

THORATEC CORP
Form 10-Q
May 05, 2010

Table of Contents

**U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark one)

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

**For the quarterly period ended April 3, 2010
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: 000-49798
THORATEC CORPORATION**

(Exact name of registrant as specified in its charter)

California

**(State or other jurisdiction of incorporation
or organization)**

94-2340464

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

**6035 Stoneridge Drive, Pleasanton, California
(Address of principal executive offices)**

94588

(Zip Code)

(925) 847-8600

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if smaller reporting company)

Smaller reporting company

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

As of April 23, 2010, the registrant had 57,328,056 shares of common stock outstanding.

**THORATEC CORPORATION
TABLE OF CONTENTS**

<u>Part I. Financial Information</u>	
<u>Item 1. Unaudited Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of April 3, 2010 and January 2, 2010</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended April 3, 2010 and April 4, 2009</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended April 3, 2010 and April 4, 2009</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	35
<u>Part II. Other Information</u>	
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sale of Equity Securities and Use of Proceeds</u>	36
<u>Item 6. Exhibits</u>	37
<u>Signatures</u>	38
<u>Exhibits</u>	
<u>EX-10.34</u>	
<u>EX-10.35</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****THORATEC CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS****(unaudited)
(in thousands)**

	April 3, 2010	January 2, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,798	\$ 26,461
Short-term available-for-sale investments	282,364	279,174
Receivables, net of allowances of \$738 and \$844, respectively	73,596	66,088
Inventories	63,562	66,935
Deferred tax assets	12,561	12,261
Prepaid expenses and other assets	10,637	6,947
 Total current assets	 474,518	 457,866
 Property, plant and equipment, net	 52,276	 51,852
Goodwill	99,287	99,287
Purchased intangible assets, net	98,659	99,859
Long-term available-for-sale investments	23,946	24,634
Other long-term assets	10,918	13,059
 Total Assets	 \$ 759,604	 \$ 746,557
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 12,600	\$ 8,532
Accrued compensation	15,277	22,407
Other accrued liabilities	12,494	14,772
 Total current liabilities	 40,371	 45,711
 Senior subordinated convertible notes	 134,015	 131,929
Long-term deferred tax liability	29,986	31,720
Other	11,440	12,069
 Total Liabilities	 215,812	 221,429
Shareholders equity:		
Common shares: no par, authorized 100,000; issued and outstanding 57,309 and 57,043 as of April 3, 2010 and January 2, 2010, respectively		
Additional paid-in capital	567,913	557,418
Accumulated deficit	(20,686)	(30,321)
Accumulated other comprehensive loss:		
Unrealized loss on investments	(1,308)	(648)

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Cumulative translation adjustments	(2,127)	(1,321)
Total accumulated other comprehensive loss	(3,435)	(1,969)
Total Shareholders' Equity	543,792	525,128
Total Liabilities and Shareholders' Equity	\$ 759,604	\$ 746,557

See notes to the unaudited condensed consolidated financial statements.

3

Table of Contents

THORATEC CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(in thousands, except per share data)

	Three Months Ended	
	April 3, 2010	April 4, 2009
Product sales	\$ 121,578	\$ 89,466
Cost of product sales	45,705	35,439
Gross profit	75,873	54,027
Operating expenses:		
Selling, general and administrative	28,470	27,455
Research and development	23,068	14,086
Amortization of purchased intangible assets	2,614	2,931
Total operating expenses	54,152	44,472
Income from operations	21,721	9,555
Other income and (expense):		
Interest expense and other	(2,880)	(2,866)
Interest income and other	1,708	988
Impairment on investment	(2,000)	
Income before income taxes	18,549	7,677
Income tax expense	(6,116)	(2,050)
Net income	\$ 12,433	\$ 5,627
Net income per share:		
Basic	\$ 0.22	\$ 0.10
Diluted	\$ 0.21	\$ 0.10
Shares used to compute net income per share (1):		
Basic	56,638	55,527
Diluted	58,106	56,882

See notes to the unaudited condensed consolidated financial statements.

(1) See Note 14, Net Income Per Share, for the computation of basic and diluted calculation using the two-class method.

Table of Contents**THORATEC CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)****(in thousands)**

	Three Months Ended	
	April 3, 2010	April 4, 2009
Cash flows from operating activities:		
Net income	\$ 12,433	\$ 5,627
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,179	5,537
Investment premium amortization, net	1,250	691
Non-cash expenses, net	(573)	(47)
Non-cash interest expense	2,940	2,763
Impairment on investment	2,000	
Tax benefit related to stock options	2,446	1,119
Share-based compensation expense	4,684	4,036
Excess tax benefits from share-based compensation	(2,185)	(1,041)
Loss on disposal of assets	19	
Change in net deferred tax liability	(1,729)	(2,801)
Changes in assets and liabilities:		
Receivables	(7,979)	(4,552)
Inventories	2,135	(4,264)
Prepaid expenses and other assets	(889)	(110)
Accounts payable and other liabilities	(3,760)	(7,103)
Accrued income taxes, net	(5,067)	1,501
Net cash provided by operating activities	10,904	1,356
Cash flows from investing activities:		
Purchases of available-for-sale investments	(117,447)	
Sales of available-for-sale investments	80,536	20,808
Maturities of available-for-sale investments	32,090	10,460
Restricted cash and cash equivalents		(20,000)
Purchase of patents	(1,414)	
Purchases of property, plant and equipment	(2,018)	(3,646)
Net cash (used in) provided by investing activities	(8,253)	7,622
Cash flows from financing activities:		
Excess tax benefits from share-based compensation	2,185	1,041
Proceeds from stock option exercises	4,772	1,033
Repurchase and retirement of common shares	(4,222)	(2,894)
Net cash provided by (used in) financing activities	2,735	(820)
Effect of exchange rate changes on cash and cash equivalents	(49)	163
Net increase in cash and cash equivalents	5,337	8,321
Cash and cash equivalents at beginning of period	26,461	107,053

Cash and cash equivalents at end of period	\$ 31,798	\$ 115,374
Supplemental disclosure of cash flow information:		
Cash paid for taxes	\$ 10,532	\$ 2,180
Supplemental disclosure of non-cash investing and financing activities:		
Transfers of equipment from inventory	\$ 1,237	\$ 41
Purchases of property, plant and equipment through accounts payable and accrued liabilities	\$ 79	\$ 149

See notes to the unaudited condensed consolidated financial statements.

