and Europe. The Company s database is a digital representation of road transportation networks constructed to provide a high level of accuracy and the useful level of detail necessary to support route guidance products and similar applications. The Company s database is licensed to leading automotive electronics manufacturers, automotive manufacturers, developers of advanced transportation applications, developers of geographic-based information products and services, location-based service providers and other product and service providers. The Company is currently realizing revenue primarily from license fees charged to customers who incorporate the Company s database into their products and services.

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information, the instructions to United States Securities and Exchange Commission Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying notes for the year ended December 31, 2005 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Presentation

The Company s fiscal quarterly periods end on the Sunday closest to the calendar quarter end. The 2005 third quarter had 91 days and the 2006 third quarter had 91 days. The 2005 year to date period had 268 days and the 2006 year to date period had 274 days. The Company s fiscal year end is December 31.

Certain 2005 amounts in the condensed consolidated financial statements have been reclassified to conform to the 2006 presentation. The reclassification was related to certain expenses reclassified to Database creation and distribution costs that had previously been reported in Selling, general, and administrative expenses.

(2) Share-Based Payments

On January 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. SFAS No. 123(R) supersedes SFAS No. 123 and Accounting Principles Board (APB) Opinion No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized as an operating expense in the income statement. The cost will be recognized over the requisite service period based on fair values measured on grant dates. The Company adopted the new standard using the modified prospective transition method. Accordingly, expense required under SFAS 123(R) has been recorded beginning January 1, 2006. In connection with the adoption of SFAS No. 123(R), the Company recorded a cumulative effect of a change in accounting principle resulting in income of $506 (net of income tax expense of $312). The Company also eliminated the December 31, 2005 balance of deferred compensation of $9,096 by reducing additional paid-in capital.

The Company recognized compensation cost totaling $2,068 and $2,655 for the quarters ended September 25, 2005 and October 1, 2006, respectively, related to its share-based payment arrangements and $6,887 and $11,197 for the nine months ended September 25, 2005 and October 1, 2006, respectively, in the condensed consolidated statements of income. The total income tax (expense) benefit recognized in the income statement for the quarters ended September 25, 2005 and October 1, 2006 for share-based payment arrangements was $(773) and $689, respectively, and $1,083 and $3,180 for the nine months ended September 25, 2005 and October 1, 2006, respectively.

The total income tax benefit recognized in additional paid in capital for the quarters ended September 25, 2005 and October 1, 2006 for share-based payment arrangements was $34,551 and $12,511, respectively, and $37,611 and $15,009 for the nine months ended

September 25, 2005 and October 1, 2006, respectively. The Company has elected to use tax law ordering rules when calculating the income tax benefit associated with its share-based payment arrangements. In addition, the Company elected to use the simplified method of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R) as prescribed by FASB Staff Position 123(R)-3, Transition Election related to Accounting for the Tax Effects of Share-Based Payment Awards. The total compensation cost related to nonvested awards not yet recognized as of October 1, 2006 was $27,924 and will be recognized over a weighted-average period of 1.44 years.

In April 1996, the Company s Board of Directors approved the 1996 Stock Option Plan (1996 Plan). The 1996 Plan was amended and restated by the Company s Board of Directors in June 1996, and amended in August 2000. The 1996 Plan, as amended, provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries; provided, however, that no employee may be granted an option for more than 1,429 shares in any one fiscal year. The 1996 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 1996 Plan prior to August 2000 generally have 10-year terms and vest monthly over 48 months. Stock options granted under the 1996 Plan after the amendment in August 2000 generally have 10-year terms and vest as follows: 25% of the options granted vest on the first day of the month following the employee s date of hire and the remaining options vest monthly over the next 36 months.

In October 1998, the Company s Board of Directors approved the 1998 California Stock Option Plan (1998 Plan). The 1998 Plan was amended in August 2000. The 1998 Plan provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries. The 1998 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 1998 Plan prior to August 2000 generally have 10-year terms and vest monthly over 48 months. Stock options granted under the 1998 Plan after the August 2000 amendment generally have 10-year terms and vest as follows: 25% of the options granted vest on the first day of the month following the anniversary of the date of grant or the employee s date of hire and the remaining options vest monthly over the next 36 months.

