SCM MICROSYSTEMS INC
Form 10-Q
May 15, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 Q

þ **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

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _________ TO _________
COMMISSION FILE NUMBER: 0-29440

SCM MICROSYSTEMS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**77-0444317**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

Oskar-Messter-Str. 13, 85737 Ismaning, Germany
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES INCLUDING ZIP CODE)
+ 49 89 95 95 5000
(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 þ No o
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 o Accelerated filer o Non-accelerated filer þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
At May 8, 2007, 15,727,307 shares of common stock were outstanding.

SCM MICROSYSTEMS, INC.
FORM 10-Q
QUARTER ENDED MARCH 31, 2007
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net revenue	$ 8,457	$ 7,427
Cost of revenue	4,717	4,777
Gross profit	3,740	2,650
Operating expenses:		
Research and development	720	969
Selling and marketing	1,559	1,839
General and administrative	1,400	2,084
Amortization of intangible assets	175	160
Restructuring and other charges		422
Total operating expenses	3,854	5,474
Loss from operations	(114)	(2,824)
Interest and other income, net	308	134
Income (loss) from continuing operations before income taxes	194	(2,690)
Provision for income taxes	(60)	(11)
Income (loss) from continuing operations	134	(2,701)
Loss from discontinued operations, net of income taxes	(17)	(942)
Gain on sale of discontinued operations, net of income taxes	23	21
Net income (loss)	$ 140	$ (3,622)
Income (loss) per share from continuing operations:		
Basic and diluted	$ 0.01	$ (0.17)

Loss per share from discontinued operations:		
Basic and diluted		$ (0.06)
Net income (loss) per share:		
Basic and diluted	$ 0.01	$ (0.23)
Shares used to compute basic income (loss) per share	15,700	15,593
Shares used to compute diluted income (loss) per share	15,742	15,593
Comprehensive income (loss):		
Net income (loss)	$ 140	$ (3,622)
Unrealized gain on investments	10	16
Foreign currency translation adjustment	228	253
Total comprehensive income (loss)	$ 378	$ (3,353)

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)
(unaudited)

	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,453	$ 32,103
Short-term investments	4,987	4,799
Accounts receivable, net of allowances of $813 and $867 as of March 31, 2007 and December 31, 2006	6,089	6,583
Inventories	2,821	1,927
Other current assets	1,780	2,489
Total current assets	47,130	47,901
Property and equipment, net	1,516	1,457
Intangible assets, net	97	272
Other assets	1,775	1,725
Total assets	$ 50,518	$ 51,355
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,270	$ 4,572
Accrued compensation and related benefits	1,398	1,729
Accrued restructuring and other charges	3,228	3,431
Accrued professional fees	792	1,063
Accrued royalties	849	971
Other accrued expenses	2,054	2,289
Income taxes payable	209	1,879
Total current liabilities	12,800	15,934
Long-term income taxes payable	168	
Deferred tax liability	105	103

Commitments and contingencies (see Notes 10 and 11)		
Total liabilities	13,073	16,037
Stockholders equity:		
Common stock, $0.001 par value: 40,000 shares authorized; 16,344 and 16,316 shares issued and 15,727 and 15,698 shares outstanding as of March 31, 2007 and December 31, 2006, respectively	16	16
Additional paid-in capital	228,782	228,580
Treasury stock	(2,777)	(2,777)
Accumulated deficit	(190,028)	(191,714)
Other cumulative comprehensive gain	1,452	1,213
Total stockholders equity	37,445	35,318
Total liabilities and stockholders equity	$ 50,518	$ 51,355

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income (loss)	$ 140	$ (3,622)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (gain) from discontinued operations	(6)	921
Deferred income taxes	2	2
Depreciation and amortization	244	274
Loss (gain) on disposal of property and equipment	(6)	15
Stock compensation expense	128	171
Changes in operating assets and liabilities:		
Accounts receivable	498	(288)
Inventories	(886)	(955)
Other assets	790	(170)
Accounts payable	(95)	435
Accrued expenses	(1,283)	88
Income taxes payable	42	21
Net cash used in operating activities from continuing operations	(432)	(3,108)
Net cash provided (used) in operating activities from discontinued operations	(218)	216
Net cash used in operating activities	(650)	(2,892)
Cash flows from investing activities:		
Capital expenditures	(101)	
Purchase of restricted short-term investments		(2,000)
Maturities of short-term investments	3,763	5,833
Purchases of short-term investments	(3,940)	(2,878)
Net cash provided by (used in) investing activities	(278)	955
Cash flows from financing activities:		
Proceeds from issuance of equity securities	74	
Net cash provided by financing activities	74	
Effect of exchange rates on cash and cash equivalents	204	162
Net decrease in cash and cash equivalents	(650)	(1,775)
Cash and cash equivalents at beginning of period	32,103	13,660

Cash and cash equivalents at end of period	$ 31,453	$ 11,885
Supplemental disclosures of cash flow information cash paid for:		
Income taxes	$ 19	$ 87
Property and equipment invoices in accounts payable	$	$ 17

See notes to condensed consolidated financial statements.

