

HAEMONETICS CORP  
Form 10-Q  
November 03, 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: October 1, 2011

Commission File Number: 1-14041

HAEMONETICS CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction  
of incorporation or organization)

04-2882273

(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 ☒ 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 (§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 ☒ 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 definition 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 ☐

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 ☒

The number of shares of \$.01 par value common stock outstanding as of October 1, 2011:

24,981,455

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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      |                    |
|--|-----------------------|--------------------|-----------------------|--------------------|
|  | October<br>1,<br>2011 | October 2,<br>2010 | October<br>1,<br>2011 | October 2,<br>2010 |
| Net revenues                                     | \$ 179,445            | \$ 166,833         | \$ 350,014            | \$ 329,872         |
| Cost of goods sold                               | 89,496                | 79,078             | 171,316               | 155,655            |
| <b>Gross profit</b>                              | 89,949                | 87,755             | 178,698               | 174,217            |
| Operating expenses:                              |                       |                    |                       |                    |
| Research and development                         | 10,350                | 7,954              | 18,959                | 15,875             |
| Selling, general and administrative              | 62,613                | 52,790             | 118,844               | 107,144            |
| Contingent consideration income                  | (1,580)               | (1,894)            | (1,580)               | (1,894)            |
| <b>Total operating expenses</b>                  | 71,383                | 58,850             | 136,223               | 121,125            |
| Operating income                                 | 18,566                | 28,905             | 42,475                | 53,092             |
| Other income, net                                | 445                   | 254                | 230                   | 442                |
| Income before provision for income taxes         | 19,011                | 29,159             | 42,705                | 53,534             |
| Provision for income taxes                       | 5,131                 | 7,821              | 11,877                | 14,277             |
| <b>Net income</b>                                | \$ 13,880             | \$ 21,338          | \$ 30,828             | \$ 39,257          |
| <b>Basic income per common share</b>             |                       |                    |                       |                    |
| Net income                                       | \$ 0.55               | \$ 0.86            | \$ 1.21               | \$ 1.58            |
| <b>Income per common share assuming dilution</b> |                       |                    |                       |                    |
| Net income                                       | \$ 0.54               | \$ 0.85            | \$ 1.18               | \$ 1.54            |
| <b>Weighted average shares outstanding</b>       |                       |                    |                       |                    |
| Basic  | 25,418                | 24,686             | 25,575                | 24,913             |
| Diluted  | 25,843                | 25,228             | 26,029                | 25,459             |

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 share data)

|   | <b>October 1,<br/>2011<br/>(unaudited)</b> | <b>April 2,<br/>2011</b> |
|---|--|--------------------------|
| <b>ASSETS</b>   |  |                          |
| <b>Current assets:</b>  |  |                          |
| Cash and cash equivalents   | \$ 183,421                                 | \$ 196,707               |
| Accounts receivable, less allowance of \$2,283 at October 1, 2011 and \$1,799 at April 2, 2011    | 129,242                                    | 127,166                  |
| Inventories, net  | 101,444                                    | 84,387                   |
| Deferred tax asset, net   | 9,790                                      | 9,674                    |
| Prepaid expenses and other current assets   | 17,203                                     | 30,897                   |
| <b>Total current assets</b>   | <b>441,100</b>                             | <b>448,831</b>           |
| <b>Property, plant and equipment:</b>   |  |                          |
| Land, building, and building improvements   | 55,127                                     | 52,359                   |
| Plant equipment and machinery   | 132,124                                    | 128,612                  |
| Office equipment and information technology   | 85,347                                     | 83,258                   |
| Haemonetics equipment   | 217,471                                    | 211,455                  |
| Total property, plant and equipment   | 490,069                                    | 475,684                  |
| Less: accumulated depreciation  | (333,203)                                  | (320,156)                |
| <b>Net property, plant and equipment</b>  | <b>156,866</b>                             | <b>155,528</b>           |
| <b>Other assets:</b>  |  |                          |
| Intangible assets, less amortization of \$49,320 at October 1, 2011 and \$43,827 at April 2, 2011 | 98,847                                     | 101,789                  |
| Goodwill  | 115,582                                    | 115,367                  |
| Deferred tax asset, long term   | 1,353                                      | 1,291                    |
| Other long-term assets  | 9,974                                      | 10,458                   |
| <b>Total other assets</b>   | <b>225,756</b>                             | <b>228,905</b>           |
| <b>Total assets</b>   | <b>\$ 823,722</b>                          | <b>\$ 833,264</b>        |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                          |
| <b>Current liabilities:</b>   |  |                          |
| Notes payable and current maturities of long-term debt  | \$ 3,080                                   | \$ 913                   |
| Accounts payable  | 29,759                                     | 28,323                   |
| Accrued payroll and related costs   | 26,780                                     | 27,039                   |
| Accrued income taxes  | 5,361                                      | 6,033                    |
| Deferred tax liability  | 123  | 107                      |
| Other liabilities   | 45,703                                     | 46,256                   |

|  |            |            |
|--|------------|------------|
| <b>Total current liabilities</b>   | 110,806    | 108,671    |
| Long-term debt, net of current maturities  | 3,332      | 3,966      |
| Long-term deferred tax liability   | 18,005     | 18,669     |
| Other long-term liabilities  | 13,302     | 15,822     |
| Commitments and contingencies (Note 10)  |            |            |
| <b>Stockholders' equity:</b>   |            |            |
| Common stock, \$.01 par value; Authorized 150,000,000 shares; Issued and outstanding 24,981,455 shares at October 1, 2011 and 25,660,393 shares at April 2, 2011 | 249        | 256        |
| Additional paid-in capital   | 304,517    | 302,709    |
| Retained earnings  | 364,726    | 373,630    |
| Accumulated other comprehensive income   | 8,785      | 9,541      |
| <b>Total stockholders' equity</b>  | 678,277    | 686,136    |
| <b>Total liabilities and stockholders' equity</b>  | \$ 823,722 | \$ 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)

|  | <b>Six Months Ended</b>        |                            |
|--|--------------------------------|----------------------------|
|  | <b>October<br/>1,<br/>2011</b> | <b>October 2,<br/>2010</b> |
| <b>Cash Flows from Operating Activities:</b>   |                                |                            |
| Net income   | \$ 30,828                      | \$ 39,257                  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                |                            |
| <b>Non cash items:</b>   |                                |                            |
| Depreciation and amortization  | 24,619                         | 24,690                     |
| Stock compensation expense   | 4,701                          | 4,089                      |
| Loss on sales of property, plant and equipment   | 278                            | 316                        |
| Unrealized loss from hedging activities  | 1,080                          | 1,133                      |
| Contingent consideration income  | (1,580)                        | (1,894)                    |
| Reversal of interest expense on contingent consideration                                 | (574)                          | (493)                      |
| <b>Change in operating assets and liabilities:</b>                                       |                                |                            |
| Increase in accounts receivable, net   | (1,332)                        | (837)                      |
| Increase in inventories  | (15,390)                       | (3,900)                    |
| Decrease in prepaid income taxes   | 12,283                         | 6,849                      |
| Increase in other assets and other long-term liabilities                                 | (1,267)                        | (3,727)                    |
| Tax benefit of exercise of stock options   | 952                            | 946                        |
| Decrease in accounts payable and accrued expenses  | (2,059)                        | (22,143)                   |
| Net cash provided by operating activities  | 52,539                         | 44,286                     |
| <b>Cash Flows from Investing Activities:</b>   |                                |                            |
| Capital expenditures on property, plant and equipment                                    | (23,843)                       | (24,088)                   |
| Proceeds from sale of property, plant and equipment                                      | 130                            | 262                        |
| Net cash used in investing activities  | (23,713)                       | (23,826)                   |
| <b>Cash Flows from Financing Activities:</b>   |                                |                            |
| Payments on long-term real estate mortgage   | (634)                          | (166)                      |
| Net increase/(decrease) in short-term loans  | 1,992                          | (5,249)                    |
| Employee stock purchase plan   | 1,847                          | 1,645                      |
| Exercise of stock options  | 4,707                          | 5,841                      |
| Excess tax benefit on exercise of stock options  | 333                            | 628                        |
| Share repurchase   | (49,998)                       | (50,000)                   |
| Net cash used in financing activities  | (41,753)                       | (47,301)                   |
| Effect of exchange rates on cash and cash equivalents                                    | (359)                          | 328                        |
| <b>Net decrease in Cash and Cash Equivalents</b>   | (13,286)                       | (26,513)                   |
| <b>Cash and Cash Equivalents at Beginning of Year</b>                                    | 196,707                        | 141,562                    |
| <b>Cash and Cash Equivalents at End of Period</b>  | \$ 183,421                     | \$ 115,049                 |



