HAEMONETICS CORP
Form 10-Q
August 10, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended: July 2, 2011
Commission File Number: 1-14041
HAEMONETICS CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	**04-2882273**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 Wood Road, Braintree, MA 02184
(Address of principal executive offices)
Registrant s telephone number, including area code: **(781) 848-7100**

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) (2.) has been subject to the filing requirements for at least the past 90 days.

Yes þ No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

The number of shares of $.01 par value common stock outstanding as of July 2, 2011:
25,770,869

HAEMONETICS CORPORATION
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ITEM 1. FINANCIAL STATEMENTS

HAEMONETICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited in thousands, except per share data)

	July 2, 2011	July 3, 2010
Net revenues	$ 170,569	$ 163,039
Cost of goods sold	81,821	76,576
Gross profit	88,748	86,463
Operating expenses:		
Research, development and engineering	8,609	7,920
Selling, general and administrative	56,231	54,354
Total operating expenses	64,840	62,274
Operating income	23,908	24,189
Interest expense	(106)	(153)
Interest income	106	102
Other income/(expense), net	(215)	237
Income before provision for income taxes	23,693	24,375
Provision for income taxes	6,746	6,457
Net income	**$** 16,947	**$** 17,918
Basic income per common share		
Net income	$ 0.66	$ 0.71
Income per common share assuming dilution		
Net income	$ 0.65	$ 0.70
Weighted average shares outstanding		
Basic	25,731	25,140
Diluted	26,216	25,703

The accompanying notes are an integral part of these consolidated financial statements

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HAEMONETICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	July 2, 2011 (Unaudited)	April 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 216,891	$ 196,707
Accounts receivable, less allowance of $1,741 at July 2, 2011 and $1,799 at April 2, 2011	120,759	127,166
Inventories, net	94,960	84,387
Deferred tax asset, net	9,930	9,674
Prepaid expenses and other current assets	25,729	30,897
Total current assets	468,269	448,831
Property, plant and equipment:		
Land, building and building improvements	52,544	52,359
Plant equipment and machinery	132,404	128,612
Office equipment and information technology	84,530	83,258
Haemonetics equipment	215,640	211,455
Total property, plant and equipment	485,118	475,684
Less: accumulated depreciation	(328,140)	(320,156)
Net property, plant and equipment	156,978	155,528
Other assets:		
Intangible assets, less amortization of $46,707 at July 2, 2011 and $43,827 at April 2, 2011	100,892	101,789
Goodwill	115,707	115,367
Deferred tax asset, long term	1,357	1,291
Other long-term assets	10,203	10,458
Total other assets	228,159	228,905
Total assets	$ 853,406	$ 833,264
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 906	$ 913
Accounts payable	28,155	28,323
Accrued payroll and related costs	23,001	27,039
Accrued income taxes	6,082	6,033
Deferred tax liability	554	107
Other liabilities	44,321	46,256
Total current liabilities	103,019	108,671

Long-term debt, net of current maturities		3,606		3,966
Long-term deferred tax liability		18,386		18,669
Other long-term liabilities		15,939		15,822
Commitments and contingencies (Note 12)				
Stockholders equity:				
Common stock, $0.01 par value; Authorized - 150,000,000 shares; Issued and outstanding 25,770,869 at July 2, 2011 and 25,660,393 shares at April 2, 2011		257		256
Additional paid-in capital		310,083		302,709
Retained earnings		390,577		373,630
Accumulated other comprehensive income		11,539		9,541
Total stockholders equity		712,456		686,136
Total liabilities and stockholders equity	**$**	853,406	$	833,264

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

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HAEMONETICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited in thousands)

	Three Months Ended	
	July 2, 2011	**July 3, 2010**
Cash Flows from Operating Activities:		
Net income	$ 16,947	$ 17,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Non cash items:		
Depreciation and amortization	11,988	12,410
Stock compensation expense	2,401	2,197
Loss/(Gain) on sales of property, plant and equipment	56	(15)
Unrealized loss from hedging activities	609	877
Accretion of interest expense on contingent consideration	89	165
Change in operating assets and liabilities:		
Decrease in accounts receivable, net	7,939	655
Increase in inventories	(10,288)	(4,167)
Decrease in prepaid income taxes	7,993	6,617
Decrease in other assets and other long-term liabilities	(3,059)	(4,591)
Tax benefit on exercise of stock options	356	538
Decrease in accounts payable and accrued expenses	(7,900)	(19,078)
Net cash provided by operating activities	27,131	13,526
Cash Flows from Investing Activities:		
Capital expenditures on property, plant and equipment	(11,801)	(15,224)
Proceeds from sale of property, plant and equipment	19	111
Net cash used in investing activities	(11,782)	(15,113)
Cash Flows from Financing Activities:		
Payments on long-term real estate mortgage	(361)	(205)
Net decrease in short-term loans	(9)	(9,936)
Employee stock purchase plan	1,849	1,645
Exercise of stock options	2,675	3,010
Excess tax benefit on exercise of stock options	313	549
Share repurchase		(50,000)
Net cash provided by/(used in) financing activities	4,467	(54,937)
Effect of exchange rates on cash and cash equivalents	368	(1,571)
Net Increase/(Decrease) in Cash and Cash Equivalents	20,184	(58,095)
Cash and Cash Equivalents at Beginning of Year	196,707	141,562
Cash and Cash Equivalents at End of Period	$ 216,891	$ 83,467