Table of Contents**THORATEC CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****1. Operations and Significant Accounting Policies***Basis of Presentation*

The interim unaudited condensed consolidated financial statements of Thoratec Corporation (we, our, us, or the Company) have been prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC), without audit, and reflect all adjustments necessary (consisting only of normal recurring adjustments) to present fairly our financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in our annual financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. The accompanying financial statements should be read in conjunction with our fiscal 2009 consolidated financial statements, and the accompanying notes thereto, filed with the SEC in our Annual Report on Form 10-K (the 2009 Annual Report). The operating results for any interim period are not necessarily indicative of the results that may be expected for any future period.

The preparation of our unaudited condensed consolidated financial statements necessarily requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the unaudited condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented. The actual amounts could differ from those estimated amounts.

Revenue Recognition and Product Warranty

We recognize revenue from product sales of our Cardiovascular and ITC divisions when evidence of an arrangement exists, and title has passed (generally upon shipment) or services have been rendered, the selling price is fixed or determinable and collectability is reasonably assured. Sales to distributors are recorded when title transfers.

The majority of our products are covered by up to a two-year limited manufacturer's warranty. Estimated contractual warranty obligations are recorded when related sales are recognized and any additional amounts are recorded when such costs are probable, can be reasonably estimated and are included in Cost of product sales. The change in accrued warranty expense is summarized in the following table:

	Balance Beginning of Period	Accruals of Warranties Issued	Settlements Made	Balance End of Period
	(in thousands)			
Three months ended April 3, 2010	\$ 2,472	\$ 835	\$ (815)	\$ 2,492
Three months ended April 4, 2009	\$ 1,071	\$ 1,072	\$ (882)	\$ 1,261

6

Table of Contents**2. Accounting Standards**

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 amends ASC 820 and requires interim disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements. Additionally, this ASU requires disclosures for each class of assets and liabilities and including disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. These disclosures are required for fair value measurements that fall in either Level 2 or Level 3. Further, the ASU requires separate presentation of Level 3 activity, on a gross basis, for the fair value measurements. We adopted the requirements of this ASU during the quarter ended April 3, 2010 which are disclosed in our Note 5, Fair Value Measurements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)*, which amends ASC 605-25, *Revenue Recognition: Multiple-Element Arrangements*. ASU No. 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate consideration to each unit of accounting in the arrangement. This ASU replaces all references to fair value as the measurement criteria with the term selling price and establishes a hierarchy for determining the selling price of a deliverable. ASU No. 2009-13 also eliminates the use of the residual value method for determining the allocation of arrangement consideration. Additionally, ASU No. 2009-13 requires expanded disclosures. This ASU will become effective for revenue arrangements entered into or materially modified after the fiscal year 2010. Earlier application is permitted with required transition disclosures based on the period of adoption. We are currently evaluating the application date and the impact of this standard on our unaudited condensed consolidated financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities of 90 days or less at the date of purchase. The fair value of these investments was determined by using quoted prices for identical investments in active markets which are measured at Level 1 inputs under ASC 820, *Fair Value Measurements and Disclosures*.

4. Investments

Our investment portfolio is comprised of short-term and long-term investments. Investments classified as short-term available-for-sale consist primarily of municipal bonds, corporate bonds, commercial paper and variable demand notes. Investments classified as long-term available-for-sale consist of auction rate securities, whose underlying assets are student loans. In addition, our long-term investments associated with the deferred compensation plans are classified as trading and consist of the cash surrender value of our corporate owned life insurance policies.

Our investments in available-for-sale securities are recorded at estimated fair value on our financial statements, and the temporary differences between cost and estimated fair value are presented as a separate component of accumulated other comprehensive loss.

As of April 3, 2010, we had unrealized gains before tax from our investment in municipal bonds, corporate bonds, commercial paper and variable demand notes of \$1.5 million and unrealized losses before tax from our auction rate securities of \$3.8 million.

The aggregate market value, cost basis and gross unrealized gains and losses of available-for-sale investments as of April 3, 2010 and as of January 2, 2010 by major security type are as follows:

	Amortized cost	Gross unrealized gains (losses) (in thousands)	Fair value
April 3, 2010:			
Short-term investments:			
Municipal bonds	\$ 201,612	\$ 1,139	\$ 202,751

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Variable demand notes	62,447		62,447
Corporate bonds	13,826	353	14,179
Commercial paper	2,987		2,987
	\$ 280,872	\$ 1,492	\$ 282,364
Long-term investments:			
Auction rate securities	\$ 27,700	\$ (3,754)	\$ 23,946
January 2, 2010:			
Short-term investments:			
Municipal bonds	\$ 196,650	\$ 1,526	\$ 198,176
Variable demand notes	66,865		66,865
Corporate bonds	13,785	348	14,133
	\$ 277,300	\$ 1,874	\$ 279,174
Long-term investments:			
Auction rate securities	\$ 27,700	\$ (3,066)	\$ 24,634

Table of Contents

As of April 3, 2010, we owned approximately \$27.7 million face amount of auction rate securities classified as long-term. The assets underlying these investments are student loans backed by the U.S. government under the Federal Family Education Loan Program or by private insurers and are rated between A- and AAA. Historically, these securities have provided liquidity through a Dutch auction process that resets the applicable interest rate periodically every seven to thirty-five days. Beginning in February of 2008, these auctions began to fail. The principal amount of these auction rate securities will not be accessible until future auctions for these securities are successful, a secondary market is established, these securities are called for redemption, or they are paid at maturity.

As a result of these auction failures, these auction rate securities do not have a readily determinable market value. We estimated fair values at April 3, 2010 using a discounted cash flow model based on estimated interest rates, the present value of future principal and interest payments discounted at rates considered to reflect current market conditions, and the credit quality of the underlying securities. Specifically, our management estimated the future cash flows over a five-year period, and applied a credit default rate to reflect the risk in the marketplace for these investments that has arisen due to the lack of an active market.