**Non-cash Investing and Financing Activities:**

|  |          |          |
|--|----------|----------|
| Transfers from inventory to fixed assets for placements of Haemonetics equipment | \$ 6,292 | \$ 3,710 |
|--|----------|----------|

**Supplemental Disclosures of Cash Flow Information:**

|               |        |        |
|---------------|--------|--------|
| Interest paid | \$ 220 | \$ 251 |
|---------------|--------|--------|

|                   |          |          |
|-------------------|----------|----------|
| Income taxes paid | \$ 2,288 | \$ 6,941 |
|-------------------|----------|----------|

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

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**HAEMONETICS CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED 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 to the presentation of the financial statements for the six months ended October 1, 2011. Operating results for the six month period ended October 1, 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 October 1, 2011 consolidated financial statements.

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

**2. RECENT 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 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.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. ASU 2011-08 allows entities to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. The Company anticipates that the adoption of this standard will not have a material impact on its consolidated financial statements and footnote disclosures.

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***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 or 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 six months ended October 1, 2011 thus the disclosure requirements were not applicable for the period.

**Table of Contents****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.

|  | Three Months Ended                       |                    |
|--|--|--------------------|
|  | October 1,<br>2011                       | October 2,<br>2010 |
|  | (in thousands, except per share amounts) |                    |
| <b>Basic EPS</b>                       |  |                    |
| Net income                             | \$ 13,880                                | \$ 21,338          |
| Weighted average shares                | 25,418                                   | 24,686             |
| Basic income per share                 | \$ 0.55                                  | \$ 0.86            |
| <b>Diluted EPS</b>                     |  |                    |
| Net income                             | \$ 13,880                                | \$ 21,338          |
| Basic weighted average shares          | 25,418                                   | 24,686             |
| Net effect of common stock equivalents | 425                                      | 542                |
| Diluted weighted average shares        | 25,843                                   | 25,228             |
| Diluted income per share               | \$ 0.54                                  | \$ 0.85            |

|  | Six Months Ended                         |                    |
|--|--|--------------------|
|  | October 1,<br>2011                       | October 2,<br>2010 |
|  | (in thousands, except per share amounts) |                    |
| <b>Basic EPS</b>                       |  |                    |
| Net income                             | \$ 30,828                                | \$ 39,257          |
| Weighted average shares                | 25,575                                   | 24,913             |
| Basic income per share                 | \$ 1.21                                  | \$ 1.58            |
| <b>Diluted EPS</b>                     |  |                    |
| Net income                             | \$ 30,828                                | \$ 39,257          |
| Basic weighted average shares          | 25,575                                   | 24,913             |
| Net effect of common stock equivalents | 454                                      | 546                |
| Diluted weighted average shares        | 26,029                                   | 25,459             |

|                          |    |      |    |      |
|--------------------------|----|------|----|------|
| Diluted income per share | \$ | 1.18 | \$ | 1.54 |
|--------------------------|----|------|----|------|

Weighted average shares outstanding, assuming dilution, excludes the impact of 0.4 million and 1.1 million stock options for the second quarter of fiscal year 2012 and 2011, respectively, 0.4 million and 0.8 million stock options for the first six months of fiscal year 2012 and 2011, respectively, because these securities were anti-dilutive during the noted periods.

**Table of Contents****4. STOCK-BASED COMPENSATION**

Stock-based compensation expense of \$4.7 million and \$4.1 million was recognized for the six months ended October 1, 2011 and October 2, 2010, respectively. The related income tax benefit recognized was \$1.3 million for the six months ended October 1, 2011 and October 2, 2010.

The weighted average fair value for our options granted in the first six months of fiscal year 2012 and 2011 was \$18.27 and \$16.89, respectively. The assumptions utilized for estimating the fair value of option grants during the periods presented are as follows:

|   | Six Months Ended      |                    |
|---|-----------------------|--------------------|
|   | October<br>1,<br>2011 | October 2,<br>2010 |
| Stock Options Black-Scholes assumptions (weighted average): |                       |                    |
| Volatility  | 27.42%                | 28.33%             |
| Expected life (years)                                       | 4.9                   | 4.9                |
| Risk-free interest rate                                     | 1.60%                 | 2.43%              |
| Dividend yield  | 0.00%                 | 0.00%              |

During the six months ended October 1, 2011 and October 2, 2010, there were 41,067 and 35,992 shares, respectively, purchased under the ESPP. They were purchased at \$46.80 and \$45.70 per share, respectively, under the ESPP.

**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.

|  | Six Months Ended      |                    |
|--|-----------------------|--------------------|
|  | October<br>1,<br>2011 | October 2,<br>2010 |
|  | (in thousands)        |                    |
| Warranty accrual as of the beginning of the period | \$ 1,273              | \$ 903             |
| Warranty provision                                 | 603                   | 699                |
| Warranty spending                                  | (856)                 | (940)              |
| Warranty accrual as of the end of the period       | \$ 1,020              | \$ 662             |

**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:

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| (in thousands)  | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | October<br>1, 2011 | October 2,<br>2010 |
| Net income  | \$ 13,880          | \$ 21,338          |
| Other comprehensive income:   |                    |                    |
| Net change in minimum pension liability, net of tax                   |                    | 27                 |
| Foreign currency translation  | (2,447)            | 7,481              |
| Unrealized loss on cash flow hedges, net of tax                       | (1,566)            | (4,519)            |
| Reclassifications into earnings of cash flow hedge losses, net of tax | 1,259              | 149                |
| Total comprehensive income  | \$ 11,126          | \$ 24,476          |

| (in thousands)  | Six Months Ended   |                    |
|---|--------------------|--------------------|
|   | October<br>1, 2011 | October 2,<br>2010 |
| Net income  | \$ 30,828          | \$ 39,257          |
| Other comprehensive income:   |                    |                    |
| Net change in minimum pension liability, net of tax                   | (21)               | (22)               |
| Foreign currency translation  | (742)              | 3,234              |
| Unrealized loss on cash flow hedges, net of tax                       | (2,889)            | (4,069)            |
| Reclassifications into earnings of cash flow hedge losses, net of tax | 2,896              | 118                |
| Total comprehensive income  | \$ 30,072          | \$ 38,518          |

**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.

|                 | October        |               |
|-----------------|----------------|---------------|
|                 | 1, 2011        | April 2, 2011 |
|                 | (in thousands) |               |
| Raw materials   | \$ 35,333      | \$ 26,404     |
| Work-in-process | 4,301          | 4,352         |
| Finished goods  | 61,810         | 53,631        |
|                 | \$ 101,444     | \$ 84,387     |

**8. DERIVATIVES AND FAIR VALUE MEASUREMENTS**

We manufacture, market and sell our products globally. For the six months ended October 1, 2011, approximately 51% of our sales are generated outside the U.S. generally in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency. 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 foreign currency forward 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.