Non-cash Investing and Financing Activities:

Transfers from inventory to fixed assets for placements of Haemonetics equipment	$ 3,150	$ 1,091
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 102	$ 128
Income taxes paid	$ 1,387	$ 1,650

The accompanying notes are an integral part of these consolidated financial statements

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HAEMONETICS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Our accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions have been eliminated. Certain reclassifications were made to prior year balances to conform with the presentation of the financial statements for the three months ended July 2, 2011. Operating results for the three month period ended July 2, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year ending March 31, 2012, or any other interim period. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and footnotes included in our annual report on Form 10-K for the fiscal year ended April 2, 2011.

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated, and these financial statements reflect those material items that arose after the balance sheet date but prior to the issuance of the financial statements that would be considered recognized subsequent events. There were no material recognized subsequent events recorded in the July 2, 2011 consolidated financial statements.

Our fiscal year ends on the Saturday closest to the last day of March. Fiscal year 2012 and 2011 include 52 weeks with all four quarters each having 13 weeks.

2. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* Update No. 2011-04 updates the accounting guidance related to fair value measurements that results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The updated guidance is effective for interim and annual periods beginning after December 15, 2011. Early application is not permitted. We are currently evaluating the potential impact of Update No. 2011-04 on our consolidated financial statements. This statement is effective for our fourth quarter of fiscal year 2012.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. Update No. 2011-05 updates the disclosure requirements for comprehensive income to include total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The updated guidance does not affect how earnings per share is calculated or presented. The updated guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted and amendments do not require any transition disclosures. This statement is effective in our first quarter of fiscal year 2013.

Standards Implemented

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements*, and Accounting Standards Update No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software* (the Updates). The Updates provide guidance on arrangements that include software elements, including tangible products that have software components that are essential to the functionality of the tangible product and will no longer be within the scope of the software revenue recognition guidance, and software-enabled products that will now be subject to other relevant revenue recognition guidance. The Updates also provide authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence of fair value for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to allocate arrangement consideration using the relative selling price method. The Updates also include new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. On April 3, 2011, the Company adopted this guidance, which did not have a material impact on our financial position and results of operations.

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. Update No. 2010-29 clarifies paragraph 805-10-50-2(h) to require public entities that enter into business combinations that are material on an individual or aggregate basis to disclose pro forma information for such business combinations that occurred in the current reporting period, including pro forma revenue and earnings of the combined entity as though the acquisition date had been as of the beginning of the comparable prior annual reporting period only. We did not complete any material business acquisitions during the three months ended July 2, 2011 thus the disclosure requirements were not applicable for the period.

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3. EARNINGS PER SHARE (EPS)

The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations. Basic EPS is computed by dividing net income by weighted average shares outstanding. Diluted EPS includes the effect of potentially dilutive common shares.

	For the Three Months Ended July 2, 2011	July 3, 2010
	(in thousands, except per share amounts)	
Basic EPS		
Net income	$ 16,947	$ 17,918
Weighted average shares	25,731	25,140
Basic income per share	$ 0.66	$ 0.71
Diluted EPS		
Net income	$ 16,947	$ 17,918
Basic weighted average shares	25,731	25,140
Net effect of common stock equivalents	485	563
Diluted weighted average shares	26,216	25,703
Diluted income per share	$ 0.65	$ 0.70

Weighted average shares outstanding, assuming dilution, excludes the impact of 0.5 million and 1.0 million stock options for the first quarter of fiscal year 2012 and 2011, respectively, because these securities were anti-dilutive during the noted periods.

4. STOCK-BASED COMPENSATION

Stock-based compensation expense of $2.4 million and $2.2 million was recognized for the three months ended July 2, 2011 and July 3, 2010, respectively. The related income tax benefit recognized was $0.7 million and $0.5 million for the three months ended July 2, 2011 and July 3, 2010, respectively.