As of April 3, 2010 we have recorded an estimated cumulative unrealized loss of \$3.8 million (\$2.3 million, net of tax) related to the temporary impairment of the auction rate securities, which was included in accumulated other comprehensive loss within shareholders' equity. In addition, our management reviews impairments and credit losses associated with its investments, including auction rate securities, to determine the classification of the impairment as temporary or other-than-temporary and to bifurcate the credit and non-credit component of an other-than-temporary impairment event. We (i) do not intend to sell any of the auction rate securities prior to maturity at an amount below the original purchase value; (ii) intend to hold the investment to recovery and based on a more-likely-than-not probability assessment we will not be required to sell the security before recovery; and (iii) deem that it is not probable that we will receive less than 100% of the principal and accrued interest from the issuer. Therefore, 100% of the impairment was charged to other comprehensive loss. Our auction rate securities are classified as long-term and are valued at \$23.9 million using significant unobservable inputs. Further, we continue to liquidate investments in auction rate securities as opportunities arise.

If the issuers of the auction rate securities are unable to successfully complete future auctions and their credit ratings deteriorate, we may in the future be required to record an impairment charge to earnings on these investments. It could conceivably take until the final maturity of the underlying notes (up to 30 years) to realize the investments carrying value.

The aggregate market value of our trading investments as of April 3, 2010 and as of January 2, 2010 are as follows:

			Fair Value (in thousands)
April 3, 2010:			
Other long-term assets	carrying value of investments	deferred compensation plan	\$ 2,590
January 2, 2010:			
Other long-term assets	carrying value of investments	deferred compensation plan	\$ 2,436

The investments associated with the deferred compensation plans are included in Other long-term assets on our condensed consolidated balance sheets at the fair value of the cash surrender value of our corporate owned life insurance policies. The realized gain from the change in the fair value of the cash surrender value for the three months ended April 3, 2010 of \$0.2 million is included in Interest expense and other.

5. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosure*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, we used various approaches, including market, income and/or cost

approaches, and each of these approaches requires certain inputs. Fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions as compared to the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances.

We value our financial and nonfinancial assets and liabilities based on the observability of inputs used in the valuation of such assets and liabilities using the following fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial and nonfinancial assets and liabilities carried or disclosed at fair value were classified and disclosed in one of the following three categories:

Table of Contents

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted prices of similar investments in active markets, of similar or identical investments in markets that are not active or model based valuations for which all significant inputs and value drivers are observable, directly or indirectly.

Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

The following table represents the hierarchy of our financial assets and financial liabilities measured at fair value on a recurring basis:

	April 3, 2010				
	Assets and liabilities at carrying value	Total fair value	Quoted prices in active markets for identical assets (Level 1) (in thousands)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets					
Short-term investments:					
Municipal bonds	\$ 202,751	\$ 202,751	\$	\$ 202,751	\$
Variable demand notes	62,447	62,447		62,447	
Corporate bonds	14,179	14,179		14,179	
Commercial paper	2,987	2,987		2,987	
Prepaid expenses and other assets mark to market on foreign exchange instruments (Note 6)	37	37		37	
Long-term investments auction rate securities	23,946	23,946			23,946
Other long-term assets carrying value of investments deferred compensation plan	2,590	2,590		2,590	
Liabilities					
Make-whole provision (Note 10)	12	12			12

January 2, 2010

	January 2, 2010				
	Assets and liabilities at carrying value	Total fair value	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs

			(Level 1) (in thousands)	(Level 2)	(Level 3)
Assets					
Short-term investments:					
Municipal bonds	\$ 198,176	\$ 198,176	\$	\$ 198,176	\$
Variable demand notes	66,865	66,865		66,865	
Corporate bonds	14,133	14,133		14,133	
Prepaid expenses and other assets mark to market on foreign exchange instruments (Note 6)	8	8		8	
Long-term investments auction rate securities	24,634	24,634			24,634
Other long-term assets carrying value of investments deferred compensation plan	2,436	2,436		2,436	
Liabilities					
Make-whole provision (Note 10)	23	23			23

Assets measured at fair value on a recurring basis using significant unobservable Level 3 inputs consist of securities with an auction reset feature (auction rate securities) whose underlying assets are student loans issued by various tax-exempt state agencies, most of which are supported by federal government guarantees and some of which are supported by private insurers. To estimate the fair value of the auction rate securities, the present value of future cash flows are estimated by discounting future principal and interest payments over a five year period. Significant inputs which vary by issuer include (1) basis point spread of 0.27% (2) credit default rate which ranges from 1.77% to 6.54% and (3) discount yield rate of 2.67%.

Table of Contents

In addition, we are using significant unobservable Level 3 inputs for the fair value of our convertible debenture with Levitronix, LLC as of April 3, 2010 and January 2, 2010 of \$2.5 million and \$3.0 million, respectively. This convertible debenture is recorded at the carrying value of \$2.8 million as of both April 3, 2010 and January 2, 2010, and is included in Other long-term assets on the condensed consolidated balance sheets.

Senior subordinated convertible notes measured at fair value on a recurring basis using Level 2 inputs include quoted prices of identical or similar liabilities and are measured at a fair value of \$240.1 million and \$205.4 million, as of April 3, 2010 and January 2, 2010 respectively.

Valuation techniques on our short-term available-for-sale investments which are recorded at fair value using quoted prices of similar or like securities that are traded in markets that are not active. Our foreign exchange instruments are measured at fair value using internal models based on observable market inputs such as forward prices and exchange rates. Our long-term available-for-sale investments are measured at fair value based on unobservable market inputs using a discounted cash flow model based on estimated interest rates, the present value of future principal and interest payments discounted at rates considered to reflect current market conditions, and the credit quality of the underlying securities. Our carrying value of investments on our deferred compensation plan are recorded at fair value of similar securities that are traded in markets that are not active.

Valuation techniques on our make-whole provision are measured at fair value based on an internal model using unobservable inputs such as our stock price, the volatility of our stock, the probability of us being acquired and the probability of the type of consideration used by a potential acquirer.