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SCM MICROSYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America 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. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the financial statements and footnotes thereto included in SCM Microsystems Inc. s (SCM or the Company) Annual Report on Form 10-K for the year ended December 31, 2006.

During the review of the preparation of the cash flows from discontinued operations, the Company discovered that in the condensed consolidated statements of cash flows for the three months ended March 31, 2006, in the section Cash flows from operating activities , the amounts in lines Accrued expenses and Net cash used in operating activities from continuing operations had to be reduced by $1.1 million compared to the condensed consolidated statements of cash flows submitted with Form 10-Q for the quarterly period ended March 31, 2006. Simultaneously, the amount in line Net cash provided (used) in operating activities from discontinued operations had to be increased by $1.1 million compared to the condensed consolidated statements of cash flows submitted with Form 10-Q for the quarterly period ended March 31, 2006. The adjustment did not have any impact to the cash flows from operating activities in total and was not considered to be material.

Discontinued Operations

On May 22, 2006, the Company completed the sale of substantially all the assets and some of the liabilities associated with its Digital Television solutions (DTV solutions) business to Kudelski S.A. (Kudelski) for a total consideration of $11 million in cash, of which $9 million has been paid. Based on recent actions by Kudelski and the terms of the purchase agreement, the Company has made demand for payment of the remaining $2 million. The obligation to make the additional $2 million payment is disputed by Kudelski. Accordingly, the Company has not recorded the $2 million as receivable. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* (SFAS 144), for the three months ended March 31, 2007 and 2006, this business has been presented as discontinued operations in the condensed consolidated statements of operations and cash flows and all prior periods have been reclassified to conform to this presentation. See Note 3 for further discussion of this transaction.

Accounting Changes

During the first quarter of fiscal 2007, the Company adopted the provisions of, and accounted for uncertain tax positions in accordance with the Financial Accounting Standards Board s (FASB) Interpretation No. 48, *Accounting For Uncertain Tax Positions* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption are to be accounted for as an adjustment to the beginning balance of retained earnings.

As a result of the implementation, the Company recognized a $1.5 million decrease to income taxes payable for uncertain tax positions. This decrease was accounted for as an adjustment to the beginning balance of accumulated deficit on the balance sheet. Including this decrease, at the beginning of 2007, the Company had $0.1 million of unrecognized tax benefits included in income taxes payable on the consolidated balance sheet. At March 31, 2007, the Company has $0.2 million of unrecognized tax benefits disclosed in income taxes payable on the consolidated balance sheet. As a result of adoption of FIN 48, unrecognized tax benefits were reclassified to long-term income taxes payable, where applicable.

In addition, $1.6 million of unrecognized tax benefits have existed as of January 1, 2007, which do not have any impact on the consolidated balance sheet or income statement, as these only impact the amounts of losses carried forward by the various entities of the Company as any deferred tax assets on these losses carried forward have been fully reserved for. The amount of these unrecognized tax benefits has not changed during the first quarter of 2007.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2007, approximately $34,000 of accrued interest related to uncertain tax positions.

The Company files U.S. federal, U.S. state and foreign tax returns. The Company is generally no longer subject to tax examinations for years prior to 1999.

While timing of the resolution and/or finalization of audits is very uncertain, the company does not believe it is reasonably possible that the unrecognized tax benefits would materially change in the next 12 months.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the fiscal year beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 157 on its financial position, results of operations and cash flows and does not believe the impact of the adoption will be material.

2. Stock Based Compensation

The Company has a stock-based compensation program that provides its Board of Directors discretion in creating employee equity incentives. This program includes incentive and non-statutory stock options under various plans, the majority of which are stockholder approved. Stock options are generally time-based and expire ten years from the grant date. Vesting varies, with some portion of options vesting 25% each year over four years; some vesting 1/12th per month over one year; some vesting 100% after one year; and some vesting 1/12th per month commencing four years from date of grant. Additionally, the Company had an Employee Stock Purchase Plan (ESPP) that allowed employees to purchase shares of common stock at 85% of the fair market value at the lower of either the date of enrollment or the date of purchase. Shares issued as a result of stock option exercises and the ESPP are newly issued shares. As of March 31, 2007, the Company had approximately 2.0 million shares of common stock reserved for future issuance under its stock option plans. The Company s ESPP, director option plan and 1997 stock option plan expired in March 2007.