**Table of Contents***Designated Foreign Currency Hedge Contracts*

All of our designated foreign currency hedge contracts as of October 1, 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 Other Comprehensive Income in the Statement of 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 \$153.6 million as of October 1, 2011 and \$154.8 million as of April 2, 2011.

During the six months ended October 1, 2011, we recognized net losses of \$2.9 million in earnings on our cash flow hedges. For the six months ended October 1, 2011, \$2.9 million of losses, net of tax, 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 \$4.1 million as of October 2, 2010. At October 1, 2011, losses of \$2.9 million, net of tax, may be reclassified to earnings within the next twelve months. All currency cash flow hedges outstanding as of October 1, 2011 mature within twelve months.

*Non-designated Foreign Currency Contracts*

We manage our exposure to changes in foreign currency on a consolidated basis to take advantage of offsetting transactions and balances. We use foreign currency forward contracts as a part of our strategy to manage exposure related to foreign currency denominated monetary assets and liabilities. These foreign currency forward contracts are entered into for periods consistent with currency transaction exposures, generally one month. They 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. We had non-designated foreign currency hedge contracts under ASC Topic 815 outstanding in the contract amount of \$48.2 million as of October 1, 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 six months ended October 1, 2011.

| Derivative Instruments<br>(in thousands)           | Amount of<br>Loss<br>Recognized<br>in AOCI<br>(Effective<br>Portion) | Reclassified<br>from AOCI<br>into<br>Earnings<br>(Effective<br>Portion) | Location in<br>Statement of<br>Operations | Amount<br>Excluded<br>from<br>Effectiveness<br>Testing<br>(*) | Location in<br>Statement of<br>Operations |
|--|--|---|---|---|---|
| Designated foreign<br>currency hedge contracts     | \$ (2,889)   | \$ 2,896  | Net revenues,<br>COGS, and<br>SG&A        | \$ 167  | Other income                              |
| Non-designated foreign<br>currency hedge contracts |  |   |   | 1,670   | Other expense                             |
|  | \$ (2,889)   | \$ 2,896  |   | \$ 1,837  |   |

(\*) 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 October 1, 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 October 1, 2011, we have classified our derivative assets and liabilities within Level 2 of the fair value

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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 sheets as of October 1, 2011 by type of contract and whether it is a qualifying hedge under ASC Topic 815.

| <i>(in thousands)</i>                          | Location in<br>Balance Sheet | Balance as of<br>October 1, 2011 | Balance as of<br>April 2, 2011 |
|--|------------------------------|----------------------------------|--------------------------------|
| <b>Derivative Assets:</b>                      |                              |                                  |                                |
| Designated foreign currency<br>hedge contracts | Other current assets         | \$ 1,541                         | \$ 2,563                       |
|  |                              | \$ 1,541                         | \$ 2,563                       |
| <b>Derivative Liabilities:</b>                 |                              |                                  |                                |
| Designated foreign currency<br>hedge contracts | Other current<br>liabilities | \$ 4,185                         | \$ 4,174                       |
|  |                              | \$ 4,185                         | \$ 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 quarter and the six months ended October 1, 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 hedge 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 observable inputs are available for substantially the full term of our derivative instruments. The fair value of our foreign currency hedge contracts is the estimated amount that the Company would receive or pay upon liquidation of the contracts, taking into account the change in currency exchange rates.

**Table of Contents***Fair Value Measured on a Recurring Basis*

Financial assets and financial liabilities measured at fair value on a recurring basis consist of the following as of October 1, 2011:

|                                  | Quoted<br>Market<br>Prices for<br>Identical<br>Assets<br>(Level 1) | Significant                                |  | Total      |
|----------------------------------|--|--|--|------------|
|                                  |  | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |
| <i>(in thousands)</i>            |  |  |  |            |
| <b>Assets</b>                    |  |  |  |            |
| Money market funds               | \$ 143,035   | \$   | \$   | \$ 143,035 |
| Foreign currency hedge contracts |  | 1,541                                      |  | 1,541      |
|                                  | \$ 143,035   | \$ 1,541                                   | \$   | \$ 144,576 |
| <b>Liabilities</b>               |  |  |  |            |
| Foreign currency hedge contracts | \$   | \$ 4,185                                   | \$   | \$ 4,185   |
|                                  | \$   | \$ 4,185                                   | \$   | \$ 4,185   |

*Release of Neoteric contingent consideration*

Under ASC Topic 805, *Business Combinations*, we established a liability for payments that we might make in the future to former shareholders of Neoteric that are tied to the performance of the Blood Track business for the first three years post acquisition, beginning with fiscal year 2010. We have reviewed the expected performance versus the necessary thresholds of performance for the former shareholders to receive additional performance payments and we recorded an adjustment to the fair value of the contingent consideration as contingent consideration income of \$1.6 million in the accompanying consolidated statements of income, reversing the remaining liability, as the expected performance thresholds will not be achieved.

In September 2011, we entered into an agreement to release the Company from the contingent consideration due to the former shareholders of Neoteric. Under the terms of the agreement, the former shareholders of Neoteric received \$0.7 million in exchange for releasing the Company from any future claims for contingent consideration. The Company paid the \$0.7 million settlement amount during September 2011 and has recorded the associated expense in the selling, general and administrative line item in the accompanying consolidated statements of income.

*Other Fair Value Disclosures*

The fair value of our real estate mortgage obligation was \$3.7 million and \$4.1 million at October 1, 2011 and April 2, 2011, respectively.

**9. INCOME TAXES**

The Company's reported tax rate was 27.0% and 27.8% for the three and six month periods ended October 1, 2011, respectively. Our reported tax rate is lower than the federal statutory tax rate in both periods reported primarily due to lower foreign tax rates, including tax benefits associated with our Swiss operations.

We conduct business globally and, as a result, file consolidated federal, consolidated and separate state and foreign income tax returns in multiple jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world in jurisdictions including the U.S., Japan, Germany, France, the United Kingdom, and Switzerland. With few exceptions, we are no longer subject to U.S. federal, state and local, or foreign income tax examinations for years before 2007.



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### **10. COMMITMENTS AND CONTINGENCIES**

We are presently engaged in various legal actions, and although ultimate liability cannot be determined at the present time, we believe, based on consultation with counsel, that any such liability will not materially affect our consolidated financial position or our results of operations.

During the first quarter of fiscal 2012, we received customer complaints in Europe regarding a quality issue with our High Separation Core Bowl ( HS Core ), a plasma disposable product used primarily to collect plasma for transfusion. Certain of these customers have also made claims regarding financial losses alleged to have been incurred as a result of this matter. Total aggregate claims submitted to date by customers relating to this issue are approximately \$8.5 million. We do not expect any additional material claims from our customers. We are in the process of evaluating the submitted claims and continue to work with affected customers to minimize disruption to their operations and ultimately determine the validity and resolution of the submitted claims. Although this process is not completed, we have determined that it is probable that we will compensate certain affected customers in order to resolve their claims. We believe our ultimate liability will be less than the total claims submitted to date. Our current best estimate of the liability associated with this matter is \$2.4 million, and accordingly we have recorded this amount as an expense within selling, general and administrative expenses as of October 1, 2011. We cannot determine currently whether a liability greater than \$2.4 million will ultimately be incurred. We are also in the process of determining the extent to which claims may be recoverable under the Company's insurance policies. We do not currently believe that liabilities related to this matter will materially affect our consolidated financial position and liquidity.

