KRONOS INC
Form 10-Q
May 07, 2007
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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 March 31, 2007

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 0-20109

Kronos Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2640942**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
297 Billerica Road, Chelmsford, MA	**01824**
(Address of principal executive offices)	**(Zip Code)**

(978) 250-9800

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 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 x 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 x

As of April 30, 2007, 32,306,399 shares of the registrant s common stock, $.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

KRONOS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except share and per share amounts)

UNAUDITED

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Net revenues:				
Product	$ 57,371	$ 59,038	$ 109,558	$ 107,025
Maintenance	55,156	47,233	107,304	93,479
Professional services	37,546	37,252	71,348	70,962
Subscription	11,200		21,789	
	161,273	143,523	309,999	271,466
Cost of sales:				
Costs of product	12,399	14,883	24,326	25,469
Costs of maintenance	13,468	14,745	26,396	28,766
Costs of professional services	31,856	30,586	62,719	60,510
Costs of subscription	5,836		11,697	
	63,559	60,214	125,138	114,745
Gross profit	97,714	83,309	184,861	156,721
Operating expenses and other income:				
Sales and marketing	47,183	42,395	92,107	81,167
Engineering, research and development	18,130	13,910	36,054	26,923
General and administrative	14,882	12,105	28,841	24,082
Amortization of intangible assets	2,783	1,665	5,556	3,207
Transaction costs	2,297		2,297	
Other income, net	(757)	(1,857)	(1,820)	(3,365)
	84,518	68,218	163,035	132,014
Income before income taxes	13,196	15,091	21,826	24,707
Provision for income taxes	4,253	5,237	7,188	8,629
Net income	$ 8,943	$ 9,854	$ 14,638	$ 16,078
Net income per common share:				
Basic	$ 0.28	$ 0.31	$ 0.46	$ 0.50
Diluted	$ 0.28	$ 0.31	$ 0.46	$ 0.50

Weighted-average common shares outstanding:				
Basic	31,839,985	31,919,542	31,796,844	31,854,544
Diluted	32,183,822	32,251,370	32,073,227	32,261,262
Stock-based compensation expense included in the above captions:				
Costs of product	$ 92	$ 97	$ 187	$ 179
Costs of maintenance	602	540	1,197	1,014
Costs of professional services	337	426	722	771
Costs of subscription	8		15	
Sales and marketing	1,375	1,400	2,874	2,656
Engineering, research and development	695	887	1,412	1,670
General and administrative	1,331	1,175	2,609	2,149
Amortization of intangible assets included in the above captions:				
Costs of product	$ 313	$ 201	$ 643	$ 400
Costs of subscription	1,091		2,182	
Amortization of intangible assets	2,783	1,665	5,556	3,207

See accompanying notes to condensed consolidated financial statements.

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KRONOS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

UNAUDITED

	March 31, 2007	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,755	$ 40,680
Marketable securities	50,085	62,770
Accounts receivable, less allowances of $9,070 at March 31, 2007 and $9,248 at September 30, 2006	111,266	123,537
Deferred income taxes	8,597	8,871
Other current assets	29,050	28,962
Total current assets	239,753	264,820
Marketable securities	2,036	13,192
Property, plant and equipment, net	69,804	69,867
Customer related intangible assets	70,967	72,853
Other intangible assets	41,476	43,568
Goodwill	248,575	241,654
Capitalized software, net	23,654	22,946
Other assets	18,519	18,852
Total assets	$ 714,784	$ 747,752
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 14,427	$ 11,025
Accrued compensation	48,350	48,768
Accrued expenses and other current liabilities	19,449	31,983
Deferred product revenues	2,795	2,950
Deferred professional service revenues	20,281	21,139
Deferred maintenance revenues	127,098	124,485
Total current liabilities	232,400	240,350
Deferred service revenues	8,888	7,990
Deferred income taxes	22,459	22,605
Notes payable, long-term	25,217	80,820
Other liabilities	7,906	7,855
Shareholders equity:		
Preferred Stock, par value $1.00 per share: authorized 1,000,000 shares, no shares issued and outstanding		
Common Stock, par value $.01 per share: authorized 50,000,000 shares, 32,210,652 and 31,846,620 shares issued at March 31, 2007 and September 30, 2006, respectively	322	318
Additional paid-in capital	81,287	65,473
Retained earnings	334,072	319,434
Accumulated other comprehensive income:		
Foreign currency translation	2,276	3,086
Net unrealized (loss) on available-for-sale investments	(43)	(179)

	2,233	2,907
Total shareholders equity	417,914	388,132
Total liabilities and shareholders equity	$ 714,784	$ 747,752

See accompanying notes to condensed consolidated financial statements.

