

WATERS CORP /DE/  
Form 10-Q  
November 03, 2006

Table of Contents

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

**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**

**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: 01-14010**

**WATERS CORPORATION**

**(Exact name of registrant as specified in the charter)**

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3668640**

(I.R.S. Employer Identification No.)

**34 Maple Street**

*Milford, Massachusetts 01757*

(Address of principal executive offices)

**Registrant's telephone number, including area code: (508) 478-2000**

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 and 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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding of the Registrant's common stock as of October 30, 2006: 101,485,146.

**WATERS CORPORATION AND SUBSIDIARIES  
QUARTERLY REPORT ON FORM 10-Q  
INDEX**

	<b>Page</b>
<b><u>PART I</u>    <u>FINANCIAL INFORMATION</u></b>	
<b><u>Item 1.</u></b> <b><u>Financial Statements</u></b>	
<u>Consolidated Balance Sheets (unaudited) as of September 30, 2006 and December 31, 2005</u>	3
<u>Consolidated Statements of Operations (unaudited) for the three months ended September 30, 2006 and October 1, 2005</u>	4
<u>Consolidated Statements of Operations (unaudited) for the nine months ended September 30, 2006 and October 1, 2005</u>	5
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2006 and October 1, 2005</u>	6
<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	7
<b><u>Item 2.</u></b> <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	21
<b><u>Item 3.</u></b> <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	28
<b><u>Item 4.</u></b> <b><u>Controls and Procedures</u></b>	28
<b><u>PART II</u>    <u>OTHER INFORMATION</u></b>	
<b><u>Item 1.</u></b> <b><u>Legal Proceedings</u></b>	29
<b><u>Item 1A.</u></b> <b><u>Risk Factors</u></b>	29
<b><u>Item 2.</u></b> <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	30
<b><u>Item 3.</u></b> <b><u>Defaults Upon Senior Securities</u></b>	30
<b><u>Item 4.</u></b> <b><u>Submission of Matters to a Vote of Security Holders</u></b>	30
<b><u>Item 5.</u></b> <b><u>Other Information</u></b>	30
<b><u>Item 6.</u></b> <b><u>Exhibits</u></b>	31
<b><u>SIGNATURE</u></b>	32
<b>EXHIBITS</b>	
<u>Ex-31.1 Section 302 Certification of CEO</u>	
<u>Ex-31.2 Section 302 Certification of CFO</u>	
<u>Ex-32.1 Section 906 Certification of CEO</u>	
<u>Ex-32.2 Section 906 Certification of CFO</u>	

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**  
**(unaudited)**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 511,567	\$ 493,588
Accounts receivable, less allowances for doubtful accounts and sales returns of \$7,467 and \$6,550 at September 30, 2006 and December 31, 2005, respectively	225,935	256,809
Inventories	177,291	131,554
Other current assets	32,923	31,041
Total current assets	947,716	912,992
Property, plant and equipment, net of accumulated depreciation of \$166,426 and \$162,146 at September 30, 2006 and December 31, 2005, respectively	145,691	141,030
Intangible assets, net	98,657	84,363
Goodwill	218,277	210,571
Other assets	91,567	79,975
Total assets	\$ 1,501,908	\$ 1,428,931
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Notes payable and debt	\$ 385,893	\$ 326,286
Accounts payable	51,054	44,243
Accrued employee compensation	31,317	23,044
Deferred revenue and customer advances	84,568	71,733
Accrued retirement plan contributions	15,745	12,931
Accrued income taxes	72,137	60,710
Accrued other taxes	6,700	14,024
Accrued warranty	11,704	11,719
Accrued litigation	1,152	5,340
Accrued restructuring costs	962	
Other current liabilities	33,277	33,861
Total current liabilities	694,509	603,891
Long-term liabilities:		
Long-term debt	500,000	500,000
Long-term portion of post retirement benefits	34,717	33,074
Other long-term liabilities	11,260	8,334
Total long-term liabilities	545,977	541,408