In August 2001, the Company s Board of Directors approved the 2001 Stock Incentive Plan (2001 Plan). The 2001 Plan provides for grants of incentive stock options, nonstatutory stock options, and stock purchase rights to employees (including employees who are officers) of the Company and its subsidiaries. The 2001 Plan also provides for grants of nonstatutory stock options and stock purchase rights to consultants. Stock options granted under the 2001 Plan prior to May 9, 2006 generally had 10-year terms and vest as follows: 25% of the options granted vest on the anniversary of the date of grant and the remaining options vest monthly over the next 36 months.

In February 2006, the Company s Board of Directors approved the Amended and Restated 2001 Stock Incentive Plan (2001 Amended Plan) (i) to permit compensation payable to our named executive officers under the 2001 Amended Plan to constitute qualified performance-based compensation and to therefore be deductible to the Company without regard to the limitations imposed by Section 162(m) of the Internal Revenue Code, (ii) to limit the number of shares of our common stock that may be issued under the 2001 Amended Plan in respect of restricted stock, restricted stock units or other similar full value awards, (iii) to eliminate the automatic termination of the 2001 Amended Plan in 2011, (iv) to limit the terms of stock options and stock appreciation rights granted under the 2001 Amended Plan to eight years, (v) to prohibit the Company from repricing (without stockholder approval) stock options or stock appreciation rights granted under the 2001 Amended Plan, (vi) to prohibit the grant of stock options or stock appreciation rights with an exercise price less than the per share fair market value of our common stock on the date of grant, and (vii) to clarify certain existing provisions of the 2001 Plan. The Company s stockholders approved the 2001 Amended Plan in May 2006. Stock options granted under the 2001 Amended Plan generally have 8-year terms and vest as follows: 25% of the options granted vest on the anniversary of the date of grant and the remaining options vest monthly over the next 36 months. The Company has reserved 10,931 shares of common stock for issuance under the 2001 Amended Plan. All options issued under the 2001 Amended Plan are adjusted pro rata for any stock dividends, stock splits and reverse stock splits.

As of October 1, 2006, there were 8,981 shares available for grant under the 2001 Amended Plan, and there were no shares available for grant under the 1996 or 1998 Plans. The Company has reserved 7,360 and 3,571 shares of common stock for issuance under the 1996 and 1998 Plans, respectively. All options issued under the 1996 and 1998 Plans are adjusted pro rata for any stock dividends, stock splits and reverse stock splits.

Stock Options

For grants made prior to the adoption of SFAS 123(R), compensation expense is recognized ratably over the vesting periods of each tranche of the stock options using a fair value calculated as of the date of grant using the Black-Scholes method with the following weighted-average assumptions for the nine months ended September 25, 2005: no dividends, 60% volatility, risk-free interest rate of 3.88%, and expected life of 4.9 years. The weighted-average fair value for grants made during the nine months ended September 25, 2005 was $23.06 per share.

For grants made subsequent to the adoption of SFAS 123(R), compensation expense is recognized on a straight-line basis over the vesting period of the full award using a fair value calculated using a binomial model. The binomial model utilizes expected volatility, risk-free interest rate, dividend yields, as well as early exercise multiples and post-vesting exit rates to determine an expected life of the option. The weighted-average assumptions for the nine months ended October 1, 2006 were as follows: no dividends, 45% expected volatility, risk-free interest rate of 4.75%, and an expected life of 5.3 years. The expected volatility was estimated by primarily using the implied volatility derived from the Company s publicly traded stock options. The weighted-average fair value for grants made during the nine months ended October 1, 2006 was $21.17 per share.

Stock option activity during the nine months ended October 1, 2006 is as follows:

	Number of options	**Weighted-average exercise price**	**Weighted-average remaining contractual life (years)**	**Aggregate intrinsic value**
Outstanding as of December 31, 2005	5,378	$ 8.70		
Granted	708	46.45		
Exercised	(1,116)	4.79		
Forfeited	(56)	35.99		
Outstanding as of October 1, 2006	4,914	$ 14.78	6.68	$ 79,589
Exercisable as of October 1, 2006	3,622	$ 5.62	5.99	$ 77,759

The total intrinsic value of all options exercised during the nine months ended October 1, 2006 was $45,210.