On January 1, 2006, the Company adopted the provisions of SFAS 123(R) for its share-based compensation plans. Under SFAS 123(R), the Company is required to recognize stock-based compensation costs based on the estimated fair value at the grant date for its share-based awards. In accordance to this standard, the Company recognizes the compensation cost of all share-based awards on a straight-line basis over the requisite service period which is the vesting period of the award.

The Company elected to use the modified prospective transition method as permitted by SFAS 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, in the three months ended March 31, 2007 the compensation cost recognized includes the cost for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123. Compensation cost for all share-based compensation awards granted on or subsequent to January 1, 2006 was based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation expense from the accelerated multiple-option approach to the straight-line single option method. Compensation expense for all share-based payment awards granted prior to January 1, 2006 will continue to be recognized using the accelerated multiple-option approach, while compensation expense for all share-based payment awards granted on or subsequent to January 1, 2006 has been and will continue to be recognized using the straight-line single-option approach.

Compensation expense recognized in the unaudited condensed consolidated statement of operations for the three months ended March, 31, 2007 is based on awards ultimately expected to vest and reflects estimated forfeitures. SFAS 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. Prior to adoption of SFAS 123(R), the Company accounted for forfeitures as they occurred.

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In calculating the compensation cost, the Company estimates the fair value of each option grant on the date of grant using the Black-Scholes-Merton options pricing model. The Black-Scholes-Merton option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, the Black-Scholes-Merton model requires the input of highly subjective assumptions including the expected stock price volatility.

As a result of adopting SFAS 123(R), for the three months ended March 31, 2007, the Company s income from continuing operations before income tax provision and net income from continuing operations was $0.1 million lower than if it had continued to account for share-based compensation under Accounting Principles Board Opinion No 25, *Accounting for Stock Issued to Employees* (APB 25). For the three months ended March 31, 2006, the Company s loss from continuing operations before income tax provision and net loss from continuing operations was $0.2 million higher than under APB 25. Basic and diluted net income per share and net loss per share for the three months ended March 31, 2007 and 2006 would have been $0.01 lower and $0.01 higher, respectively, if the Company had not adopted SFAS 123(R). There was no effect on the condensed consolidated statements of cash flows for the three months ended March 31, 2007 from adopting SFAS 123(R).

On November 10, 2005, the FASB issued FASB Staff Position No. 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards* (FAS 123(R)-3). The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

The following table illustrates the stock-based compensation expense resulting from stock options and ESPP included in the unaudited condensed consolidated statement of operations for the three-month periods ended March 31, 2007 and 2006 (in thousands):

	Three months Ended March 31,	
	2007	**2006**
Cost of revenue	$ 15	$ 6
Research and development	22	27
Selling and marketing	30	42
General and administrative	61	96
Stock-based compensation expense before income taxes	$ 128	$ 171
Income tax benefit		
Stock-based compensation expense after income taxes	$ 128	$ 171

Stock Option Plans

The Company s director option plan, ESPP and the 1997 stock option plan expired in March 2007. A total of 113,047 shares of common stock was reserved for future option grants under the remaining plans as of March 31, 2007.

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Summary of activity under stock option plans for the three months ended March 31, 2007:

	Options Available for Grant	Number of Options Outstanding	Weighted Average Exercise Price per share	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Balance at December 31, 2006	4,084,775	1,783,255	$ 12.58	$ 81,808	5.79
Options granted	(330,071)	330,071	$ 4.19		
Options cancelled or expired	(3,641,657)	(75,383)	$ 19.63		
Options exercised		(902)	$ 3.31	$ 753	
Balance at March 31, 2007	113,047	2,037,041	$ 10.96	$ 927,048	6.27
Vested or expected to vest at March 31, 2007		1,864,224	$ 11.63	$ 821,811	
Exerciseable at March 31, 2007		1,170,237	$ 16.42	$ 299,041	4.19

The weighted-average grant date fair value per option for options granted during the three months ended March 31, 2007 and 2006 was $2.09 and $1.83, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2007 and 2006 was $750 and $0, respectively. Cash proceeds from the exercise of stock options were $3,000 and $0 for the three months ended March 31, 2007 and 2006, respectively. No income tax benefit was realized from stock option exercises during the three-month period ended March 31, 2007 and 2006. At March 31, 2007, there was $1.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures related to non-vested options, that is expected to be recognized over a weighted-average period of 1.9 years.

The fair value of option grants was estimated by using the Black-Scholes-Merton model with the following weighted-average assumptions for the three months ended March 31, 2007 and 2006, respectively:

	Three Months Ended March 31,	
	2007	2006
Expected volatility	60%	72%
Dividend yield	0	0
Risk-free interest rate	4.54%	4.82%
Expected term (in years)	4.00	3.92

Expected Volatility: The Company s computation of expected volatility for the three-month period ended March 31, 2007 is based on the historic volatility of the Company s stock for a time period equivalent to the expected life.

