HAEMONETICS CORP
Form 10-Q
November 04, 2009

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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: September 26, 2009
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 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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 September 26, 2009: 25,611,257

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ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended		Six months ended	
	September 26, 2009	September 27, 2008	September 26, 2009	September 27, 2008
Net revenues	$ 157,070	$ 145,919	$ 311,158	$ 290,035
Cost of goods sold	76,103	71,230	147,248	142,309
Gross profit	80,967	74,689	163,910	147,726
Operating expenses:				
Research, development and engineering	6,475	5,217	13,252	11,061
Selling, general and administrative	47,469	45,863	97,308	93,722
Total operating expenses	53,944	51,080	110,560	104,783
Operating income	27,023	23,609	53,350	42,943
Interest expense	(255)	(16)	(463)	(40)
Interest income	103	506	253	1,160
Other expense, net	(801)	(1,290)	(1,135)	(915)
Income before provision for income taxes	26,070	22,809	52,005	43,148
Provision for income taxes	8,020	8,002	15,882	14,000
Net income	**$** 18,050	**$** 14,807	**$** 36,123	**$** 29,148
Basic income per common share				
Net income	$ 0.70	$ 0.59	$ 1.41	$ 1.15
Income per common share assuming dilution				
Net income	$ 0.69	$ 0.57	$ 1.37	$ 1.11
Weighted average shares outstanding				
Basic	25,685	25,038	25,671	25,323
Diluted	26,321	25,917	26,273	26,218

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)

	September 26, 2009 (Unaudited)	March 28, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 178,322	$ 156,721
Accounts receivable, less allowance of $2,968 at September 26, 2009 and $2,312 at March 28, 2009	118,668	113,598
Inventories, net	77,136	76,522
Deferred tax asset, net	10,485	7,190
Prepaid expenses and other current assets	21,514	28,362
Total current assets	406,125	382,393
Property, plant and equipment:		
Land, building and building improvements	45,009	42,540
Plant equipment and machinery	109,384	108,572
Office equipment and information technology	71,242	52,461
Haemonetics equipment	208,904	194,290
Total property, plant and equipment	434,539	397,863
Less: accumulated depreciation	(281,585)	(260,056)
Net property, plant and equipment	152,954	137,807
Other assets:		
Other intangibles, less amortization of $29,202 at September 26, 2009 and $25,508 at March 28, 2009	74,872	65,261
Goodwill	72,157	56,426
Deferred tax asset, long term	2,551	3,007
Other long-term assets	5,635	4,799
Total other assets	155,215	129,493
Total assets	**$** 714,294	$ 649,693
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 15,181	$ 695
Accounts payable	24,804	20,652
Accrued payroll and related costs	24,197	30,771
Accrued income taxes	7,135	2,833
Deferred tax liability	111	
Other liabilities	41,395	37,912
Total current liabilities	112,823	92,863

Long-term debt, net of current maturities		4,974		5,343
Long-term deferred tax liability		3,702		3,129
Other long-term liabilities		13,363		8,474
Commitments and contingencies (Note 12)				
Stockholders equity:				
Common stock, $0.01 par value; Authorized - 150,000,000 shares; Issued and outstanding 25,611,257 shares at September 26, 2009 and 25,622,449 shares at March 28, 2009		256		256
Additional paid-in capital		235,792		226,829
Retained earnings		339,323		309,516
Accumulated other comprehensive income		4,061		3,283
Total stockholders equity		579,432		539,884
Total liabilities and stockholders equity	**$**	714,294	$	649,693

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

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HAEMONETICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND OTHER COMPREHENSIVE INCOME
(Unaudited in thousands)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive Income /	Total Stockholders	Comprehensive
	Shares	$ s	Capital	Earnings	(Loss)	Equity	Income
Balance, March 28, 2009	25,622	$ 256	$ 226,829	$ 309,516	$ 3,283	$ 539,884	
Employee stock purchase plan	33		1,484			1,484	
Exercise of stock options and related tax benefit	95		3,750			3,750	
Shares repurchased	(140)		(1,263)	(6,316)		(7,579)	
Stock Compensation expense			4,992			4,992	
Net income				36,123		36,123	$ 36,123
Foreign currency translation adjustment					6,055	6,055	6,055
Unrealized loss on hedges, net of tax					(4,263)	(4,263)	(4,263)
Reclassification of hedge gain to earnings, net of tax					(1,014)	(1,014)	(1,014)
Comprehensive income							$ 36,901
Balance, September 26, 2009	25,611	$ 256	$ 235,792	$ 339,323	$ 4,061	$ 579,432	

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)