The following table provides a reconciliation of the beginning and ending balances for the assets and liabilities measured at fair value using significant unobservable inputs (Level 3):

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	
	Auction Rate Securities	Liabilities
	(in thousands)	
Balance as of January 2, 2010	\$ 24,634	\$ 23
Unrealized holding gain on make-whole provision, included in interest income and other		(11)
Unrealized holding loss on auction rate securities, included in other comprehensive income	(688)	
Balance as of April 3, 2010	\$ 23,946	\$ 12

We continue to monitor the market for auction rate securities and consider its impact (if any) on the fair value of our investments. If the current market conditions deteriorate further, or the anticipated recovery in fair values does not occur, we may be required to record additional unrealized losses in accumulated other comprehensive loss or other-than-temporary impairment charges to the unaudited condensed consolidated statement of operations in future periods.

6. Foreign Exchange Instruments

We utilize foreign currency forward exchange contracts and options to mitigate against future movements in foreign exchange rates that affect certain existing and forecasted foreign currency denominated sales and purchase transactions (primarily assets and liabilities on our U.K. subsidiary's consolidated balance sheet). We do not use derivative financial instruments for speculative or trading purposes. We routinely hedge our exposure to certain foreign currencies with various financial institutions in an effort to minimize the impact of certain currency exchange

rate fluctuations. If a financial counterparty to any of our hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency forward contract, we may experience material financial losses.

Table of Contents

The impacts of the current foreign currency contracts with a maximum maturity of three months, which do not qualify for hedge accounting, were as follows:

	Notional Amounts	
	April 3, 2010	April 4, 2009
	(in thousands)	
Purchases	\$	\$ 9,231
Sales	7,583	11,342

Effective January 3, 2010, we changed our functional currency for our U.K subsidiary from U.K pounds to euros. This change did not have a material impact to our condensed consolidated financial statements, however, the change did impact our foreign currency hedging contracts. As of April 3, 2010, we had two forward contracts, one to sell euros to U.S. dollars with a notional value of 4.7 million and one to sell U.K. pounds to euros with a notional value of £0.8 million as compared to April 4, 2009, when we had forward contracts to sell euros with a notional value of

8.6 million and purchase U.K. pounds with a notional value of £6.4 million. As of April 3, 2010, our forward contracts had an average exchange rate of one U.S. dollar to 1.3467 euros and one U.K. pound to 0.8907 euros. The fair value of these contracts is \$37,000 and included in Prepaid expenses and other assets in our condensed consolidated balance sheets.

The following represents our realized fair value of the forward currency contracts and offsets to the foreign currency exchange gains and losses which were included in Interest income and other in the condensed consolidated statements of operations:

	Three Months Ended	
	April 3, 2010	April 4, 2009
	(in thousands)	
Foreign currency exchange gain on foreign currency contracts	\$ 264	\$ 448
Foreign currency exchange loss on foreign translation adjustments	(330)	(950)

7. Inventories

Inventories consisted of the following:

	April 3, 2010	January 2, 2010
	(in thousands)	
Finished goods	\$ 15,179	\$ 18,003
Work in process	12,377	10,418
Raw materials	36,006	38,514
Total	\$ 63,562	\$ 66,935

Table of Contents**8. Property, Plant and Equipment, net**

Property, plant and equipment, net, consisted of the following:

	April 3, 2010	January 2, 2010
	(in thousands)	
Land, building and improvements	\$ 22,749	\$ 22,740
Equipment and capitalized software	75,962	73,746
Furniture and leasehold improvements	23,851	23,753
Total	122,562	120,239
Less accumulated depreciation	(70,286)	(68,387)
Total	\$ 52,276	\$ 51,852

Depreciation expense for both of the three months ended April 3, 2010 and April 4, 2009 was \$2.6 million.

9. Purchased Intangible Assets and Goodwill

The carrying amount of goodwill was \$99.3 million as of April 3, 2010 and January 2, 2010. The components of goodwill as of April 3, 2010 and January 2, 2010 were \$95.0 million attributable to the Cardiovascular division and \$4.3 million attributable to the ITC acquisition in 2006 of the outstanding common shares of privately held A-VOX Systems, Inc. (Avox).

During the first quarter of 2010, we purchased patents at a fair value of \$1.4 million, which we capitalized under ASC 350, *Intangibles – Goodwill and Other*. These patents have an estimated useful life of ten to eighteen years.

In February 2001, we merged with Thermo Cardiosystems, Inc. The components of identifiable intangible assets related to the merger include: patents and trademarks, core technology (Thoralon, our proprietary bio-material), and developed technology (patented technology, other than core technology, acquired in the merger). The components of intangible assets related to the Avox acquisition include: patents and trademarks, developed technology, and customer and distributor relationships and other.

The purchased intangibles on the condensed consolidated balance sheets are summarized as follows:

	April 3, 2010		
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount
Patents and trademarks	\$ 41,868	\$ (30,264)	\$ 11,604
Core technology	37,485	(16,230)	21,255
Developed technology	125,742	(60,285)	65,457
Customer and distributor relationships and other	897	(554)	343
Total purchased intangible assets	\$ 205,992	\$ (107,333)	\$ 98,659

	January 2, 2010		
	Gross Carrying Amount	Accumulated Amortization (in thousands)	Net Carrying Amount
Patents and trademarks	\$ 40,454	\$ (30,008)	\$ 10,446

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Core technology	37,485	(15,737)	21,748
Developed technology	125,742	(58,448)	67,294
Customer and distributor relationships and other	897	(526)	371
Total purchased intangible assets	\$ 204,578	\$ (104,719)	\$ 99,859

Amortization expense related to purchased intangible assets was \$2.6 million and \$2.9 million for the three months ended April 3, 2010 and April 4, 2009, respectively. Our amortization expense is expected to be approximately \$10.5 million in 2010, declining to \$8.8 million by 2014. This decline in amortization expense is due to certain intangibles being fully amortized. Patents and trademarks have useful lives ranging from three to eighteen years, core and developed technology assets have useful lives ranging from one to twelve years and customer and distributor relationships and other have useful lives of nine months to five years.

Table of Contents**10. Long-Term Debt**

In 2004, we completed the sale of \$143.8 million initial principal amount of senior subordinated convertible notes due in 2034. The convertible notes were sold to Qualified Institutional Buyers pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, provided by Rule 144A thereunder. A portion of the proceeds was used to repurchase 4.2 million shares of our outstanding common stock for \$60 million. The balance of the proceeds has been and will be used for general corporate purposes, which may include additional stock repurchases, strategic investments or acquisitions. The principal amount of the convertible notes at maturity is \$247.4 million which, when offset by the original issue discount of \$103.7 million and net debt issuance costs of \$4.3 million, equaled net proceeds of \$139.4 million.