### **11. SEGMENT INFORMATION**

#### *Segment Definition Criteria*

We manage our business on the basis of one operating segment: the design, manufacture, and marketing of blood management solutions. Our chief operating decision-maker uses consolidated results to make operating and strategic decisions. Manufacturing processes, as well as the regulatory environment in which we operate, are largely the same for all product lines.

#### *Enterprise Wide Disclosures about Product and Services*

We have four global product families: plasma, blood center, hospital, and software solutions.

Our products include equipment devices and the related disposables used with these devices. Disposables include the plasma, blood center, and hospital product families. Plasma consists of the disposables used to perform apheresis for the separation of whole blood components and subsequent collection of plasma to be used as a raw material for biologically derived pharmaceuticals (also known as source plasma). Blood center consists of disposables which separate whole blood for the subsequent collection of platelets, plasma, red cells, or a combination of these components for transfusion to patients. Hospital consists of surgical disposables (principally the Cell Saver® and Cell Saver Elite® autologous blood recovery systems targeted to procedures that involve rapid, high volume blood loss such as cardiovascular surgeries and the cardioPAT® cardiovascular perioperative autotransfusion system designed to remain with the patient following surgery to recover blood and the patient's red cells to prepare them for reinfusion), the OrthoPAT® orthopedic perioperative autotransfusion system designed to operate both during and after surgery to recover and wash the patient's red cells to prepare them for reinfusion, and diagnostics products (principally the TE® Thrombelastograph® hemostasis analyzer used to help assess a surgical patient's hemostasis (blood clotting ability) during and after surgery).

Disposables (single-use sterile kits used in our devices for collection or salvage of blood products) are marketed in our plasma, blood center, and hospital product businesses. Plasma disposables are used with our PCS®2 devices to perform apheresis for the collection of plasma to be used as a raw material for biologically derived pharmaceuticals (also known as

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source plasma). Blood center disposables are used with our MCS+ device to collect one or more blood components (principally platelets but also red cells and plasma) for transfusion to patients. The Hospital business consists of disposables used with our Cell Saver® and cardioPAT® devices to recover red cells from blood lost in a surgical procedure so that these may be made available for reinfusion to the patient ( autotransfusion ). OrthoPAT® disposables are used for autotransfusion during and immediately following orthopedic surgeries. Diagnostics products principally reflect sales of diagnostic reagents and the TEG® Thrombelastograph® hemostasis analyzer which profiles a patient's blood clotting characteristics.

Software solutions include information technology platforms that assist blood centers, plasma centers, and hospitals to more effectively manage regulatory compliance and operational efficiency.



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## Revenues from External Customers:

|                          | Three Months Ended |                    |
|--------------------------|--------------------|--------------------|
|                          | October<br>1, 2011 | October 2,<br>2010 |
|                          | (in thousands)     |                    |
| Disposable revenues      |                    |                    |
| Plasma disposables       | \$ 64,408          | \$ 56,514          |
| Blood center disposables |                    |                    |
| Platelet                 | 42,195             | 39,746             |
| Red cell                 | 11,645             | 11,294             |
|                          | 53,840             | 51,040             |
| Hospital disposables     |                    |                    |
| Surgical                 | 16,206             | 16,011             |
| OrthoPAT                 | 7,295              | 8,281              |
| Diagnostics              | 5,659              | 4,647              |
|                          | 29,160             | 28,939             |
| Disposables revenue      | 147,408            | 136,493            |
| Software solutions       | 17,199             | 16,125             |
| Equipment & other        | 14,838             | 14,215             |
| Net revenues             | \$ 179,445         | \$ 166,833         |

|                          | Six Months Ended   |                    |
|--------------------------|--------------------|--------------------|
|                          | October<br>1, 2011 | October 2,<br>2010 |
|                          | (in thousands)     |                    |
| Disposable revenues      |                    |                    |
| Plasma disposables       | \$ 127,168         | \$ 112,431         |
| Blood center disposables |                    |                    |
| Platelet                 | 79,504             | 76,063             |
| Red cell                 | 23,514             | 22,608             |
|                          | 103,018            | 98,671             |
| Hospital disposables     |                    |                    |

|                     |            |            |
|---------------------|------------|------------|
| Surgical            | 31,948     | 32,362     |
| OrthoPAT            | 15,049     | 17,238     |
| Diagnostics         | 11,273     | 9,355      |
|                     | 58,270     | 58,955     |
| Disposables revenue | 288,456    | 270,057    |
| Software solutions  | 35,359     | 32,585     |
| Equipment & other   | 26,199     | 27,230     |
| Net revenues        | \$ 350,014 | \$ 329,872 |

**Table of Contents****12. REORGANIZATION**

During the six months ended October 1, 2011, the Company's restructuring activities primarily consist of reorganization within our research and development, manufacturing and software operations. Employee-related costs primarily consist of employee severance and benefits. Facility-related costs primarily consist of charges associated with closing facilities, related lease obligations, and other related costs.

For the six months ended October 1, 2011, the Company incurred \$3.0 million of restructuring charges. Restructuring expenses have been primarily included as a component of selling, general and administrative expense in the accompanying statements of income. We anticipate that the Company will incur approximately \$5 to \$6 million in additional restructuring charges related to these initiatives over the remaining six months of fiscal year 2012.

The following summarizes the restructuring activity for the six months ended October 1, 2011 and October 2, 2010, respectively:

|                        | Six Months Ended October 1, 2011 |                  |            | Restructuring      |
|------------------------|----------------------------------|------------------|------------|--------------------|
|                        |                                  |                  |            | Accrual            |
|                        | Balance                          |                  |            | Balance at         |
|                        | at<br>April<br>2,<br>2011        | Cost<br>Incurred | Payments   | October 1,<br>2011 |
| (in thousands)         |                                  |                  |            |                    |
| Employee-related costs | \$ 2,782                         | \$ 2,528         | \$ (2,327) | \$ 2,983           |
| Facility-related costs | 889                              | 480              | (713)      | 656                |
|                        | \$ 3,671                         | \$ 3,008         | \$ (3,040) | \$ 3,639           |

|                        | Six Months Ended October 2, 2010 |                  |            | Restructuring      |
|------------------------|----------------------------------|------------------|------------|--------------------|
|                        |                                  |                  |            | Accrual            |
|                        | Balance                          |                  |            | Balance at         |
|                        | at<br>April<br>3,<br>2010        | Cost<br>Incurred | Payments   | October 2,<br>2010 |
| (in thousands)         |                                  |                  |            |                    |
| Employee-related costs | \$ 9,761                         | \$ 1,400         | \$ (5,529) | \$ 5,632           |
|                        | \$ 9,761                         | \$ 1,400         | \$ (5,529) | \$ 5,632           |

**13. CAPITALIZATION OF SOFTWARE DEVELOPMENT COSTS**

For costs incurred related to the development of software to be sold, leased, or otherwise marketed, the Company applies the provisions of ASC Topic 985-20, *Software*, which specifies that costs incurred internally in researching and developing a computer software product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to customers.

The Company capitalized \$2.8 million and \$3.4 million in software development costs for ongoing initiatives during the six month periods ended October 1, 2011 and October 2, 2010, respectively. At October 1, 2011 and April 2, 2011, we have a total of \$12.2 million and \$13.4 million, respectively, of costs capitalized related to in process software development initiatives. The costs capitalized for each project are included in intangible assets in the consolidated financial statements.



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with both our interim consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q and our annual consolidated financial statements, notes thereto, and the MD&A contained in our fiscal year 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC ) on May 26, 2011. The following discussion may contain forward-looking statements and should be read in conjunction with the **Cautionary Statement Regarding Forward-Looking Information** beginning on page 28.

**Our Business**

Haemonetics is a blood management solutions company. Anchored by our medical device systems, we also provide information technology platforms and value added services to provide customers with business solutions which support improved clinical outcomes for patients and efficiency in the blood supply chain.