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KRONOS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

UNAUDITED

	Six Months Ended	
	March 31, 2007	April 1, 2006
Operating activities:		
Net income	$ 14,638	$ 16,078
Adjustments to reconcile net income to net cash and equivalents provided by operating activities:		
Depreciation	10,594	8,001
Amortization of intangible assets	8,383	3,605
Amortization of capitalized software	7,500	7,132
Stock-based compensation	9,016	8,439
Provision for deferred income taxes	439	(534)
Changes in certain operating assets and liabilities:		
Accounts receivable, net	13,771	8,736
Deferred product revenues	(126)	(1,470)
Deferred professional service revenues	(354)	(11,832)
Deferred maintenance revenues	1,835	11,976
Accounts payable, accrued compensation and other liabilities	100	(3,100)
Taxes payable	(14,809)	(783)
Tax benefit from exercise of stock options	4,634	5,267
Excess tax benefit from exercise of stock options	(3,332)	(5,267)
Other	145	(1,959)
Net cash and equivalents provided by operating activities	52,434	44,289
Investing activities:		
Purchase of property, plant and equipment	(10,690)	(9,911)
Capitalized internal software development costs	(7,835)	(6,901)
Decrease (increase) in marketable securities	23,841	(3,235)
Acquisitions of businesses and software, net of cash acquired	(8,296)	(8,592)
Net cash and equivalents used in investing activities	(2,980)	(28,639)
Financing activities:		
Net proceeds from exercise of stock options and employee purchase plans	15,172	13,120
Excess tax benefit from exercise of stock options	3,332	5,267
Repurchase of common stock	(12,548)	(14,112)
Payments on revolving note payable	(55,603)	
Net cash and equivalents (used in) provided by financing activities	(49,647)	4,275
Effect of exchange rate changes on cash and equivalents	268	(439)
Increase in cash and equivalents	75	19,486
Cash and equivalents at the beginning of the period	40,680	43,492
Cash and equivalents at the end of the period	$ 40,755	$ 62,978

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE A General

The accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals and adjustments that management of Kronos Incorporated (the Company or Kronos) considers necessary for a fair presentation of the Company s financial position and results of operations as of and for the interim periods presented pursuant to the rules and regulations of the Securities and Exchange Commission. Certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures in these financial statements are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements for the fiscal year ended September 30, 2006. The results of operations for the six months ended March 31, 2007 are not necessarily indicative of the results for a full fiscal year.

NOTE B Fiscal Quarters

The Company utilizes a system of fiscal quarters. Under this system, the first three quarters of each fiscal year end on a Saturday. However, the fourth quarter of each fiscal year will always end on September 30. Because of this, the number of days in the first quarter (91 days in fiscal 2007 and 92 days in fiscal 2006) and fourth quarter (92 days in fiscal 2007 and 91 days in fiscal 2006) of each fiscal year varies from year to year. The second and third quarters of each fiscal year will be exactly thirteen weeks long. This policy does not have a material effect on the comparability of results of operations between quarters.

NOTE C Stock-Based Compensation

On October 1, 2005, the Company was required to adopt Statement of Financial Accounting Standards No. 123R, Share-Based Payment (FAS 123R), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values.

Prior to adopting FAS 123R, the Company accounted for stock-based compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (Opinion 25), as permitted by Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation, (FAS 123). The Company has applied the modified prospective method in adopting FAS 123R and, accordingly, periods prior to adoption have not been restated. Under the modified prospective method, compensation cost recognized in the three and six months ended March 31, 2007 and April 1, 2006 include (a) compensation cost for all share-based payments granted prior to, but not yet vested as of October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of FAS 123, and (b) compensation cost for all share-based payments granted subsequent to October 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R.