The senior subordinated convertible notes were issued at an issue price of \$580.98 per note, which is 58.098% of the principal amount at maturity of the notes. The senior subordinated convertible notes bear interest at a rate of 1.3798% per year on the principal amount at maturity, payable semi-annually in arrears in cash on May 16 and November 16 of each year, from November 16, 2004 until May 16, 2011. Beginning on May 16, 2011, the original issue discount will accrue daily at a rate of 2.375% per year on a semi-annual bond equivalent basis and, on the maturity date, a holder will receive \$1,000 per note. As a result, the aggregate principal amount of the notes at maturity will be \$247.4 million.

Holder of the senior subordinated convertible notes may convert their convertible notes into shares of our common stock at a conversion rate of 29.4652 shares per \$1,000 principal amount of senior subordinated convertible notes, which represents a conversion price of \$19.72 per share, subject to adjustments upon the occurrence of certain events as set forth in the indenture. Holders have been and are able to convert their convertible notes at any point after the close of business on October 30, 2004 if, as of the last day of the preceding calendar quarter, the closing price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such preceding calendar quarter is more than 120% of the accreted conversion price per share of our common stock. Commencing October 1, 2008, this market price conversion feature was satisfied, such that holders of the senior subordinated convertible notes may convert their notes through the final maturity date of the notes into shares of our common stock at a conversion rate of 29.4652 shares per \$1,000 principal amount of senior subordinated convertible notes, subject to adjustments as provided in the indenture. If holders elect conversion, we may, at our option, deliver shares of common stock, pay a holder in cash, or deliver a combination of shares and cash, as determined pursuant to the terms of the notes. As of April 3, 2010, no notes had been converted.

Holder may require us to repurchase all or a portion of their senior subordinated convertible notes on each of May 16, 2011, 2014, 2019, 2024 and 2029 at a repurchase price equal to 100% of the issue price, plus accrued original issue discount, if any. In addition, if we experience a change in control or a termination of trading of our common stock each holder may require the Company to purchase all or a portion of such holder's notes at the same price, plus, in certain circumstances, to pay a make-whole premium. This premium is considered an embedded derivative and has been bifurcated from the senior subordinated convertible notes and recorded at its estimated fair value, \$12,000 as of April 3, 2010. There are significant variables and assumptions used in valuing the make-whole provision including, but not limited to, our stock price, the volatility of our stock, the probability of the Company being acquired and the probability of the type of consideration used by a potential acquirer.

The senior subordinated convertible notes are subordinated to all of our senior indebtedness and structurally subordinated to all indebtedness of our subsidiaries. Therefore, in the event of a bankruptcy, liquidation or dissolution of the Company or one or more of our subsidiaries and acceleration of or payment default on our senior indebtedness, holders of the convertible notes will not receive any payment until holders of any senior indebtedness we may have outstanding have been paid in full.

In accordance with ASC 470-20, *Debt*, which applies to certain convertible debt instruments that may be settled in cash or other assets, or partially in cash, upon conversion, we recorded the long-term debt and equity components on the senior subordinated convertible notes separately. This accounting pronouncement increased interest expense associated with our senior subordinated convertible notes by adding a non-cash component to amortize a debt discount calculated based on the difference between the cash coupon rate (2.375% per year) of the senior subordinated convertible notes and the effective interest rate on debt borrowing (9% per year). The discount, which represents the

non-cash interest expense, classified as interest expense on the statements of operations, is being amortized to interest expense over a seven-year period ending May 16, 2011 (the expected life of the liability component) using the effective interest method. Additionally, we allocated transaction costs on the same percentage as the liability and equity component, such that a portion of the deferred debt issuance costs is allocated to the liability component to be amortized using the effective interest method until May 16, 2011, and the equity component to be included in additional paid-in capital.

Table of Contents

Interest expense primarily includes interest and amortization of discount related to senior subordinated convertible notes as follows:

	Three Months Ended	
	April	April 4, 2009
	3, 2010	2009
	(in thousands)	
Interest expense cash component	\$ 854	\$ 853
Interest expense non-cash component	2,086	1,910

The long-term debt and equity component (recorded in additional paid-in-capital, net of income tax benefit) consisted of the following:

	April 3,	January 2,
	2010	2010
	(in thousands)	
Long-term debt		
Principal amount	\$ 143,750	\$ 143,750
Unamortized discount	(9,735)	(11,821)
Net carrying amount	\$ 134,015	\$ 131,929
Equity component, net of income tax benefit	\$ 28,462	\$ 28,462

We may redeem either in whole or in part any of the senior subordinated convertible notes at any time beginning May 16, 2011, by giving the holders at least 30 days notice, at a redemption price equal to the sum of the issue price and the accrued original issue discount. If the holders converted the senior subordinated convertible notes into shares of our stock as of April 3, 2010, the if-converted value would be \$247.8 million, based on our stock price of \$33.99 per share on April 2, 2010, which amount exceeds the original value of \$143.8 million by \$104.1 million. This if-converted value is \$0.4 million more than the \$247.4 million face amount at maturity in 2034.

The aggregate fair value of the senior subordinated convertible notes at April 3, 2010 was \$240.1 million.

11. Comprehensive Income

Comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in accumulated other comprehensive income or loss, a component of shareholders' equity within the condensed consolidated balance sheets, rather than the condensed consolidated statements of operations. Under our existing accounting standards, comprehensive income includes unrecognized gains and losses on investments and currency translation adjustments.

	Three Months Ended	
	April 3,	April 4,
	2010	2009
	(in thousands)	
Net income	\$ 12,433	\$ 5,627
Unrealized losses on investments (net of taxes of \$440 and \$64 for the three months ended April 3, 2010 and April 4, 2009, respectively)	(660)	(96)
Foreign currency translation adjustments	(806)	47
Comprehensive income	\$ 10,967	\$ 5,578

Table of Contents**12. Share-Based Compensation**

Share-based compensation expense is measured based on the grant-date fair value of the share-based awards. We recognize share-based compensation expense for the portion of the award that is expected to vest over the requisite service period for those awards with graded vesting and service conditions. We develop an estimate of the number of share-based awards which will ultimately vest, primarily based on historical experience. The estimated forfeiture rate is re-assessed periodically throughout the requisite service period. Such estimates are revised if they differ materially from actual forfeitures. As required, the forfeiture estimates will be adjusted to reflect actual forfeitures when an award vests.