Total liabilities	1,240,486	1,145,299
Commitments and contingencies (Notes 7, 9, 10, 11 and 14)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, 5,000 shares authorized, none issued at September 30, 2006 and December 31, 2005		
Common stock, par value \$0.01 per share, 400,000 shares authorized, 143,600 and 142,287 shares issued, 101,309 and 105,336 shares outstanding at September 30, 2006 and December 31, 2005, respectively	1,436	1,423
Additional paid-in capital	523,671	467,681
Retained earnings	1,246,868	1,104,557
Treasury stock, at cost, 42,291 and 36,951 shares at September 30, 2006 and December 31, 2005, respectively	(1,542,215)	(1,314,446)
Deferred compensation		(255)
Accumulated other comprehensive income	31,662	24,672
Total stockholders' equity	261,422	283,632
Total liabilities and stockholders' equity	\$ 1,501,908	\$ 1,428,931

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

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>September 30, 2006</b>	<b>October 1, 2005</b>
Product sales	\$ 212,993	\$ 193,084
Service sales	88,189	79,947
Total net sales	301,182	273,031
Cost of product sales	84,366	76,098
Cost of service sales	42,801	39,410
Total cost of sales	127,167	115,508
Gross profit	174,015	157,523
Selling and administrative expenses	87,397	76,645
Research and development expenses	19,138	16,982
Purchased intangibles amortization	1,403	1,241
Restructuring and other charges (Note 11)	344	
Operating income	65,733	62,655
Interest expense	(13,565)	(6,599)
Interest income	6,877	4,630
Income from operations before income taxes	59,045	60,686
Provision for income taxes (Note 8)	8,669	34,969
Net income	\$ 50,376	\$ 25,717
Net income per basic common share	\$ 0.49	\$ 0.23
Weighted average number of basic common shares	101,845	112,981

Edgar Filing: WATERS CORP /DE/ - Form 10-Q

Net income per diluted common share	\$ 0.49	\$ 0.22
Weighted average number of diluted common shares and equivalents	103,074	114,942

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

4

---

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**  
**(unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2006</b>	<b>October 1, 2005</b>
Product sales	\$ 636,049	\$ 588,848
Service sales	257,250	237,118
Total net sales	893,299	825,966
Cost of product sales	249,396	227,039
Cost of service sales	124,403	117,336
Total cost of sales	373,799	344,375
Gross profit	519,500	481,591
Selling and administrative expenses	261,903	240,101
Research and development expenses	57,836	50,214
Purchased intangibles amortization	3,980	3,789
Restructuring and other charges (Note 11)	7,670	
Operating income	188,111	187,487
Interest expense	(37,470)	(16,511)
Interest income	18,374	14,443
Income from operations before income taxes	169,015	185,419
Provision for income taxes (Note 8)	26,704	59,042
Net income	\$ 142,311	\$ 126,377
Net income per basic common share	\$ 1.38	\$ 1.09
Weighted average number of basic common shares	103,135	115,923



Edgar Filing: WATERS CORP /DE/ - Form 10-Q

Net income per diluted common share	\$ 1.36	\$ 1.07
Weighted average number of diluted common shares and equivalents	104,570	117,943

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

5

---

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(IN THOUSANDS)**  
**(unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2006</b>	<b>October 1, 2005</b>
Cash flows from operating activities:		
Net income	\$ 142,311	\$ 126,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Provisions for doubtful accounts on accounts receivable	2,891	3,702
Provisions on inventory	3,805	4,272
Stock-based compensation	21,741	726
Deferred income taxes	(5,703)	(508)
Depreciation	20,095	17,591
Amortization of intangibles	15,253	15,537
Tax benefit related to stock option exercises		2,761
Change in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	32,820	31,548
Increase in inventories	(43,760)	(12,256)
(Increase) decrease in other current assets	(1,032)	4,889
Increase in other assets	(7,514)	(2,171)
Increase in accounts payable and other current liabilities	17,717	38,597
Increase in deferred revenue and customer advances	9,299	10,559
Decrease in accrued litigation	(4,188)	(4,652)
Increase in other liabilities	2,658	2,024
Net cash provided by operating activities	206,393	238,996
Cash flows from investing activities:		
Additions to property, plant, equipment, software capitalization and other intangibles	(38,567)	(38,563)
Business acquisition, net of cash acquired of \$0.6 million	(16,181)	
Net cash used in investing activities	(54,748)	(38,563)
Cash flows from financing activities:		
Proceeds from debt issuances	320,161	500,169
Payments on debt	(261,740)	(303,041)
Proceeds from stock plans	26,924	15,959
Purchase of treasury shares	(227,769)	(443,197)
Excess tax benefit related to stock option exercises	6,440	
Net payments from debt swaps and other derivatives contracts	(4,602)	(1,515)