The weighted average fair value for stock options granted in the first three months of fiscal year 2012 and 2011 was $17.68 and $17.48, respectively. The assumptions utilized for stock option grants during the periods presented are as follows:

	Three Months Ended July 2, 2011	July 3, 2010
Stock Options Black-Scholes assumptions (weighted average):		
Volatility	27.20%	28.34%
Expected life (years)	4.9	5.0
Risk-free interest rate	1.65%	2.64%
Dividend yield	0.00%	0.00%

During the three months ended July 2, 2011 and July 3, 2010, there were 41,067 and 35,992 shares purchased under the ESPP, respectively. They were purchased at $46.80 and $45.70 per share under the ESPP, respectively.

5. PRODUCT WARRANTIES

We generally provide a warranty on parts and labor for one year after the sale and installation of each device. We also warrant our disposables products through their use or expiration. We estimate our potential warranty expense based on our historical warranty experience, and we periodically assess the adequacy of our warranty accrual and make adjustments as necessary.

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	For the three months ended	
	July 2, 2011	July 3, 2010
	(in thousands)	
Warranty accrual as of the beginning of the period	$ 1,273	$ 903
Warranty provision	278	435
Warranty spending	(292)	(459)
Warranty accrual as of the end of the period	$ 1,259	$ 879

6. COMPREHENSIVE INCOME

Comprehensive income is the total of net income and all other non-owner changes in stockholders equity. Other non-owner changes are primarily foreign currency translation, the change in our net minimum pension liability, and the changes in fair value of the effective portion of our outstanding cash flow hedge contracts.

A summary of the components of other comprehensive income is as follows:

	For the three months ended	
(in thousands)	**July 2, 2011**	**July 3, 2010**
Net income	$ 16,947	$ 17,918
Other comprehensive income:		
Net change in minimum pension liability, net of tax	(21)	(49)
Foreign currency translation	1,705	(4,247)
Unrealized gain/(loss) on cash flow hedges, net of tax	(1,323)	450
Reclassifications into earnings of cash flow hedge (gains)/losses, net of tax	1,637	(31)
Total comprehensive income	$ 18,945	$ 14,041

7. INVENTORIES

Inventories are stated at the lower of cost or market and include the cost of material, labor and manufacturing overhead. Cost is determined on the first-in, first-out method.

	July 2, 2011	April 2, 2011
	(in thousands)	
Raw materials	$ 30,368	$ 26,404
Work-in-process	5,195	4,352
Finished goods	59,397	53,631
	$ 94,960	$ 84,387

8. ACQUISITIONS

ACCS Acquisition

On December 28, 2010, Haemonetics acquired certain assets of Applied Critical Care Services, Inc. (ACCS) for $6.4 million. This transaction was accounted for as an acquisition of a business. ACCS was a manufacturer s representative for Haemonetics engaged in the selling and servicing of the TEG product line. The purchase price allocation, which was finalized during the three months ended July 2, 2011, was as follows: $4.3 million in customer relationships; $0.6 million of other liabilities; and $2.7 million in goodwill.

9. DERIVATIVES AND FAIR VALUE MEASUREMENTS

We manufacture, market and sell our products globally. Approximately 49% of our sales were generated outside the U.S. in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency.

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Accordingly, our earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the U.S. dollar, our reporting currency.

We have a program in place that is designed to mitigate our exposure to changes in foreign currency exchange rates. That program includes the use of derivative financial instruments to minimize for a period of time, the unforeseen impact on our financial results from changes in foreign exchange rates. We utilize forward foreign currency contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily the Japanese Yen and the Euro, and to a lesser extent the Swiss Franc, British Pound Sterling and the Canadian Dollar. This does not eliminate the volatility of foreign exchange rates, but because we generally enter into forward contracts one year out, rates are fixed for a one-year period, thereby facilitating financial planning and resource allocation.

Designated Foreign Currency Hedge Contracts

All of our designated foreign currency hedge contracts as of July 2, 2011 and April 2, 2011 were cash flow hedges under ASC Topic 815, *Derivatives and Hedging*. We record the effective portion of any change in the fair value of designated foreign currency hedge contracts in Accumulated Other Comprehensive Income in Stockholders Equity until the related third-party transaction occurs. Once the related third-party transaction occurs, we reclassify the effective portion of any related gain or loss on the designated foreign currency hedge contracts to earnings. In the event the hedged forecasted transaction does not occur, or it becomes probable that it will not occur, we would reclassify the amount of any gain or loss on the related cash flow hedge to earnings at that time. We had designated foreign currency hedge contracts outstanding in the contract amount of $144.4 million as of July 2, 2011 and $154.8 million as of April 2, 2011.