Share-based compensation included in the condensed consolidated statements of operations consists of the following:

	Three Months Ended	
	April 3, 2010	April 4, 2009
	(in thousands)	
Cost of goods sold	\$ 553	\$ 511
Selling, general and administrative	2,693	2,406
Research and development	1,438	1,119
Total share based compensation expense before taxes	4,684	4,036
Tax benefit for share-based compensation expense	1,990	1,122
Total share-based compensation (net of taxes)	\$ 2,694	\$ 2,914

For the three months ended April 3, 2010 and April 4, 2009, share-based compensation expense of \$0.5 million and \$0.4 million, respectively, was capitalized to inventory.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the fair market value of the options at the date of exercise over the exercise prices of the options. Our unaudited condensed consolidated statements of cash flows presentation reports the excess tax benefits (i.e., windfall only for tax deductions in excess of the share-based compensation expense recognized) as financing cash flows of \$2.2 million and \$1.0 million for three months ended April 3, 2010 and April 4, 2009, respectively.

Cash proceeds from the exercise of stock options were \$4.8 million and \$1.0 million for the three months ended April 3, 2010 and April 4, 2009, respectively. There were no cash proceeds from our employee stock purchase plan for either of the three months ended April 3, 2010 and April 4, 2009. The actual income tax benefit realized from stock option exercises was \$2.4 million and \$1.1 million for the three months ended April 3, 2010 and April 4, 2009, respectively.

Equity Plan

In April 2006, the Board of Directors approved the 2006 Incentive Stock Plan (2006 Plan). In May 2006 the 2006 Plan was amended by the Board of Directors and approved by our shareholders and in May 2008 the 2006 Plan was further amended by the Board of Directors and approved by our shareholders. The 2006 Plan allows us to grant to our employees, directors and consultants up to a total of 5.4 million shares of stock awards. Each share issued from and after May 20, 2008 as restricted stock bonuses, restricted stock units, phantom stock units, performance share bonuses, or performance share units reduces the number of shares available for issuance under the 2006 Plan by one and seventy-four hundredths (1.74) shares, and each share issued as stock options, restricted stock purchases or stock appreciation rights reduces the shares available for issuance under the 2006 Plan on a share-for-share basis. During the three months ended April 3, 2010, approximately 434,000 options were granted under the 2006 Plan at an exercise price equal to the fair market value on the date of grant, and approximately 533,000 shares of restricted stock and restricted stock units were granted under the 2006 Plan. As of April 3, 2010, approximated 791,000 shares remained available for grant under the 2006 Plan.

Table of Contents**Stock Options**

Upon approval in May 2006, the 2006 Plan replaced our previous common stock option plans and equity incentive plans. As of April 3, 2010, we had 4.0 million options outstanding under the 2006 Plan and the replaced plans. Options under the 2006 Plan may be granted by the Board of Directors at the fair market value on the date of grant and generally become fully exercisable within four years after the grant date and expire between five and ten years from the date of grant. Vesting on some options granted to officers may be accelerated in certain circumstances following a change in control of the Company.

The fair value of each option is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended	
	April 3, 2010	April 4, 2009
Risk-free interest rate	3.05%	2.30%
Expected volatility	40%	53%
Expected option life	4.88 to 6.04 years	4.91 to 6.02 years
Dividends	None	None

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected term of options represents the period of time that options are expected to be outstanding. We use separate assumptions for groups of employees (for example, officers) that have similar historical exercise behavior. The range above reflects the expected option impact of these separate groups. We base the expected volatility on a combination of historical volatility trends and market-based implied volatility because we have determined that this combination of historical volatility trends and market-based implied trends are reflective of market conditions.

At April 3, 2010, there was \$7.1 million of unrecognized compensation expense, net of estimated forfeitures, related to stock options, which expense we expect to recognize over a weighted average period of 1.85 years. The aggregate intrinsic value of in-the-money options outstanding was \$60.3 million, based on the closing price of our common stock on April 2, 2010, the last trading day in the three months ended April 3, 2010, of \$33.99. As of April 3, 2010, the aggregate intrinsic value of options currently exercisable was \$50.0 million and the intrinsic value of options vested and expected to vest was \$59.6 million.

The total intrinsic value of options exercised for the three months ended April 3, 2010 and April 4, 2009 was \$4.7 million and \$0.9 million, respectively.

Stock option activity is summarized as follows:

	Number of Options (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Life (years)
Outstanding options at January 2, 2010	3,857	\$ 17.29	5.60
Granted	434	29.90	
Exercised	(304)	15.69	
Forfeited or expired	(24)	19.31	
Outstanding options at April 3, 2010	3,963	\$ 18.78	5.86
Outstanding options exercisable at April 3, 2010	2,941	\$ 16.98	4.82
Outstanding options vested at April 3, 2010 and expected to vest	3,816	\$ 18.52	5.73

The weighted average grant-date fair value of options granted during the three months ended April 3, 2010 and April 4, 2009 was \$12.53 per share and \$11.99 per share, respectively.

Table of Contents**Restricted Stock Awards and Units**

The 2006 Plan allows for the issuance of restricted stock awards and restricted stock units, which awards or units may not be sold or otherwise transferred until certain restrictions have lapsed. The unearned share-based compensation related to these awards is being amortized to compensation expense over the period of the restrictions, generally four years. The expense for these awards was determined based on the market price of our shares on the date of grant applied to the total number of shares that were granted.

Restricted Stock Awards

Share-based compensation expense related to restricted stock awards was \$1.3 million for the three months ended April 3, 2010. As of April 3, 2010, we had \$4.6 million of unrecognized compensation expense, net of estimated forfeitures, related to restricted stock awards, which amount we expect to recognize over 1.53 years. There were no restricted stock awards granted during the three months ended April 3, 2010.