On March 31, 2007, the Company had two share-based compensation plans, which are described below (together, the Plans). The compensation cost that has been charged against income for the Plans during the three months ended March 31, 2007 and April 1, 2006 was approximately $4.4 million and $4.5 million, respectively. The compensation cost that has been charged against income for the Plans during the six months ended March 31, 2007 and April 1, 2006 was approximately $9.0 million and $8.4 million, respectively. During the three and six months ended March 31, 2007, the Company also capitalized approximately $0.2 million and $0.4 million, respectively, of these costs relating to its software development activities; none of these costs were capitalized during the three or six months ended April 1, 2006. As required by FAS 123R, the Company has made an estimate of expected forfeitures and is recognizing compensation cost only for those stock-based compensation awards expected to vest. The total income tax benefit recognized in the income statement for the three and six month periods ended March 31, 2007 for share-based payments was approximately $1.5 million and $3.0 million, respectively. The total income tax benefit recognized in the income statement for the three and six month periods ended April 1, 2006 for share-based payments was approximately $1.4 million and $2.6 million, respectively.

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Stock Award Plan: In February 2007, the Company s stockholders approved an amendment to the 2002 Stock Incentive Plan (Award Plan), to allow the granting of restricted stock unit awards to non-employee directors. In March 2007, the Board of Directors (the Board) approved subsequent amendments to the Award Plan to address some immaterial administrative issues related to the plan. The Award Plan was previously adopted in February 2002, amended in February 2004 and February 2005, and amended and restated in February 2006. The Award Plan, which includes a share counting formula, enables the Compensation Committee of the Board to issue up to 9,000,000 shares of common stock in various forms of equity awards as defined by the Award Plan, including stock options, restricted stock and restricted stock units, as and when they deem appropriate. Option awards are generally granted with an exercise price equal to the fair market value of the Company s stock at the date of grant. Options granted under the Award Plan during the fiscal years of 2007, 2006, 2005, 2004, 2003 and 2002 are exercisable in four equal annual installments beginning one year from the date of grant and have a contractual life of four years and six months. Restricted stock units granted under the Award Plan during the six months ended March 31, 2007 vest in four equal annual installments beginning one year from the date of grant.

The fair value of each option award issued under the Award Plan was estimated on the date of grant using a Black-Scholes based option-pricing model with the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company s stock. The expected term of the options is based on the Company s historical option exercise data taking into consideration the exercise patterns of the option holders during the option s life. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant.

	Six Month Period Ended	
	March 31, 2007	**April 1, 2006**
Expected Volatility	41.8%	41.8%
Expected Term (in years)	3.42 years	3.42 years
Risk-Free Interest Rate	4.90%	4.39%
Dividend Yield	0.0%	0.0%

The Company has not paid and does not anticipate paying cash dividends; therefore, the expected dividend yield is assumed to be zero.

A summary of option activity under the Award Plan as of March 31, 2007, and changes during the six months then ended is presented below (excludes restricted stock unit activity):

Options	**Shares (000s)**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term**	**Aggregate Intrinsic Value ($000s)**
Outstanding at September 30, 2006	3,429	$ 39.98		
Granted	17	34.80		
Exercised	(585)	20.04		
Canceled	(142)	44.90		
Outstanding at March 31, 2007	2,719	$ 43.98	2.2 years	$ 13,421
Exercisable at March 31, 2007	1,374	$ 42.52	1.8 years	$ 8,783

The value of the restricted stock units is based on the intrinsic value of the award at the date of grant, and the resulting compensation charges are then recognized ratably over the vesting period of the awards.

Restricted stock unit awards were granted to our non-employee directors in February 2007. Vesting of the restricted stock units granted to the non-employee directors vest in four equal annual installments beginning on the first anniversary of the date of grant. Restricted stock unit awards were granted to our executive officers in November 2006. Vesting of the restricted stock units granted to the executive officers is subject to a performance goal being met by Kronos for fiscal 2007. If the performance goal is met, the restricted stock units will vest in four equal

annual installments beginning on November 16, 2007. If the performance goal is not met, the restricted stock units will not vest and the grant will be cancelled. Restricted stock unit awards granted to employees, other than to executive officers, in fiscal 2006 and 2007 are not subject to a performance goal and vest in four equal annual installments beginning on the first anniversary of the date of grant. All of our awards include a service condition in order for vesting to occur.

Restricted stock units do not have common stock voting rights, and the shares underlying the restricted stock units are not considered issued and outstanding unless they become vested. We expense the cost of the restricted stock unit awards, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse.

A summary of restricted stock unit activity under the Award Plan as of March 31, 2007, and the changes during the six months then ended is presented below:

Restricted Stock Units	Number of Shares (000s)	Weighted-Average Grant Date Fair Value
Non-vested at September 30, 2006	66	$ 48.22
Granted	482	$ 34.79
Exercised	(17)	$ 48.22
Canceled	(18)	$ 36.11
Non-vested at March 31, 2007	513	$ 36.05

The restricted stock units were granted with an exercise price of $0.01, and vest equally on an annual basis over a four year period. The market price of the Company s common stock on the date of restricted stock unit grants during the six months ended March 31, 2007 ranged from $33.90 to $39.52.