	Six Months Ended September 26, 2009	Six Months Ended September 27, 2008
Cash Flows from Operating Activities:		
Net income	$ 36,123	$ 29,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Non cash items:		
Depreciation and amortization	20,699	18,083
Stock compensation expense	4,992	4,542
Loss on sales of plant, property and equipment	147	1,102
Unrealized (gain)/loss from hedging activities	(2,145)	3,706
Accretion of interest expense on contingent consideration	408	
Change in operating assets and liabilities:		
Decrease/(increase) in accounts receivable, net	1,786	(7,350)
Decrease/(increase) in inventories	2,071	(7,847)
Decrease/(increase) in prepaid income taxes	5,907	(267)
Increase in other assets and other long-term liabilities	(1,204)	(11,105)
Tax benefit of exercise of stock options	177	2,131
(Decrease)/increase in accounts payable and accrued expenses	(7,482)	9,634
Net cash provided by operating activities	61,479	41,777
Cash Flows from Investing Activities:		
Capital expenditures on property, plant and equipment	(32,880)	(28,775)
Proceeds from sale of property, plant and equipment	383	2,497
Acquisition of SEBRA	(12,845)	
Acquisition of Neoteric	(6,613)	
Acquisition of Medicell	(307)	(2,459)
Net cash used in investing activities	(52,261)	(28,737)
Cash Flows from Financing Activities:		
Payments on long-term real estate mortgage	(369)	(340)
Net increase in short-term revolving credit agreements	13,578	2,100
Employee stock purchase plan	1,484	1,396
Exercise of stock options	3,388	17,598
Excess tax benefit on exercise of stock options	157	5,419
Share repurchase	(6,331)	(59,998)
Net cash provided by/(used in) financing activities	11,907	(33,825)
Effect of exchange rates on cash and cash equivalents	476	(1,437)
Net Increase/(Decrease) in Cash and Cash Equivalents	21,601	(22,222)
Cash and Cash Equivalents at Beginning of Year	156,721	133,553

Cash and Cash Equivalents at End of Period	$ 178,322	$ 111,331
Non-cash Investing and Financing Activities:		
Transfers from inventory to fixed assets for placements of Haemonetics equipment	$ 2,809	$ 4,984
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 283	$ 275
Income taxes paid	$ 6,360	$ 7,394

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

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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 six months ended September 26, 2009. Operating results for the six month period ended September 26, 2009 are not necessarily indicative of the results that may be expected for the full fiscal year ending April 3, 2010, 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 March 28, 2009.

Our fiscal year ends on the Saturday closest to the last day of March. Fiscal year 2010 includes 53 weeks with each of the first three quarters having 13 weeks and the fourth quarter having 14 weeks. Fiscal year 2009 included 52 weeks with all four quarters having 13 weeks.

Revenue Recognition

Our revenue recognition policy is to recognize revenues from product sales, software and services in accordance with ASC Topic 605, *Revenue Recognition* (formerly known as SAB No. 104, *Revenue Recognition,* and as EITF 00-21, *Revenue Arrangements with Multiple Deliverables*), and ASC Topic 985-605, *Software* (formerly known as Statement of Position 97-2, *Software Revenue Recognition, as amended*). These standards require that revenues are recognized when persuasive evidence of an arrangement exists, product delivery, including customer acceptance, has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. When more than one element such as equipment, disposables and services are contained in a single arrangement, we allocate revenue between the elements based on each element s relative fair value, provided that each element meets the criteria for treatment as a separate unit of accounting. An item is considered a separate unit of accounting if it has value to the customer on a stand alone basis and there is objective and reliable evidence of the fair value of the undelivered items. The fair value of the undelivered elements is determined by the price charged when the element is sold separately, or in cases when the item is not sold separately, by using vendor specific objective evidenced under ASC Topic 985-605 or other objective evidence as defined in ASC Topic 605.

Product Revenues

Product sales consist of the sale of our equipment devices and the related disposables used with these devices. On product sales to end customers, revenue is recognized when both the title and risk of loss have transferred to the customer as determined by the shipping terms and all obligations have been completed. Examples of common post delivery obligations are installation and training. For product sales to distributors, we recognize revenue for both equipment and disposables upon shipment of these products to our distributors. Our standard contracts with our distributors state that title to the equipment passes to the distributors at point of shipment to a distributor s location. The distributors are responsible for shipment to the end customer along with installation, training and acceptance of the equipment by the end customer. All shipments to distributors are at contract prices and payment is not contingent upon resale of the product.