Dividend Yield: The dividend yield assumption is based on the Company s history and expectation of dividend payouts.

Risk-Free Interest Rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

Expected Term: The Company s expected term represents the period that the Company s stock-based awards are expected to be outstanding after the vest date and was determined for the three-month period ended March 31, 2007 based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior. Stock options are generally granted with vesting periods between one and five years.

Forfeiture Rates: Compensation expense recognized in the condensed consolidated statement of operations for the three months ended March 31, 2007 is based on awards ultimately expected to vest and it reflects estimated forfeitures. SFAS 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. Prior to adoption of SFAS 123(R), the Company accounted for forfeitures as they occurred.

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1997 Employee Stock Purchase Plan

The Company s ESPP permitted eligible employees to purchase common stock through payroll deductions up to 10% of their base wages at a purchase price of 85% of the lower of fair market value of the common stock at the beginning or end of each offering period. The Company had a two-year rolling plan with four purchases every six months within the offering period. If the fair market value per share was lower on the purchase date than the beginning of the offering period, the current offering period terminated and a new two year offering period would have commenced. The Company s ESPP restricted the maximum amount of shares purchased by an individual to $25,000 worth of common stock each year. As of March 31, 2007, no shares were available for future issuance under the Company s ESPP, as the plan expired in March 2007.

The fair value of issuances under the Company s ESPP was estimated on the issuance date by applying the principles of FASB Technical Bulletin 97-1 (FTB 97-1), *Accounting under Statement 123 for Certain Employee Stock Purchase Plan with a Look Back Option*, and using the Black-Scholes-Merton options pricing model. Stock-based compensation expense related to the Company s ESPP recognized under SFAS 123(R) for the three months ended March 31, 2007 was a benefit of $40,000, which stemmed from the expiration of the plan before the expected offering periods had terminated. At March 31, 2007, there was no further unrecognized stock-based compensation expense related to outstanding ESPP shares as the plan expired in March 2007.

3. Discontinued Operations

On May 22, 2006, the Company completed the sale of substantially all the assets and some of the liabilities associated with its DTV solutions business to Kudelski for a total expected consideration of $11 million in cash, of which $9 million has been received as of December 31, 2006. As part of the purchase contract, the remaining $2 million was to be paid to the Company upon fulfillment of certain conditions. Based on recent actions by Kudelski and the terms of the purchase agreement, the Company has made demand for payment of the remaining $2 million. The obligation to make the additional $2 million payment is disputed by Kudelski. Accordingly, the Company has not recorded the $2 million as a receivable. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, for the three months ended March 31, 2007 and 2006, the DTV solutions business has been presented as discontinued operations in the consolidated statements of operations and cash flows and all prior periods have been reclassified to conform to this presentation.

Based on the carrying value of the assets and the liabilities attributed to the DTV solutions business on May 22, 2006, and the estimated costs and expenses incurred in connection with the sale, the Company recorded a net pretax gain of approximately $5.5 million, excluding the $2 million noted above.

Based on a Transition Services and Side Agreement between the Company and Kudelski, revenues relating to the discontinued operations of the DTV solutions business were generated for a limited time after the sale of the DTV solutions business. Under this agreement, a service fee was earned by the Company for its services related to ordering products from a supplier and selling these products to Kudelski. The agreement was terminated at the end of the first quarter of 2007 and revenues ceased to be generated after this period.

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The operating results for the discontinued operations of the DTV solutions business for the three months ended March 31, 2007 and during the same period for 2006 are as follows (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Net revenue	$ 496	$ 5,790
Operating gain (loss)	$ 34	$ (900)
Income (loss) before income taxes	$ 57	$ (899)
Income tax benefit	$	$ 60
Gain (loss) from discontinued operations	$ 57	$ (839)

During 2003, the Company completed two transactions to sell its retail Digital Media and Video business. On July 25, 2003, the Company completed the sale of its digital video business to Pinnacle Systems and on August 1, 2003, the Company completed the sale of its retail digital media reader business to Zio Corporation. As a result of these sales, the Company has accounted for the retail Digital Media and Video business as discontinued operations.

The operating results for the discontinued operations of the retail Digital Media and Video business for the three months ended March 31, 2007 and during the same period for 2006 are as follows (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Operating loss	$ (80)	$ (70)
Net loss before income taxes	$ (74)	$ (62)
Income tax provision	$	$ (41)
Loss from discontinued operations	$ (74)	$ (103)

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4. Short-Term Investments

At March 31, 2007, all of the short-term investment portfolio matures in 2007. The fair value of short-term investments at March 31, 2007 and December 31, 2006 was as follows (in thousands):

	March 31, 2007		
	Amortized Cost	Unrealized Loss on Investments	Estimated Fair Value
Corporate notes	$ 3,974	$ (2)	$