The weighted-average grant-date fair value of the options granted during the six months ended March 31, 2007 and April 1, 2006, estimated using a Black-Scholes based option pricing model, was $17.10. The total intrinsic value of options exercised was approximately $9.6 million and $12.1 million for the three and six months ended March 31, 2007 and $6.7 million and $14.5 million for the three and six months ended April 1, 2006, respectively.

As a result of Kronos definitive agreement to be acquired by Hellman & Friedman Capital Partners VI, L.P., all outstanding stock options to purchase Kronos common stock and all restricted stock units will become vested in full or all restrictions will lapse, as applicable, prior to the effective time of the transaction. Please see Note J, Recent Developments , for further information.

Stock Purchase Plan: In February 2007, the stockholders approved an amendment to the 2003 Employee Stock Purchase Plan (Purchase Plan) to increase the number of shares available for issuance under the Purchase Plan from 1,250,000 to 2,250,000 shares. In July 2005, the Company s Board of Directors voted to amend the Purchase Plan, which was previously approved for adoption by the stockholders in February 2003. The amendment eliminated the look-back feature previously contained in the Purchase Plan. Under the Purchase Plan, eligible employees have been able to authorize payroll deductions of up to 10% of their compensation (not to exceed $12,500 in a six month period) to purchase shares at 85% of the fair market value of the Company s common stock at the end of the six-month option period. As required by FAS 123R, the 15% discount has been charged to income as stock-based employee compensation expense.

The expected term used to value the shares issued under the Purchase Plan is assumed to be zero as there is no look-back feature contained in the Purchase Plan.

As a result of Kronos definitive agreement to be acquired as previously discussed, the Company suspended the Employee Stock Purchase Plan retroactive to the beginning of the current purchase period, which began on February 15th, 2007, and will refund all outstanding contributions to employees (see Note J for further information).

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Cash received from option exercises and stock purchases under the Plans for the three and six month periods ended March 31, 2007 was $12.8 million and $15.2 million, respectively. For the three and six months ended April 1, 2006 the total cash received from option exercises and stock purchases was $7.9 million and $13.1 million, respectively. The tax benefit realized for the tax deductions from option exercises totaled $3.5 million and $4.6 million for the three and six month periods ended March 31, 2007, respectively. For the three and six months ended April 1, 2006, the tax benefit realized for the tax deductions from option exercises was $2.6 million and $5.3 million, respectively.

The Company has a policy of repurchasing shares on the open market to satisfy share option exercises. The Company repurchased 71,714 and 354,731 shares of its common stock during the three and six months ended March 31, 2007, and does not anticipate repurchasing any additional shares.

NOTE D Other Current Assets

Other current assets consists of the following (in thousands):

	March 31, 2007	September 30, 2006
Inventory	$ 7,113	$ 8,254
Prepaid expenses	21,937	20,708
Total	$ 29,050	$ 28,962

NOTE E Intangible Assets

Acquired intangible assets subject to amortization are presented in the following table (dollars in thousands). Due to the relative size and timing of recent acquisitions, the Company has not finalized the allocation of the purchase price on certain acquisitions and the amounts shown below for intangible assets and goodwill are estimates.

	Weighted Average Life in Years	Gross Carrying Value	Accumulated Amortization	Net Book Value
As of March 31, 2007:				
Intangible assets:				
Customer related	9.4	$ 95,278	$ 24,311	$ 70,967
Maintenance relationships	11.7	10,901	3,952	6,949
Non-compete agreements	3.7	6,648	5,589	1,059
Technology	7.4	38,742	5,274	33,468
Total intangible assets		$ 151,569	$ 39,126	$ 112,443
As of September 30, 2006:				
Intangible assets:				
Customer related	9.4	$ 92,307	$ 19,454	$ 72,853
Maintenance relationships	11.9	9,814	3,516	6,298
Non-compete agreements	3.7	6,422	5,147	1,275
Technology	7.4	38,474	2,479	35,995
Total intangible assets		$ 147,017	$ 30,596	$ 116,421

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There was no goodwill acquired in the three months ended March 31, 2007; for the three months ended April 1, 2006, the amount of goodwill acquired is $3.6 million. The amount of goodwill acquired during the six months ended March 31, 2007 and April 1, 2006 is $6.9 million and $8.0 million, respectively. The Company has approximately $248.6 million and $241.7 million of goodwill recorded on its balance sheet as of March 31, 2007 and September 30, 2006, respectively.