Software Solutions Revenues

At this time, our software solutions business principally provides support to our plasma and blood collection customers and hospitals. Through our Haemonetics Software Solutions unit, we provide information technology platforms and technical support for donor recruitment, blood and plasma testing laboratories, and for efficient and compliant operations of blood and plasma collection centers. For plasma customers, we also provide information technology platforms for managing distribution of plasma from collection centers to plasma fractionation facilities. Software license revenues are generally billed periodically, monthly or quarterly and recognized for the period for which the service is provided. Our software solutions business model includes the provision of services, including in some instances hosting, technical support, and maintenance, for the payment of periodic, monthly or quarterly fees. We recognize these fees and charges as earned, typically as these services are provided during the contract period.

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Subsequent Events

The company has evaluated subsequent events through November 4, 2009 (the date the unaudited financial statements were issued) and has determined that there were no recognized and no non-recognized events to be disclosed.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, an amendment to FASB ASC topic 605, *Revenue Recognition*, and Update No. 2009-14, *Certain Revenue Arrangements That Include Software Elements*, an amendment to FASB ASC subtopic 985-605, *Software Revenue Recognition*, (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 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 for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and 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. The Updates must be adopted in the same period using the same transition method and are effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. The Company is currently assessing the timing and method of adoption, as well as the possible impact of this guidance on its financial position and results of operations.

In June 2009, the FASB issued requirements under FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*. The FASB Accounting Standards Codification (ASC) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. FASB Statement No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. This statement became effective during our second quarter of fiscal year 2010 and its impact is reflected in our financial position and results of operation for the six months ended September 26, 2009.

Under ASC Topic 805, *Business Combinations* (formerly known as FASB Statement No. 141(R), *Business Combinations*), the FASB requires that all business combinations use the acquisition method (formerly the purchase method) and that an acquiring entity be identified in all business combinations. ASC Topic 805 also requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This statement became effective for our fiscal year 2010 and its impact is reflected in our financial position and results of operations for the six months ended September 26, 2009. The Company s acquisition of L Attitude Medical Systems, Inc. (Neoteric) and asset acquisition of the blood collection and processing business unit (SEBRA) of Engineering and Research Associates, Inc. during the first six months of fiscal year 2010 were both accounted for in accordance to the requirements of ASC Topic 805 see Note 9.

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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	
	September 26, 2009	September 27, 2008
	(in thousands, except per share amounts)	
Basic EPS		
Net income	$ 18,050	$ 14,807
Weighted average shares	25,685	25,038
Basic income per share	$ 0.70	$ 0.59
Diluted EPS		
Net income	$ 18,050	$ 14,807
Basic weighted average shares	25,685	25,038
Net effect of common stock equivalents	636	879
Diluted weighted average shares	26,321	25,917
Diluted income per share	$ 0.69	$ 0.57

	For the Six Months Ended	
	September 26, 2009	September 27, 2008
	(in thousands, except per share amounts)	
Basic EPS		
Net income	$ 36,123	$ 29,148
Weighted average shares	25,671	25,323
Basic income per share	$ 1.41	$ 1.15
Diluted EPS		
Net income	$ 36,123	$ 29,148
Basic weighted average shares	25,671	25,323
Net effect of common stock equivalents	601	895

Diluted weighted average shares	26,273	26,218
Diluted income per share	$ 1.37	$ 1.11

Weighted average shares outstanding, assuming dilution, excludes the impact of 0.8 million stock options for both the second quarter and first six months of fiscal year 2010 and 0.4 million stock options for both the second quarter and first six months of fiscal year 2009 because these securities were anti-dilutive during the noted periods.

4. STOCK-BASED COMPENSATION

Stock-based compensation expense of $5.0 and $4.5 million was recognized for the six months ended September 26, 2009 and September 27, 2008, respectively. The related income tax benefit recognized was $1.5 and $1.3 million for the six months ended September 26, 2009 and September 27, 2008, respectively. We recognize stock-based compensation on a straight line basis.

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For a more detailed description of our stock-based compensation plans, see Note 11 Capital Stock to the Company s consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 28, 2009.
Our stock-based compensation plans currently consist of stock options, restricted stock awards, restricted stock units and an employee stock purchase plan. Options become exercisable in the manner specified by the Compensation Committee of our Board of Directors. All options, restricted stock awards and restricted stock units granted to employees in the six months ended September 26, 2009 vest over a four year period of time and the options expire not more than 7 years from the date of grant.
Cash flows relating to the benefits of tax deductions in excess of compensation cost recognized are reported as a financing cash flow, rather than as an operating cash flow. This excess tax benefit was $0.1 million and $4.1 million for the three months ended September 26, 2009 and September 27, 2008, respectively, and $0.2 million and $5.4 million for the six months ended September 26, 2009 and September 27, 2008, respectively.
A summary of information related to stock options is as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($000 s)	
Outstanding at March 28, 2009	3,054,724	$ 42.54	4.23	$ 37,601	
Granted	32,845	55.37			&nb