Edgar Filing: WATERS CORP /DE/ - Form 10-Q

Net cash used in financing activities	(140,586)	(231,625)
Effect of exchange rate changes on cash and cash equivalents	6,920	(18,982)
Increase (decrease) in cash and cash equivalents	17,979	(50,174)
Cash and cash equivalents at beginning of period	493,588	539,077
Cash and cash equivalents at end of period	\$ 511,567	\$ 488,903

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

6

---

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)**

**1. Basis of Presentation and Significant Accounting Policies**

Waters Corporation ( Waters or the Company ), an analytical instrument manufacturer, designs, manufactures, sells and services, through its Waters Division, high performance liquid chromatography ( HPLC ), ultra performance liquid chromatography ( UPLC ) together with HPLC, herein referred to as ( LC ) and mass spectrometry ( MS ) instrument systems and support products including chromatography columns, other consumable products and comprehensive post-warranty service plans. These systems are complementary products that can be integrated together and used along with other analytical instruments. LC is a standard technique and is utilized in a broad range of industries to detect, identify, monitor and measure the chemical, physical and biological composition of materials, and to purify a full range of compounds. MS instruments are used in drug discovery and development, including clinical trial testing, the analysis of proteins in disease processes (known as proteomics ) and environmental testing. LC is often combined with MS to create LC-MS instruments that include a liquid phase sample introduction and separation system with mass spectrometric compound identification and quantification. Waters Division also sells and supports laboratory-to-enterprise scale software systems for managing and storing scientific information collected from a wide variety of instrument test methods. Through its TA Instruments Division ( TA ), the Company designs, manufactures, sells and services thermal analysis and rheometry instruments which are used in predicting the suitability of polymers and viscous liquids for various industrial, consumer goods and health care products. The Company is also a developer of and supplier of software based products which interface with the Company s instruments and are typically purchased by customers as part of the instrument system.

The Company s interim fiscal quarter typically ends on the thirteenth Saturday of each quarter. Since the Company s fiscal year-end is December 31, the first and fourth fiscal quarters may not consist of thirteen complete weeks. The Company s third fiscal quarters for 2006 and 2005 ended on September 30, 2006 and October 1, 2005, respectively.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by generally accepted accounting principles ( GAAP ) in the United States of America. The consolidated financial statements include the accounts of the Company and its subsidiaries. All material inter-company balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent liabilities at the dates of the financial statements and (iii) the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

It is management s opinion that the accompanying interim consolidated financial statements reflect all adjustments (which are normal and recurring) necessary for a fair statement of the results for the interim periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K filing with the Securities and Exchange Commission for the year ended December 31, 2005.

*Product Warranty Costs:*

The Company accrues estimated product warranty costs at the time of sale, which are included in cost of sales in the consolidated statements of operations. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component supplies, the Company s warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. The amount of the accrued warranty liability is based on historical information such as past experience, product failure rates, number of units repaired and estimated costs of material and labor. The liability is reviewed for reasonableness at least quarterly.

The following is a summary of activity of the Company s accrued warranty liability for the nine months ended September 30, 2006 and October 1, 2005 (in thousands):

	Balance at Beginning of Period	Accruals for Warranties	Settlements Made	Balance at End of Period
Accrued warranty liability				
September 30, 2006	\$ 11,719	\$12,661	\$(12,676)	\$11,704
October 1, 2005	\$ 10,565	\$13,911	\$(13,373)	\$11,103
	7			

---

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)**

*Stockholders' Equity:*

In October 2005, the Company's Board of Directors authorized the Company to repurchase up to an additional \$500.0 million of its outstanding common shares over a two-year period. During the nine months ended September 30, 2006, the Company purchased 5.3 million shares of its common stock for an aggregate of \$227.8 million. As of September 30, 2006, the Company repurchased an aggregate of 10.9 million shares of its common stock under this program for an aggregate of \$443.9 million.