For the three months ended March 31, 2007 and April 1, 2006, the Company recorded amortization expense for intangible assets of $4.2 million and $1.9 million, respectively. The Company recorded $8.4 million and $3.6 million of amortization expense for intangible assets for the six months ended March 31, 2007 and April 1, 2006, respectively. The estimated annual amortization expense for intangible assets for the current and next five fiscal years is as follows (in thousands):

Fiscal Year Ending September 30,	**Estimated Annual Amortization Expense**
2007	$ 16,668
2008	16,512
2009	15,685
2010	14,409
2011	14,015
2012	13,986

NOTE F Acquisitions

On November 6, 2006, the Company purchased all of the outstanding shares of common stock of Time Controls, Inc. (Time Controls), a former dealer in the greater Appalachian region of the U.S. The aggregate consideration paid, which includes approximately $7.8 million of cash paid and $2.8 million of liabilities assumed, was approximately $10.6 million. The amounts allocated to identifiable intangible assets and goodwill were approximately $3.9 million and $6.4 million, respectively. Due to the timing of the acquisition, the Company has not finalized the allocation of the purchase price. The Company currently anticipates that the allocation of the purchase price will be completed by September 30, 2007. The results of Time Controls operations, which are not material to the Company s results of operations, have been included in the consolidated financial statements since the date of acquisition. As a result of this acquisition, and in support of the premium paid for Time Controls, the Company expects to enhance its distribution network for time and labor solutions. The deferred revenue related to the maintenance and professional service revenue streams was recorded at the fair value of the Company s remaining performance obligation. No pro forma results have been presented for 2006 or 2007 as they are immaterial to the Company s results.

On August 1, 2006, the Company acquired all of the outstanding capital stock of Unicru, Inc., a leading provider of talent management solutions. In accordance with the Agreement and Plan of Merger (the Merger Agreement), all shares of Unicru s preferred stock were converted into shares of common stock immediately prior to the merger taking place. Thereafter, each share of Unicru s common stock outstanding immediately prior to the merger was converted into the right to receive $4.15 in cash. In addition, at the effective time of the merger, all outstanding options and warrants were converted into the right to receive a cash payment except for one outstanding Unicru warrant, which the Company assumed. The Company paid $149.2 million in cash in the aggregate for all of the outstanding capital stock of Unicru, less certain expenses and other deductions set forth in the Merger Agreement.

The Merger Agreement also enabled the Company to deposit $16 million of the cash consideration paid for Unicru s outstanding capital stock into an escrow fund to secure certain indemnification and other payments under the terms of the Merger Agreement. On or about August 1, 2008, the balance of the escrow fund in excess of any amounts held for unresolved claims will be distributed to the former holders of Unicru securities.

The results of Unicru s operations have been included in the Company s consolidated financial statements beginning on the acquisition date, August 1, 2006. The acquisition was funded in part by a three-year revolving credit facility with Citizens Bank of Massachusetts under which the Company entered into a promissory note dated July 11, 2006 in the principal amount of up to $100 million. The Company drew down $97.9 million from the line of credit in connection with the acquisition, and $25.2 million remains outstanding at March 31, 2007.

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The Unicru transaction was accounted for under the purchase method of accounting and, accordingly, the assets and liabilities acquired were recorded at their estimated fair values at the effective date of the acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed (in thousands):

Cash	$ 5,331
Accounts receivable	6,768
Prepaids and other current assets	2,841
Deferred tax asset	1,071
Fixed assets	4,789
Other assets	1,761
Identifiable intangible assets	70,195
Goodwill	86,208
Total assets acquired	178,964
Accounts payable and other accrued liabilities	5,274
Deferred subscription revenues	536
Deferred tax liabilities	17,521
Other liabilities	1,226
Total liabilities assumed	24,557
Net assets acquired	$ 154,407

The deferred revenue related to the maintenance revenue streams, which was recorded at fair value of the Company s remaining performance obligation, was recorded because the Company had assumed a legal performance obligation as described in Emerging Issues Task Force 01-03, Accounting in a Business Combination for Deferred Revenue of an Acquiree (EITF 01-03).