During the quarter ended July 2, 2011, we recognized net losses of $1.6 million in earnings on our cash flow hedges. All currency cash flow hedges outstanding as of July 2, 2011 mature within twelve months. For the quarter ended July 2, 2011, net losses of $0.6 million were recorded in Accumulated Other Comprehensive Income to recognize the effective portion of the fair value of any designated foreign currency hedge contracts that are, or previously were, designated as foreign currency cash flow hedges, as compared to net losses of $0.9 million as of July 3, 2010. At July 2, 2011, $1.3 million of losses, net of tax, may be reclassified to earnings within the next twelve months.

Non-designated Foreign Currency Hedge Contracts

We manage our exposure to changes in foreign currency on a consolidated basis to take advantage of offsetting transactions and balances. We use currency forward contracts as a part of our strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These currency forward contracts are not designated as cash flow or fair value hedges under ASC Topic 815. These forward contracts are marked-to-market with changes in fair value recorded to earnings; and are entered into for periods consistent with currency transaction exposures, generally one month. We had non-designated foreign currency hedge contracts under ASC Topic 815 outstanding in the contract amount of $47.3 million as of July 2, 2011 and $45.9 million as of April 2, 2011.

Fair Value of Derivative Instruments

The following table presents the effect of our derivative instruments designated as cash flow hedges and those not designated as hedging instruments under ASC Topic 815 in our consolidated statement of income for the three months ended July 2, 2011.

Derivative Instruments	Amount of Loss Recognized in AOCI (Effective Portion)	Amount of Loss Reclassified from AOCI into Earnings (Effective Portion)	Location in Statement of Operations	Amount Excluded from Effectiveness Testing (*)	Location in Statement of Operations
(in thousands)					
Designated foreign currency hedge contracts	$ (1,323)	$ (1,637)	Net revenues, COGS, and SG&A	$ (41)	Other income
Non-designated foreign currency hedge contracts				591	Other expense
	$ (1,323)	$ (1,637)		$ 550	

(*) We exclude the difference between the spot rate and hedge forward rate from our effectiveness testing.

We did not have fair value hedges or net investment hedges outstanding as of July 2, 2011 or April 2, 2011.

ASC Topic 815 requires all derivative instruments to be recognized at their fair values as either assets or liabilities on the balance sheet. We determine the fair value of our derivative instruments using the framework prescribed by ASC Topic 820, *Fair Value Measurements and Disclosures*, by considering the estimated amount we would receive or pay to sell or transfer these instruments at the reporting date and by taking into account current interest rates, currency exchange rates, the creditworthiness of the counterparty for assets, and our creditworthiness for liabilities. In certain instances, we may utilize financial models to measure fair value. Generally, we use inputs that include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; other observable inputs for the asset or liability; and inputs derived principally from, or corroborated by, observable market data by correlation or other means. As of July 2, 2011, we have classified our derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by ASC Topic 815, as discussed below, because these observable inputs are available for substantially the full term of our derivative instruments.

The following tables present the fair value of our derivative instruments as they appear in our consolidated balance sheet as of July 2, 2011 and April 2, 2011 by type of contract and whether it is a qualifying hedge under ASC Topic 815.

(in thousands)	Location in Balance Sheet	Balance as of July 2, 2011	Balance as of April 2, 2011
Derivative Assets:			
Designated foreign currency hedge contracts	Other current assets	$ 2,475	$ 2,563
		$ 2,475	**$ 2,563**

Derivative Liabilities:					
Designated foreign currency hedge contracts	Other accrued liabilities	$	3,707	$	4,174
		$	**3,707**	$	**4,174**

Other Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. ASC Topic 820 does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. In accordance with ASC Topic 820, for the three months ended July 2, 2011, we applied the requirements under ASC Topic 820 to our non-financial assets and non-financial liabilities. As we did not have an impairment of any non-financial assets or non-financial liabilities, there was no disclosure required relating to our non-financial assets or non-financial liabilities.

On a recurring basis, we measure certain financial assets and financial liabilities at fair value, including our money market funds, foreign currency derivative contracts, and contingent consideration. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We base fair value upon quoted market prices, where available. Where quoted market prices or other observable inputs are not available, we apply valuation techniques to estimate fair value.

ASC Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The categorization of assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.

Level 2 Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.

Level 3 Inputs to the valuation methodology are unobservable inputs based on management s best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

Our money market funds carried at fair value are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

We recognize all derivative financial instruments in our consolidated financial statements at fair value in accordance with ASC Topic 815, *Derivatives and Hedging*. We determine the fair value of these instruments using the framework prescribed by ASC Topic 820 by considering the estimated amount we would receive or pay to terminate these agreements at the reporting date and by taking into account current spot rates, the creditworthiness of the counterparty for assets, and our creditworthiness for liabilities. We have classified our foreign currency hedge contracts within Level 2 of the fair value hierarchy because these observab