In October 2004, the Company's Board of Directors authorized the Company to repurchase up to an additional \$500.0 million of its outstanding common shares over a two-year period. During the nine months ended October 1, 2005, the Company purchased 9.9 million shares of its common stock for an aggregate of \$443.2 million. As of October 1, 2005, the Company repurchased an aggregate of 11.1 million shares of its common stock under this program for an aggregate of \$499.5 million, thus effectively completing this \$500.0 million stock repurchase program.

The Company believes that the share repurchase program benefits shareholders by increasing earnings per share through reducing the number of shares outstanding and that the Company is likely to have adequate financial flexibility to fund additional share repurchases given current cash and debt levels.

**2. Stock-Based Compensation**

On May 6, 2003, the Company's shareholders approved the Company's 2003 Equity Incentive Plan (2003 Plan). As of September 30, 2006, the 2003 Plan has 6.0 million shares available for granting in the form of incentive or non-qualified stock options, stock appreciation rights (SARs), restricted stock or other types of awards (e.g. restricted stock units). The Company issues new shares of common stock upon exercise of stock options or restricted stock unit conversion. Under the 2003 Plan, the exercise price for stock options may not be less than the fair market value of the underlying stock at the date of grant. The 2003 Plan is scheduled to terminate on March 4, 2013. Options generally will expire no later than 10 years after the date on which they are granted and will become exercisable as directed by the Compensation Committee of the Board of Directors and generally vest ratably over a five year period. A SAR may be granted alone or in conjunction with an option or other award. Shares of restricted stock and restricted stock units may be issued under the 2003 Plan for such consideration as is determined by the Compensation Committee of the Board of Directors. No award of restricted stock may have a restriction period of less than three years except as may be recommended by the Compensation Committee of the Board of Directors, or with respect to any award of restricted stock which provides solely for a performance-based risk of forfeiture so long as such award has a restriction period of at least one year. As of September 30, 2006, the Company had stock options, restricted stock and restricted stock unit awards outstanding.

On February 26, 1996, the Company adopted its 1996 Employee Stock Purchase Plan under which eligible employees may contribute up to 15% of their earnings toward the quarterly purchase of the Company's common stock. The plan makes available 1.0 million shares of the Company's common stock commencing October 1, 1996. As of September 30, 2006, 0.7 million shares have been issued under the plan. Each plan period lasts three months beginning on January 1, April 1, July 1 and October 1 of each year. The purchase price for each share of stock is the lesser of 90% of the market price on the first day of the plan period or 100% of the market price on the last day of the plan period. Stock-based compensation expense related to this plan was \$0.1 million and \$0.3 million for the three months and nine months ended September 30, 2006, respectively.

On January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123(R) Share-Based Payment, which amends SFAS No. 123 Accounting for Stock-Based Compensation, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 107 Share-Based Payment. These standards require that all share-based payments to employees be recognized in the statements of operations based on their fair values. The Company has used the Black-Scholes model to determine the fair value of its stock option awards at the time of grant.

The Company adopted the modified prospective transition method permitted under SFAS No. 123(R) and consequently has not adjusted results from prior years. Under the modified prospective transition method,

compensation costs associated with awards for the three months and nine months ended September 30, 2006 now include the quarterly expense relating to the remaining unvested awards granted prior to December 31, 2005 and the quarterly expense related to any awards issued subsequent to December 31, 2005. The Company recognizes the expense using the straight-line attribution method. The amount of stock-based compensation recognized during the period is based on the value of the portion of the award that ultimately is expected to vest. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The cumulative effect of the change in accounting for forfeitures is immaterial.