Restricted Stock Units

The Company also grants restricted stock units (RSUs) to certain directors and employees under the Company s 2001 Amended Plan. The RSUs are securities that require the Company to deliver one share of common stock to the holder for each vested unit. The RSUs vest 25% per year over a four-year period. For grants made prior to the adoption of SFAS 123(R), compensation expense is recognized ratably over the vesting periods of each tranche of the restricted stock units using a fair value equal to the fair market value of the Company s common stock on the date of grant. For grants made subsequent to the adoption of SFAS 123(R), compensation expense is recognized on a straight-line basis over the vesting period of the full award using a fair value equal to the fair market value of the Company s common stock on the date of grant. The weighted-average fair value of grants made during the nine months ended September 25, 2005 and October 1, 2006 were $42.61 and $46.38, respectively.

In addition, the Company also granted performance-based RSUs to certain employees during the first nine months of 2006. The number of these RSUs that will be earned is dependent upon meeting revenue and net income goals for fiscal year 2006. The fair value of each RSU is based on the fair market value of the Company s stock on the date of grant. The total expense is determined each period during 2006 based on the expected number of RSUs that will be earned, which is 61 as of October 1, 2006.

Restricted stock unit activity during the nine months ended October 1, 2006 is as follows:

	Number of units	**Weighted-average grant date fair value**
Outstanding as of December 31, 2005	712	$ 26.21
Granted	134	46.38
Vested	(223)	25.09
Forfeited	(13)	35.11
Outstanding as of October 1, 2006	610	$ 30.86

The total fair value of all restricted stock units that vested during the nine months ended October 1, 2006 was $9,418.

Pre-Adoption Pro Forma Information

Prior to adopting SFAS 123(R), the Company applied the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its fixed plan stock-based awards to employees.

The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied in the quarter and nine months ended September 25, 2005:

		Quarter ended September 25, 2005	Nine Months Ended September 25, 2005
Information as Reported			
Stock-based employee compensation expense included in net income, net of tax	$	1,278	4,459
Net income	$	101,115	143,164
Basic earnings per share	$	1.11	1.60
Diluted earnings per share	$	1.07	1.52
Information calculated as if fair value method had applied to all awards:			
Stock-based employee compensation expense determined under fair value method, net of tax	$	2,756	8,412
Pro forma net income	$	99,637	139,211
Pro forma basic earnings per share	$	1.10	1.55
Pro forma diluted earnings per share	$	1.05	1.48

(3) Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation 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. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the effect this interpretation will have on the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and enhances disclosures about fair value measurements. This statement applies when other accounting pronouncements require fair value measurements; it does not require new fair value measurements. This statement responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurement on earnings. This statement is effective for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company is evaluating the effect this statement will have on the Company s financial statements.

(4) Comprehensive Income

Comprehensive income for the quarters and nine months ended September 25, 2005 and October 1, 2006 was as follows:

	Quarter Ended			Nine Months Ended		
	September 25, 2005		October 1, 2006	September 25, 2005		October 1, 2006
Net income	$	101,115	27,079	$	143,164	67,027
Foreign currency translation adjustment	82		(107)	2,073		4,518
Unrealized holding gain (loss) on available-for-sale marketable securities, net of tax	(160)		276	(279)		301
Comprehensive income	$	101,037	27,248	$	144,958	71,846

(5) Earnings Per Share

Basic and diluted earnings per share is computed based on net income divided by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding for the period, in accordance with SFAS No. 128, Earnings Per Share.

Basic and diluted earnings per share for the quarters and the nine months ended September 25, 2005 and October 1, 2006 was calculated as follows:

	Quarter Ended September 25, 2005	**October 1, 2006**	**Nine Months Ended September 25, 2005**	**October 1, 2006**
Numerator:				
Net income before cumulative effect of change in accounting principle	$ 101,115	27,079	$ 143,164	66,521
Cumulative effect of change in accounting principle				506
Net income	$ 101,115	27,079	$ 143,164	67,027
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding	90,701	93,293	89,700	92,884
Effect of dilutive securities:				
Employee stock options	3,484	2,167	3,903	2,465
Restricted stock units	336	258	356	319
Denominator for diluted earnings per share - weighted average shares outstanding and assumed conversions	94,521			