Our medical device systems automate the collection and processing of donated blood; assess likelihood for blood loss; salvage and process blood from surgery patients; and dispense and track blood inventory in the hospital. These systems include devices and single-use, proprietary disposable sets ( disposables ) that operate only with our specialized devices. Specifically, our plasma and blood center systems allow users to collect and process only the blood component(s) they target plasma, platelets, or red blood cells increasing donor and patient safety as well as collection efficiencies. Our blood diagnostics system assesses hemostasis (a patient's clotting ability) to aid clinicians in assessing the cause of bleeding resulting in overall reductions in blood product usage. Our surgical blood salvage systems allow surgeons to collect the blood lost by a patient in surgery, cleanse the blood, and make it available for transfusion back to the patient. Our blood tracking systems automate the distribution of blood products in the hospital. Our business services products include blood management, Six Sigma, and LEAN manufacturing consulting, which support our customers' needs for regulatory compliance and operational efficiency in the blood supply chain. We either sell our devices to customers (resulting in equipment revenue) or place our devices with customers subject to certain conditions. When the device remains our property, the customer has the right to use it for a period of time as long as the customer meets certain conditions we have established, which, among other things, generally include one or more of the following:

- Purchase and consumption of a minimum level of disposables products;

- Payment of monthly rental fees; and

- An asset utilization performance metric, such as performing a minimum level of procedures per month per device.

Our disposables revenue stream, which includes the sales of disposables and fees for the use of our equipment, accounted for approximately 82.4% and 81.9% of our total revenues for the first six months of fiscal year 2012 and 2011, respectively.

**Table of Contents*****Financial Summary***

|  | Three Months Ended |               |                | Six Months Ended |               |                |
|--|--------------------|---------------|----------------|------------------|---------------|----------------|
|  | October<br>1,      | October<br>2, | %<br>Increase/ | October<br>1,    | October<br>2, | %<br>Increase/ |
| <i>(in thousands, except<br/>per share data)</i> | 2011               | 2010          | (Decrease)     | 2011             | 2010          | (Decrease)     |
| Net revenues                                     | \$ 179,445         | \$ 166,833    | 7.6%           | \$ 350,014       | \$ 329,872    | 6.1%           |
| Gross profit                                     | \$ 89,949          | \$ 87,755     | 2.5%           | \$ 178,698       | \$ 174,217    | 2.6%           |
| % of net revenues                                | 50.1%              | 52.6%         |                | 51.1%            | 52.8%         |                |
| Operating expenses                               | \$ 71,383          | \$ 58,850     | 21.3%          | \$ 136,223       | \$ 121,125    | 12.5%          |
| Operating income                                 | \$ 18,566          | \$ 28,905     | (35.8%)        | \$ 42,475        | \$ 53,092     | (20.0%)        |
| % of net revenues                                | 10.3%              | 17.3%         |                | 12.1%            | 16.1%         |                |
| Other income, net                                | \$ 445             | \$ 254        | 75.2%          | \$ 230           | \$ 442        | (48.0%)        |
| Income before taxes                              | \$ 19,011          | \$ 29,159     | (34.8%)        | \$ 42,705        | \$ 53,534     | (20.2%)        |
| Provision for income<br>tax                      | \$ 5,131           | \$ 7,821      | (34.4%)        | \$ 11,877        | \$ 14,277     | (16.8%)        |
| % of pre-tax income                              | 27.0%              | 26.8%         |                | 27.8%            | 26.7%         |                |
| Net income                                       | \$ 13,880          | \$ 21,338     | (35.0%)        | \$ 30,828        | \$ 39,257     | (21.5%)        |
| % of net revenues                                | 7.7%               | 12.8%         |                | 8.8%             | 11.9%         |                |
| Earnings per<br>share-diluted                    | \$ 0.54            | \$ 0.85       | (36.5%)        | \$ 1.18          | \$ 1.54       | (23.4%)        |

Net revenues increased 7.6% and 6.1% for the second quarter and first six months, respectively, of fiscal year 2012 over the comparable periods of fiscal year 2011. Without the effects of foreign exchange which accounted for an increase of 2.3% and 2.5% for the second quarter and first six months, respectively, of fiscal year 2012, net revenues increased 5.3% and 3.6% for the quarter and six months ended October 1, 2011. This increase reflects strong year over year revenue growth from our plasma, TEG and software businesses, offset by declines in our hospital businesses primarily due to a recall of certain of our OrthoPAT devices.

Gross profit increased 2.5% and 2.6% as compared to the second quarter and first six months, respectively, of fiscal year 2011. Without the effects of foreign exchange, which increased gross profit by 2.2% and 2.6% for the second quarter and first six months, respectively, of fiscal year 2012, gross profit increased 0.3% and was flat for the quarter and six months, respectively, ended October 1, 2011. Our gross profit margin decreased by 170 basis points for the first six months of fiscal year 2012. The decrease was primarily due to increased product quality costs and product mix associated with lower sales of hospital products and higher plasma disposable sales.

Operating expenses increased 21.3% and 12.5% for the second quarter and first six months, respectively, of fiscal year 2012 over the comparable periods of fiscal year 2011. Foreign exchange accounted for an increase in operating expenses of 5.5% and 4.6% for the quarter and six months, respectively. Without the effects of foreign exchange, operating expenses increased 15.8% and 7.9% in the second quarter and first six months, respectively, of fiscal year 2012. Higher operating expenses are attributable to increased restructuring costs, \$2.4 million of expenses associated with customer claims arising from a quality matter with a plasma disposable product, and increased investment in research and development and sales and marketing. These increases were partially offset by lower expense associated with cash bonus compensation for this fiscal year.

Operating income decreased 35.8% and 20.0% for the second quarter and first six months of fiscal year 2012 over the comparable periods of fiscal year 2011. Foreign exchange accounted for a decrease of 4.6% and 1.9% for the second quarter and first six months, respectively, of fiscal year 2012. Without the effects of foreign exchange, operating income decreased 31.2% and 18.1% for the quarter and six months, respectively, as increases in operating expenses more than offset gross profit associated with revenue growth due to product mix and higher costs of quality.

Net income decreased 35.0% and 21.5% for the second quarter and first six months, respectively, of fiscal year 2012 over the comparable periods of fiscal year 2011. Without the effects of foreign exchange which accounted for a decrease in net income of 3.3% and 1.8% for the quarter and six months, respectively, net income decreased 31.7% and 19.7% for the

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quarter and six months ended October 1, 2011. The decrease in net income was attributable to the decline in operating income described above.

**RESULTS OF OPERATIONS****Net Revenues by Geography**

|                       | Three Months Ended |                 |                        | Six Months Ended |                 |                        |
|-----------------------|--------------------|-----------------|------------------------|------------------|-----------------|------------------------|
|                       | October 1, 2011    | October 2, 2010 | % Increase/ (Decrease) | October 1, 2011  | October 2, 2010 | % Increase/ (Decrease) |
| <i>(in thousands)</i> |                    |                 |                        |                  |                 |                        |
| United States         | \$ 86,339          | \$ 78,740       | 9.7%                   | \$ 172,734       | \$ 158,049      | 9.3%                   |
| International         | 93,106             | 88,093          | 5.7%                   | 177,280          | 171,823         | 3.2%                   |
| Net revenues          | \$ 179,445         | \$ 166,833      | 7.6%                   | \$ 350,014       | \$ 329,872      | 6.1%                   |

**International Operations and the Impact of Foreign Exchange**

Our principal operations are in the U.S., Europe, Japan and other parts of Asia. Our products are marketed in more than 80 countries around the world through a combination of our direct sales force and independent distributors and agents.