Restricted stock award activity is summarized as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Outstanding unvested restricted stock at January 2, 2010	609	\$ 16.63
Granted		
Released	(239)	17.06
Forfeited or expired	(12)	16.15
Outstanding unvested restricted stock at April 3, 2010	358	\$ 16.37

Restricted Stock Units

Share-based compensation expense related to restricted stock units was \$1.6 million for the three months ended April 3, 2010. As of April 3, 2010, we had \$19.6 million of unrecognized compensation expense, net of estimated forfeitures, related to restricted stock units, which amount we expect to recognize over 3.51 years. The aggregate intrinsic value of the units outstanding, based on our stock price on April 3, 2010, was \$29.4 million.

Restricted stock unit activity is summarized as follows:

	Number of Units (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contract Life (in years)
Outstanding units at January 2, 2010	463	\$ 24.17	3.12
Granted	533	29.86	
Released	(119)	24.33	
Forfeited or expired	(11)	24.13	
Outstanding units at April 3, 2010	866	\$ 27.65	2.18

Employee Stock Purchase Plan

In May 2002, our shareholders approved our Employee Stock Purchase Plan (ESPP) under which 500,000 shares of common stock were reserved for issuance. In addition, the ESPP provides for an annual, automatic increase of up to 250,000 shares in the total number of shares available for issuance thereunder on March 1 of each year, unless our

Board of Directors specifies a smaller increase or no increase. Under this provision, an additional 250,000 shares were reserved for issuance under the ESPP on each of March 1, 2006, March 1, 2008 and March 1, 2009; our Board of Directors specified no increase as of each other year. Eligible employees may purchase a limited number of shares, over a six month period, of our common stock at 85% of the lower of the market value on the offering date or the market value on the purchase date. During the three months ended April 3, 2010, no shares of common stock were issued under the ESPP. As of April 3, 2010, approximately 299,700 shares remained available for issuance under this plan.

Table of Contents

The estimated subscription date fair value of the current offering under the ESPP is approximately \$0.6 million using the Black-Scholes option pricing model and the following assumptions:

Risk-free- interest rate	0.17%
Expected volatility	40%
Expected option life	0.50 years
Dividends	None

As of April 3, 2010, there was approximately \$91,600 of unrecognized compensation expense related to ESPP subscriptions that began on November 1, 2009, which amount we expect to recognize during the second quarter of 2010.

13. Income Taxes

Our effective income tax rates for the three months ended April 3, 2010 and April 4, 2009, were 33.0% and 26.7%, respectively. Fluctuations in our reported income tax rates are primarily due to lower discrete benefits during the first quarter of 2010 as compared to the first quarter of 2009, as discussed below. In addition, federal research credits which were available in 2009 are not currently available in 2010 as a result of the expiration of federal research credit legislation.

During the first quarter of 2010, income tax expense included a net discrete benefit of approximately \$0.2 million primarily attributable to share-based compensation deductions. During the first quarter of 2009, income tax expense included a benefit of \$0.9 million associated with a change in California law, partially offset by a first quarter 2009 return to provision true-up.

During the next twelve months, it is reasonably possible that audit resolutions and the expiration of statutes of limitations could potentially reduce our unrecognized tax benefits by up to \$4.5 million. However, this amount may change because we continue to have ongoing negotiations with various taxing authorities throughout the year.

14. Net Income Per Share

We adopted authoritative accounting guidance that requires participating securities to be included in the calculation of the net income per share using the two-class method. Our restricted shares awards subject to repurchase and settled in shares of common stock upon vesting have non-forfeitable rights to receive dividends on an equal basis with common stock and therefore are considered participating securities. Under the two-class method, basic and diluted net income per common share is determined by calculating net income per share for common stock and participating securities based on participation rights in undistributed earnings. Dilutive net income per common share also considers the dilutive effect of the in-the-money stock options and restricted stock units, calculated using the treasury stock method. Under the treasury stock method, the amount of assumed proceeds from unexercised stock options and restricted stock units includes the amount of unrecognized compensation cost attributable to future services, assumed proceeds from the exercise of the options, and the incremental income tax benefit or liability that would be recorded in additional-paid-in capital when the award becomes deductible.

Table of Contents

Basic and diluted net income per common share attributable to common shareholders under the two-class method were calculated as follows:

	Three Months Ended	
	April 3, 2010	April 4, 2009
	(stated in thousands, except per share amounts)	
<i>Basic net income per common share calculation</i>		
Net income	\$ 12,433	\$ 5,627
Net income allocated to participating securities	108	85
Net income attributable to common shareholders	\$ 12,325	\$ 5,542
Weighted average number of common shares used to compute basic net income per common share	56,638	55,527
Basic net income per common share	\$ 0.22	\$ 0.10
<i>Diluted net income per common share calculation</i>		
Net income	\$ 12,433	\$ 5,627
Net income allocated to participating securities	105	83
Net income attributable to common shareholders	\$ 12,328	\$ 5,544
Weighted average number of common shares used to compute basic net income per common share attributable to common shares	56,638	55,527
Dilutive effect of stock-based compensation plans	1,468	1,355
Weighted average number of common shares used to compute diluted net income per common share	58,106	56,882
Diluted net income per common share	\$ 0.21	\$ 0.10

The weighted average unvested restricted stock awards outstanding were 494,543 and 856,177 for the three months ended April 3, 2010 and April 4, 2009, respectively.

Subsequent to the original issuance of the unaudited interim financial statements for the period ended April 4, 2009, management determined that the earnings per share calculations for the quarter ended April 4, 2009, did not properly reflect the restricted share awards as participating securities under the two class method and thus were inappropriately reflected in the number of common shares to be used in the computation of earnings per share. The adoption of the two-class method had no impact on the reported earnings per share and resulted in a decrease of approximately 856,000 in the shares reported as used in the computation of basic and diluted earnings per share from the amounts previously reported as approximately 56,384,000 and 57,738,000, respectively.

Potential common share equivalents excluded where the inclusion would be anti-dilutive are as follows:

Three Months Ended
April **April 4,**
3, 2010 **2009**
(in thousands)

Options to purchase shares not included in the computation of diluted net income per common share because their inclusion would be antidilutive	179	164
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The computation of diluted net income per common share for the three months ended April 3, 2010 and April 4, 2009 excludes the effect of assuming the conversion of our senior subordinated convertible notes, which are convertible at \$19.72 per share into 7.3 million shares of common stock, because the effect would have been antidilutive.