In performing the preliminary purchase price allocation, the Company considered, among other factors, its intention for future use of acquired assets, analyses of historical financial performance and estimates of future performance of Unicru s products. The fair value of intangible assets was based, in part, on a valuation completed by a third party using an income approach and estimates and assumptions provided by management. The rates utilized to discount net cash flows to their present values were based on the Company s weighted average cost of capital and ranged from 17% to 20%. These discount rates were determined after consideration of the Company s rate of return on debt capital and equity. The following table sets forth the components of intangible assets associated with the acquisition (dollars in thousands):

	Intangible Asset	Estimated Useful Life (years)
Core technology acquired	$ 26,429	7.0
Developed technology acquired	1,768	3.0
Subtotal technology acquired	28,197	
Customer contracts and related customer relationships acquired	41,717	9.0
Tradenames acquired	281	0.2
Total intangibles acquired	$ 70,195	

As a result of this acquisition, and in support of the premium paid for Unicru, Inc., the Company expects to extend its market leadership and accelerate the growth of its Human Capital Management platform. Due to the timing of the acquisition, the Company has not finalized the allocation of the purchase price. The Company currently anticipates that the allocation of the purchase price will be completed by June 30, 2007.

The following table presents the consolidated results of operations for the three months and six months ended April 1, 2006 on an unaudited pro forma basis. It combines Kronos statement of operations data with Unicru s statement of operations data for that period as if the acquisition of Unicru had taken place as of October 1, 2005. The table was prepared on the basis of estimates and assumptions available at the time of this filing that the Company believes are reasonable, and includes purchase price allocations and adjustments for amortization and interest expense that would have been recorded during that period (in thousands, except per share data).

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Unaudited	Three Months Ended April 1, 2006	Six Months Ended April 1, 2006
Total revenues	$ 153,512	$ 291,208
Net income	$ 7,615	$ 11,762
Earnings per share basic	$ 0.24	$ 0.37
Earnings per share diluted	$ 0.23	$ 0.35

The unaudited pro forma results of operations are for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results which may occur in the future.

Certain acquisition agreements which were previously entered into contain provisions that require the Company to make a guaranteed payment and/or contingent payments based upon profitability of the business unit or if specified minimum revenue requirements are met. Guaranteed payments are accrued at the time of the acquisition and are included in the purchase price allocation. As of March 31, 2007, the Company has the obligation to pay $3.6 million in guaranteed payments. These payments will be made at various dates in fiscal 2007 and fiscal 2008 and are included in accrued expenses on the balance sheet. Contingent payments due under the terms of the agreements are recognized when earned and are principally recorded as goodwill. However, under certain circumstances, a portion of the contingent payment may be recorded as compensation expense. The provisions for contingent payments expire during fiscal 2007, 2009 and 2011. During the three and six months ended March 31, 2007, there were approximately $0.1 million and $1.0 million of contingent payments earned, respectively, all of which were recorded as goodwill. During the three and six months ended April 1, 2006, there were no contingent payments earned.

NOTE G Comprehensive Income

For the three and six months ended March 31, 2007 and April 1, 2006, comprehensive income consisted of the following (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Comprehensive income:				
Net income	$ 8,943	$ 9,854	$ 14,638	$ 16,078
Cumulative translation adjustment	153		(810)	(103)
Unrealized loss on available-for-sale securities	101	(4)	136	(37)
Total comprehensive income	$ 9,197	$ 9,850	$ 13,964	$ 15,938

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NOTE H Earnings per Share

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

	Three Months Ended		Six Months Ended	
	March 31, 2007	April 1, 2006	March 31, 2007	April 1, 2006
Net income	$ 8,943	$ 9,854	$ 14,638	$ 16,078
Weighted-average shares	31,839,985	31,919,542	31,796,844	31,854,544
Effect of dilutive securities:				
Employee stock options and awards	343,837	331,828	276,383	406,718
Adjusted weighted-average shares and assumed conversions	32,183,822	32,251,370	32,073,227	32,261,262
Basic earnings per share	$ 0.28	$ 0.31	$ 0.46	$ 0.50
Diluted earnings per share	$ 0.28	$ 0.31	$ 0.46	$ 0.50

NOTE I Segment Information

FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information , establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company s chief operating decision making group is made up of the Company s Chief Executive Officer and President. While results are evaluated in a number of different ways, the line of business management structure is the primary basis for which the allocation of resources and financial results are assessed. Prior to August 2006, the Company had one line of business and operating segment, Workforce Management Solutions . This segment is involved in the development, manufacturing and marketing of workforce managemen