Our revenues generated outside the U.S. approximated 51% of net revenues for the first six months of fiscal year 2012 and 2011. Revenues in Japan accounted for approximately 16.9% and 16.5% of total revenues for the first six months of fiscal year 2012 and 2011, respectively. Revenues in Europe accounted for approximately 26.0% and 26.8% of net revenues for the first six months of fiscal year 2012 and 2011, respectively. International sales are generally conducted in local currencies, primarily the Japanese Yen and the Euro. As discussed above, our results of operations are impacted by changes in the value of the Yen and the Euro relative to the U.S. Dollar.

Please see section entitled Foreign Exchange in this discussion for a more complete explanation of how foreign currency affects our business and our strategy for managing this exposure.

**Net Revenues by Product Type**

|                       | Three Months Ended |                 |                        | Six Months Ended |                 |                        |
|-----------------------|--------------------|-----------------|------------------------|------------------|-----------------|------------------------|
|                       | October 1, 2011    | October 2, 2010 | % Increase/ (Decrease) | October 1, 2011  | October 2, 2010 | % Increase/ (Decrease) |
| <i>(in thousands)</i> |                    |                 |                        |                  |                 |                        |
| Disposables           | \$ 147,408         | \$ 136,493      | 8.0%                   | \$ 288,456       | \$ 270,057      | 6.8%                   |
| Software solutions    | 17,199             | 16,125          | 6.7%                   | 35,359           | 32,585          | 8.5%                   |
| Equipment & other     | 14,838             | 14,215          | 4.4%                   | 26,199           | 27,230          | (3.8%)                 |
| Net revenues          | \$ 179,445         | \$ 166,833      | 7.6%                   | \$ 350,014       | \$ 329,872      | 6.1%                   |



**Table of Contents****Disposable Revenues by Product Type**

| (in thousands)            | Three Months Ended    |                       |                              | Six Months Ended      |                       |                              |
|---------------------------|-----------------------|-----------------------|------------------------------|-----------------------|-----------------------|------------------------------|
|                           | October<br>1,<br>2011 | October<br>2,<br>2010 | %<br>Increase/<br>(Decrease) | October<br>1,<br>2011 | October<br>2,<br>2010 | %<br>Increase/<br>(Decrease) |
| Plasma disposables        | \$ 64,408             | \$ 56,514             | 14.0%                        | \$ 127,168            | \$ 112,431            | 13.1%                        |
| Blood center disposables  |                       |                       |                              |                       |                       |                              |
| Platelet                  | 42,195                | 39,746                | 6.2%                         | 79,504                | 76,063                | 4.5%                         |
| Red cell                  | 11,645                | 11,294                | 3.1%                         | 23,514                | 22,608                | 4.0%                         |
|                           | \$ 53,840             | \$ 51,040             | 5.5%                         | \$ 103,018            | \$ 98,671             | 4.4%                         |
| Hospital disposables      |                       |                       |                              |                       |                       |                              |
| Surgical                  | 16,206                | 16,011                | 1.2%                         | 31,948                | 32,362                | (1.3%)                       |
| OrthoPAT                  | 7,295                 | 8,281                 | (11.9%)                      | 15,049                | 17,238                | (12.7%)                      |
| Diagnostics               | 5,659                 | 4,647                 | 21.8%                        | 11,273                | 9,355                 | 20.5%                        |
|                           | \$ 29,160             | \$ 28,939             | 0.8%                         | \$ 58,270             | \$ 58,955             | (1.2%)                       |
| Total disposables revenue | \$ 147,408            | \$ 136,493            | 8.0%                         | \$ 288,456            | \$ 270,057            | 6.8%                         |

**Disposables**

Disposables revenue increased 8.0% and 6.8% for the second quarter and first six months, respectively, of fiscal year 2012 over the comparable periods of fiscal year 2011. Foreign exchange resulted in an increase of 2.6% for the quarter and six months ended October 1, 2011. Without the effect of foreign exchange, disposables revenue increased 5.4% and 4.2% for the second quarter and first six months, respectively, of fiscal year 2012, driven primarily by increases in our plasma business as discussed below.

**Plasma**

Plasma disposables revenue increased 14.0% and 13.1% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Foreign exchange accounted for an increase of 1.2% and 1.3% for the quarter and six months, respectively, ended October 1, 2011. The remaining increase in plasma disposables revenue of 12.8% and 11.8% for the quarter and six months, respectively, is primarily attributable to increased plasma collections by our commercial fractionation customers in North America. We expect the strong growth in commercial collections to moderate over the balance of fiscal year 2012.

**Blood Center**

Blood center consists of disposables used to collect platelets and red cells. Platelet disposables revenue increased 6.2% and 4.5% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Foreign exchange accounted for a revenue increase of 5.7% and 5.4%, from the second quarter and first six months, respectively, of fiscal year 2011 to the same periods of fiscal year 2012. Without the effect of foreign exchange, platelet disposable revenue increased 0.5% and decreased 0.9% for the quarter and six months, respectively, ended October 1, 2012. Sales growth in the second quarter included the benefit of quality issues experienced with a competitor's device in Japan. We expect platelet disposable sales to remain relatively flat over the balance of fiscal year 2012 as emerging market growth is expected to be offset by competitive factors negatively

impacting sales in mature international markets.

Red cell disposables revenue increased 3.1% and 4.0% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Foreign exchange accounted for a revenue increase of 0.3% and 0.4% from the second quarter and first six months, respectively, of fiscal year 2011 to the same periods of fiscal year 2012. The remaining increase of 2.8% and 3.6% for the quarter and six months, respectively, was driven by increased demand for red cells in North America.

**Table of Contents****Hospital**

Hospital consists of Surgical, OrthoPAT, and Diagnostics products. Surgical disposables revenue consists principally of the Cell Saver and cardioPAT products. Revenues from our surgical disposables increased 1.2% and decreased 1.3% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Foreign exchange resulted in an increase in surgical disposables revenue of 2.7% and 3.1% for the quarter and six months, respectively, ended October 1, 2011. The decrease of 1.5% and 4.4% excluding the effect of foreign exchange for the second quarter and first six months of fiscal year 2012, respectively, was the result of a decrease in demand across our European and North American markets, driven primarily by competitive pressures, and market conditions resulting in fewer elective surgeries.

Revenues from our OrthoPAT disposables decreased 11.9% and 12.7% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Foreign exchange resulted in an increase in OrthoPAT disposables revenue of 1.7% and 1.8% for the quarter and six months, respectively. Without the effect of foreign currency, OrthoPAT disposables revenue decreased by 13.6% and 14.5% for the second quarter and first six months, respectively, of fiscal year 2012. Our voluntary recall of our OrthoPAT devices manufactured prior to 2002 initiated during the first quarter adversely impacted our business. We expect to complete the build of replacement devices in our fourth quarter. Accordingly, we expect this trend to continue but moderate in future periods.

Diagnostics product revenue consists principally of the TEG products. Revenues from our diagnostics products increased 21.8% and 20.5% for the second quarter and first six months, respectively, of fiscal year 2012 compared to the same periods in fiscal year 2011. Currency exchange accounted for a decrease of 0.6% and 0.5% for the quarter and six months, respectively. Without the effect of currency, diagnostics product revenues increased by 22.4% and 21.0% for the quarter and six months, respectively. The revenue increase is due to continued adoption of our TEG equipment, including significant new business in emerging markets.

**Software Solutions**

Our software solutions revenues include sales of our information technology software platforms and consulting services. Software revenues increased 6.7% and 8.5% for the second quarter and first six months, respectively, of fiscal year 2012 over the comparable periods of fiscal year 2011. Foreign exchange resulted in a 0.2% and 1.6% increase for the quarter and six months, respectively, ended October 1, 2011. The remaining increase of 6.5% for the second quarter of fiscal 2012 was driven primarily by installed base growth in our SafeTraceTX and BloodTrack products. The increase for the six months ended October 1, 2011 also included the benefit of strong plasma-related sales growth in the first quarter of fiscal 2012.