Table of Contents**15. Enterprise and Related Geographic Information**

We organize and manage our business by functional operating entities. The functional entities operate in two segments: Cardiovascular and ITC. The Cardiovascular segment designs, develops, manufactures and markets proprietary medical devices used for circulatory support and vascular graft applications. The ITC segment designs, develops, manufactures and markets proprietary point-of-care diagnostic test systems and incision devices.

Business Segments:

	Three Months Ended	
	April 3, 2010	April 4, 2009
	(in thousands)	
Product sales:		
Cardiovascular	\$ 99,272	\$ 64,629
ITC	22,306	24,837
Total product sales	\$ 121,578	\$ 89,466
Income (loss) before income taxes:		
Cardiovascular (a)(c)	\$ 28,405	\$ 18,526
ITC (a)(c)	(2,516)	(1,065)
Corporate (b)(c)	(4,168)	(7,906)
Total operating income	21,721	9,555
Other income and (expense):		
Interest expense and other	(2,880)	(2,866)
Interest income and other	1,708	988
Impairment on investment	(2,000)	
Income before income tax expense	\$ 18,549	\$ 7,677

(a) Includes amortization expense of \$2.4 million for the three months ended April 3, 2010 and \$2.7 million for the three months ended April 4, 2009, related to the Cardiovascular segment. The ITC segment also includes amortization expense of

\$0.2 million for each of the three months ended April 3, 2010 and April 4, 2009.

- (b) Represents unallocated costs or assets, not specifically identified to any particular business segment.
- (c) Includes share-based compensation expense of \$2.8 million, \$1.3 million and \$0.6 million for Cardiovascular, ITC and Corporate, respectively, for the three months ended April 3, 2010 and \$2.3 million, \$1.1 million and \$0.6 million for Cardiovascular, ITC and Corporate, respectively, for the three months ended April 4, 2009.

Geographic Areas:

Revenue attributed to a country or region includes product sales to hospitals, physicians and distributors and is based on the final destination where the products are sold. During the three months ended April 3, 2010 and April 4, 2009, no customer or international country represented individually greater than 10% of our total product sales. The geographic composition of our product sales was as follows:

	Three Months Ended	
	April 3,	April 4,
	2010	2009
	(in thousands)	
Domestic	\$ 94,803	\$ 67,425

International	26,775	22,041
Total product sales	\$ 121,578	\$ 89,466

Table of Contents

16. Subsequent Event

On April 25, 2010, we entered into a Stock Purchase Agreement to sell the ITC division to Danaher Corporation for \$110.0 million in cash, subject to certain purchase price adjustments as set forth in the agreement. The terms of the transaction call for an initial payment to Thoratec of \$110.0 million in cash upon closing. In addition, the agreement includes an earn-out based on annual gross profit levels achieved by the ITC division's Alternate Site business. Based on our current expectations, the value of the earn-out would total \$26.0 million and be paid over a three year period beginning in 2010. The transaction is subject to customary closing conditions, including the receipt of required antitrust approvals. We currently expect the transaction to close in the second quarter of 2010.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes 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 statements can be identified by the words expects, projects, hopes, believes, intends, should, estimate, will, would, may, anticipates, plans, could and other similar words. Actual results, events or performance could differ materially from these forward-looking statements based on a variety of factors, many of which are beyond our control. Therefore, readers are cautioned not to put undue reliance on these statements. Factors that could cause actual results or conditions to differ from those anticipated by these and other forward-looking statements include those more fully described in the Risk Factors section of our 2009 Annual Report on Form 10-K (the 2009 Annual Report) and in other documents we file with the Securities and Exchange Commission (SEC). These forward-looking statements speak only as of the date hereof. We are not under any obligation, and we expressly disclaim any obligation, to publicly release any revisions or updates to these forward-looking statements that may be made to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

The following presentation of management's discussion and analysis of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

OUR BUSINESS

Thoratec Corporation (we, our, us, or the Company) is a world leader in mechanical circulatory support with a product portfolio to treat the full range of clinical needs for advanced heart failure patients. We develop, manufacture and market proprietary medical devices used for circulatory support. We also develop, manufacture and market point-of-care diagnostic test systems and skin incision products. Our business is comprised of two operating divisions: Cardiovascular and International Technidyne Corporation (ITC), a wholly-owned subsidiary.

The product line of our Cardiovascular division is:

Circulatory Support Products. Our mechanical circulatory support products include the HeartMate II, HeartMate XVE, PVAD, IVAD and CentriMag for acute, intermediate and long-term mechanical circulatory support for patients with advanced heart failure (HF). We also manufacture and sell small diameter grafts using our proprietary materials to address the vascular access market for hemodialysis.

The product lines of our ITC division are:

Point-of-Care Diagnostics. Our point-of-care products include diagnostic test systems that monitor blood coagulation while a patient is being administered certain anticoagulants, as well as monitor blood gas/electrolytes, oxygenation and chemistry status.

Incision. Our incision products include devices used to obtain a patient's blood sample for diagnostic testing and screening for platelet function.

Table of Contents

Cardiovascular Division

For advanced HF, our Cardiovascular division develops, manufactures and markets proprietary medical devices used for mechanical circulatory support (MCS). Our primary product lines are our ventricular assist devices (VADs): the HeartMate II Left Ventricular Assist System (HeartMate II), the HeartMate Left Ventricular Assist System (HeartMate XVE), the Thoratec Paracorporeal Ventricular Assist Device (PVAD), and the Thoratec Implantable Ventricular Assist Device (IVAD). We refer to the HeartMate II and the HeartMate XVE collectively as the

HeartMate product line, and we refer to the PVAD and the IVAD collectively as the Thoratec product line. In addition, for acute HF we market the CentriMag Blood Pumping System (CentriMag), which is manufactured by Levitronix LLC (Levitronix) and distributed by us in the U.S. under a distribution agreement with Levitronix. We also manufacture a vascular access graft for renal dialysis.

VADs supplement the pumping function of the heart in patients with severe HF. In most cases, a cannula connects the left ventricle of the heart to a blood pump. Blood flows from the left ventricle to the pump chamber via the cannula, powered by an electric or air driven mechanism that drives the blood through another cannula into the aorta. From the aorta, the blood then circulates throughout the body. Mechanical or tissue valves enable unidirectional flow in so