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

The consolidated statements of operations for the three and nine months ended September 30, 2006 and October 1, 2005 include the following stock-based compensation expense related to stock option awards, restricted stock, and restricted stock unit awards and the employee stock purchase plan (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Cost of sales	\$ 1,034	\$	\$ 3,286	\$
Selling and administrative	4,786	58	14,582	726
Research and development	1,305		3,873	
Total stock-based compensation	\$ 7,125	\$ 58	\$ 21,741	\$ 726

The after-tax stock-based compensation and the impact to diluted earnings per share of adopting SFAS No. 123(R) for the three and nine months ended September 30, 2006 were \$5.2 million and \$15.4 million with a \$0.05 per share and \$0.15 per share reduction to diluted earnings per share, respectively. As of September 30, 2006, the Company has capitalized stock-based compensation costs of \$0.4 million and \$0.8 million to inventory and capitalized software, respectively, in the consolidated balance sheets. Prior to the adoption of SFAS No. 123(R), the Company used the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion ( APB ) 25, Accounting for Stock Issued to Employees , and related interpretations, including Financial Interpretation ( FIN ) 44, Accounting for Certain Transactions Involving Stock Compensation , for its plans. Under this accounting method, stock-option compensation awards that are granted with the exercise price at the current fair value of the Company s common stock as of the date of the award generally did not require compensation expense to be recognized in the consolidated statements of operations. Stock-based compensation expense recognized for the Company s fixed employee stock option plans, restricted stock and employee stock purchase plan was \$0.1 million and \$0.7 million in the three months and nine months ended October 1, 2005, respectively. The 2005 stock-based compensation expense amounts were all recorded in selling and administrative expenses.

Prior to the adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as part of cash from operating activities. Under SFAS No. 123(R), approximately \$6.4 million of windfall benefits of tax deductions in excess of recognized compensation costs were reported as cash from financing activities for the nine months ended September 30, 2006.

The following table illustrates the effect on net income and earnings per share ( EPS ) had the Company applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement No. 123 , for the Company s stock-based compensation plans for the three months and nine months ended October 1, 2005 (in thousands, except per share data).

		Three Months	Nine Months
		Ended October 1, 2005	Ended October 1, 2005
Compensation Expense	Fair Value Method		
Net income, as reported		\$ 25,717	\$ 126,377



Edgar Filing: WATERS CORP /DE/ - Form 10-Q

Deduct: total stock-based employee compensation expense, net of related tax effects		(5,961)		(17,776)
Add: stock-based compensation recognized in the consolidated statements of operations, net of related tax effects		47		585
Pro forma net income	\$	19,803	\$	109,186
Earnings per share:				
Basic as reported	\$	0.23	\$	1.09
Basic pro forma	\$	0.18	\$	0.94
Diluted as reported	\$	0.22	\$	1.07
Diluted pro forma	\$	0.17	\$	0.93

**Table of Contents**

**WATERS CORPORATION AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(IN THOUSANDS, EXCEPT PER SHARE DATA)**

*Stock Options:*

During the nine months ended September 30, 2006, the Company issued options to purchase an aggregate of 39 thousand shares of its common stock. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model. Beginning in 2005, the Company used implied volatility on its publicly traded options as the basis for its estimate of expected volatility. The expected volatility assumption of all grants issued prior to 2005 was derived from the Company's historical volatility. The expected life assumption for 2006 grants is based on historical experience for the population of non-qualified stock optionees. The risk-free interest rate is the yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximating the expected term used as the input to the Black-Scholes model. The relevant data used to determine the value of the 2006 stock option grants is as follows:

	Nine months ended September 30, 2006
<b>Options Issued and Significant Assumptions Used to Estimate Option Fair Values</b>	
Options issued (in thousands)	39
Risk-free interest rate	4.3%
Expected life in years	6.0
Expected volatility	.270
Expected dividends	
 <b>Weighted Average Exercise Price and Fair Values of Options on the Date of Grant</b>	
Exercise price	\$ 39.38
Fair value	\$ 14.16

The following table summarizes stock option activity for the plans as of September 30, 2006 (in thousands, except per share data):

Weighted-Av