**Equipment & Other**

Our equipment and other revenues include revenue from equipment sales, repairs performed under preventive maintenance contracts or emergency service visits, spare part sales, and various service and training programs. These revenues are primarily composed of equipment sales, which tend to vary from period-to-period more than our disposable business due to the timing of order patterns, particularly in our distribution markets. Equipment and other revenues increased 4.4% and decreased 3.8% for the second quarter and first six months, respectively of fiscal year 2012 over the comparable periods of fiscal year 2011. Foreign exchange resulted in a 1.7% and 2.8% increase for the quarter and six months ended October 1, 2011. Without the effect of currency exchange, the increase of 2.7% for the second quarter of fiscal 2012 was primarily driven by the positive impact of the timing of a key customer award in our distribution markets, offset by lower equipment sales to the military in North America. The decrease of 6.6% for the first six months of fiscal year 2012 was primarily driven by the decline in military orders noted as well as lower equipment sales in our distribution business.

**Gross Profit**

|                | Three Months Ended |         |                         | Six Months Ended |         |                         |
|----------------|--------------------|---------|-------------------------|------------------|---------|-------------------------|
|                | October            | October | %                       | October          | October | %                       |
|                | 1,                 | 2,      | Increase/<br>(Decrease) | 1,               | 2,      | Increase/<br>(Decrease) |
| (in thousands) | 2011               | 2010    |                         | 2011             | 2010    |                         |

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|                   |           |           |      |            |            |      |
|-------------------|-----------|-----------|------|------------|------------|------|
| Gross profit      | \$ 89,949 | \$ 87,755 | 2.5% | \$ 178,698 | \$ 174,217 | 2.6% |
| % of net revenues | 50.1%     | 52.6%     |      | 51.1%      | 52.8%      |      |
|                   |           | 22        |      |            |            |      |

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Gross profit increased 2.5% and 2.6% as compared to the second quarter and first six months, respectively, of fiscal year 2011. Without the effects of foreign exchange, which increased gross profit by 2.2% and 2.6% for the second quarter and first six months, respectively, of fiscal year 2012, gross profit increased 0.3% and was flat for the quarter and six months, respectively, ended October 1, 2011. Our gross profit margin decreased by 250 and 170 basis points for the three and six month periods ending October 1, 2011, respectively. The decrease was primarily due to increased product quality costs and product mix associated with lower sales of hospital products and higher plasma disposable sales. The increased product quality costs included the shipment of a higher cost substitute product for certain plasma disposable sales in Europe in response to customer complaints that we are currently addressing. For further discussion related to this matter, refer to the discussion under selling, general and administrative expense below. We expect the product quality and mix trends noted to continue to impact gross profit over the balance of fiscal year 2012.

In October 2011, a facility of one of our contract manufacturers was damaged by the recent floods in Thailand. We have worked with the contract manufacturer to transition the manufacturing of the products that were made in this facility to the contract manufacturer's facility in Japan and our own manufacturing locations. We expect some higher costs associated with the transition. We currently do not expect material supply disruption to our customers. We are actively communicating with our customers about our continuity plans. However, customers may choose to mitigate their risk by leveraging alternate suppliers, which may negatively impact future sales and gross margins.

**Operating Expenses**

|                                     | Three Months Ended |            |            | Six Months Ended |            |            |
|-------------------------------------|--------------------|------------|------------|------------------|------------|------------|
|                                     | October            | October    | %          | October          | October    | %          |
| (in thousands)                      | 1,                 | 2,         | Increase/  | 1,               | 2,         | Increase/  |
|                                     | 2011               | 2010       | (Decrease) | 2011             | 2010       | (Decrease) |
| Research and development            | \$ 10,350          | \$ 7,954   | 30.1%      | \$ 18,959        | \$ 15,875  | 19.4%      |
| % of net revenues                   | 5.8%               | 4.8%       |            | 5.4%             | 4.8%       |            |
| Selling, general and administrative | \$ 62,613          | \$ 52,790  | 18.6%      | \$ 118,844       | \$ 107,144 | 10.9%      |
| % of net revenues                   | 34.9%              | 31.6%      |            | 34.0%            | 32.5%      |            |
| Contingent consideration            | \$ (1,580)         | \$ (1,894) | (16.6%)    | \$ (1,580)       | \$ (1,894) | (16.6%)    |
| % of net revenues                   | (0.9%)             | (1.1%)     |            | (0.5%)           | (0.6%)     |            |
| Total operating expenses            | \$ 71,383          | \$ 58,850  | 21.3%      | \$ 136,223       | \$ 121,125 | 12.5%      |
| % of net revenues                   | 39.8%              | 35.3%      |            | 38.9%            | 36.7%      |            |

**Research and Development**

Research and development expenses increased 30.1% and 19.4% for the second quarter and first six months, respectively, of fiscal year 2012 as compared to the same periods of fiscal year 2011. Foreign exchange resulted in an increase in research and development expense of 2.1% and 2.9% during the second quarter and first six months, respectively, of fiscal year 2012. Excluding the impact of foreign exchange, research and development expense increased 28.0% and 16.5% for the second quarter and six months, respectively, ended October 1, 2011. These increases were primarily related to the general increase in development programs in support of long-term product plans and near term quality improvements.

**Selling, General and Administrative**

During the second quarter and first six months of fiscal year 2012, selling, general and administrative expenses increased 18.6% and 10.9%, respectively, compared to the same periods of fiscal year 2011. Foreign exchange resulted in an increase in selling, general and administrative expenses of 5.8% and 4.7% during the second quarter and

first six months, respectively, of fiscal year 2012. Excluding the impact of foreign exchange, selling, general and administrative expense increased 12.8% and 6.2% for the second quarter and six months, respectively, ended October 1, 2011. These increases were attributable to \$2.4 million of expenses associated with customer claims arising from a quality issue with a plasma disposable product, and increased investment in our worldwide sales and marketing organizations. These increases were partially offset by lower expense associated with cash bonus compensation for this fiscal year.

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During the first quarter of fiscal 2012, we received customer complaints in Europe regarding a quality issue with our High Separation Core Bowl ( HS Core ), a plasma disposable product used primarily to collect plasma for transfusion. Certain of these customers have also made claims regarding financial losses alleged to have been incurred as a result of this matter. Total aggregate claims submitted to date by customers relating to this issue are approximately \$8.5 million. We do not expect any additional material claims from our customers. We are in the process of evaluating the submitted claims and continue to work with affected customers to minimize disruption to their operations and ultimately determine the validity and resolution of the submitted claims. Although this process is not completed, we have determined that it is probable that we will compensate certain affected customers in order to resolve their claims. We believe our ultimate liability will be less than the total claims submitted to date. Our current best estimate of the liability associated with this matter is \$2.4 million, and accordingly we have recorded this amount as an expense within selling, general and administrative expenses as of October 1, 2011. We cannot determine currently whether a liability greater than \$2.4 million will ultimately be incurred. We are also in the process of determining the extent to which claims may be recoverable under the Company's insurance policies. We do not currently believe that liabilities related to this matter will materially affect our consolidated financial position and liquidity.

**Contingent Consideration Income**

Under the accounting rules for business combinations (specifically, ASC Topic 805, *Business Combinations*), we established a liability for payments that we might make in the future to former shareholders of Neoteric that are tied to the performance of the Blood Track business for the first three years post acquisition, beginning with fiscal year 2010. We have reviewed the expected performance versus the necessary thresholds of performance for the former shareholders to receive additional performance payments and we recorded an adjustment to the fair value of the contingent consideration as contingent consideration income of \$1.6 million and \$1.9 million for the six months ended October 1, 2011 and October 2, 2010, respectively.

**Other Income, Net**

Other income, net, increased during the second quarter of fiscal year 2012 as compared to the same period of fiscal year 2011, primarily due to the reversal of \$0.6 million of interest expense on contingent consideration related to the Neoteric acquisition. Other income, net decreased for the first six months of fiscal year 2012 as compared to the same period of fiscal year 2011, primarily due to an increase in foreign exchange transaction losses of foreign currency denominated assets offset by the reversal of net interest expense of \$0.6 million on contingent consideration related to the Neoteric acquisition.

**Income Taxes**

|                          | Three Months Ended |               |          | Six Months Ended |               |          |
|--------------------------|--------------------|---------------|----------|------------------|---------------|----------|
|                          | October<br>1,      | October<br>2, | %        | October<br>1,    | October<br>2, | %        |
|                          | 2011               | 2010          | Increase | 2011             | 2010          | Increase |
| Reported income tax rate | 27.0%              | 26.8%         | 0.2%     | 27.8%            | 26.7%         | 1.1%     |

The Company's reported tax rate was 27.0% and 27.8% for the three and six month periods ended October 1, 2011, respectively. Our reported tax rate is lower than the federal statutory tax rate in both periods reported primarily due to lower foreign tax rates, including tax benefits associated with our Swiss operations.

**Liquidity and Capital Resources**

The following table contains certain key performance indicators we believe depict our liquidity and cash flow position:

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| <i>(dollars in thousands)</i>                | October 1,<br>2011 | April 2,<br>2011 |
|--|--------------------|------------------|
| Cash & cash equivalents                      | \$ 183,421         | \$ 196,707       |
| Working capital                              | \$ 330,294         | \$ 340,160       |
| Current ratio                                | 4.0                | 4.1              |
| Net cash position (1)                        | \$ 177,009         | \$ 191,828       |
| Days sales outstanding (DSO)                 | 66                 | 68               |
| Disposable finished goods inventory turnover | 6.2                | 6.1              |

(1) Net cash position is the sum of cash and cash equivalents less total debt.

Our primary sources of liquidity are cash and cash equivalents, internally generated cash flow from operations, and option exercises. We believe these sources are sufficient to fund our cash requirements over the next twelve months, which are primarily capital expenditures and may include share repurchases under future programs authorized by the Board of Directors at its discretion.

| <i>(in thousands)</i>  | Six Months Ended      |                    |                         |
|--|-----------------------|--------------------|-------------------------|
|  | October<br>1,<br>2011 | October 2,<br>2010 | Increase/<br>(Decrease) |
| Net cash provided by (used in):                                  |                       |                    |                         |
| Operating activities   | \$ 52,539             | \$ 44,286          | \$ 8,253                |
| Investing activities   | (23,713)              | (23,826)           | 113                     |
| Financing activities   | (41,753)              | (47,301)           | 5,548                   |
| Effect of exchange rate changes on cash and cash equivalents (1) | (359)                 | 328                | (687)                   |
| Net increase (decrease) in cash and cash equivalents             | \$ (13,286)           | \$ (26,513)        | \$ 13,227               |

(1) The balance sheet is affected by spot exchange rates used to translate local currency amounts into U.S. dollars. In accordance with GAAP, we have removed the effect of foreign currency throughout our cash flow statement, except for its effect on our cash and cash equivalents.

**Cash Flow Overview:****Six Month Comparison***Operating Activities:*

Net cash provided by operating activities increased by \$8.3 million in the first six months of fiscal year 2012 as compared to the first six months of fiscal year 2011, primarily due to lower payments for annual bonuses and restructuring and transformation costs. Payments related to transformation activities were higher in the prior year due to the timing of our Global Med acquisition, which closed at the end of fiscal year 2010. Cash provided by operations was negatively impacted in the first six months of fiscal 2012 by higher inventory levels to support plasma growth, launch of our next generation surgical device and the replacement of recalled OrthoPAT devices.

*Investing Activities:*

Net cash used in investing activities decreased by \$0.1 million during the first six months of fiscal year 2012 as compared to the first six months of 2011 due to a \$0.2 million decrease in capital expenditures on property, plant, and equipment, which was partially offset by \$0.1 million decrease in proceeds from the sale of property, plant, and equipment.

*Financing Activities:*

Net cash used to fund share repurchases under common stock repurchase programs was \$50.0 million during the first six months of both fiscal 2011 and 2012. Net cash used in financing activities decreased by \$5.5 million during the



first six months of fiscal year 2012, as compared to the first six months of 2011 due primarily to a \$7.2 million increase in net borrowings under short-term credit arrangements.

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### ***Inflation***

We do not believe that inflation had a significant impact on our results of operations for the periods presented. Historically, we believe we have been able to mitigate the effects of inflation by improving our manufacturing and purchasing efficiencies, by increasing employee productivity, and by adjusting the selling prices of products. We continue to monitor inflation pressures generally and raw materials indices that may affect our procurement and production costs. Increases in the price of petroleum derivatives could result in corresponding increases in our costs to procure plastic raw materials.

### ***Foreign Exchange***

During the first six months of fiscal year 2012, approximately 51% of our sales were generated outside the U.S., generally in foreign currencies, yet our reporting currency is the U.S. Dollar. Our primary foreign currency exposures relate to sales denominated in the Euro and the Japanese Yen. We also have foreign currency exposure related to manufacturing and other operational costs denominated in the Swiss Franc, the British Pound, and the Canadian Dollar. The Yen and Euro sales exposure is partially mitigated by costs and expenses for foreign operations and sourcing products denominated in foreign currencies. Since our foreign currency denominated Yen and Euro sales exceed the foreign currency denominated costs, whenever the U.S. Dollar strengthens relative to the Yen or Euro, there is an adverse affect on our results of operations and, conversely, whenever the U.S. dollar weakens relative to the Yen or Euro, there is a positive effect on our results of operations. For the Swiss Franc, the British Pound, and the Canadian Dollar, our primary cash flows relate to product costs or costs and expenses of local operations. Whenever the U.S. Dollar strengthens relative to these foreign currencies, there is a positive effect on our results of operations. Conversely, whenever the U.S. Dollar weakens relative to these currencies, there is an adverse effect on our results of operations.

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, 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.

These contracts are designated as cash flow hedges and are intended to lock in the expected cash flows of forecasted foreign currency denominated sales and costs at the available spot rate. Actual spot rate gains and losses on these contracts are recorded in sales and costs, at the same time the underlying transactions being hedged are recorded. The final impact of currency fluctuations on the results of operations is dependent on the local currency amounts hedged and the actual local currency results.

Presented below are the spot rates for our Euro, Japanese Yen, Canadian Dollar, British Pound, and Swiss Franc cash flow hedges that settled during fiscal years 2010, 2011, and 2012 or are presently outstanding. These hedges cover our long foreign currency positions that result from our sales designated in Euros and the Japanese Yen. These hedges also include our short positions associated with costs incurred in Canadian Dollars, British Pounds, and Swiss Francs. The table also shows how the strengthening or weakening of the spot rates associated with those hedge contracts versus the spot rates in the contracts that settled in the prior comparable period affects our results favorably or unfavorably. The table assumes a consistent notional amount for hedge contracts in each period presented.

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|   | First<br>Quarter | Favorable /<br>(Unfavorable) | Second<br>Quarter | Favorable /<br>(Unfavorable) | Third<br>Quarter | Favorable /<br>(Unfavorable) | Fourth<br>Quarter | Favorable /<br>(Unfavorable) |
|---|------------------|------------------------------|-------------------|------------------------------|------------------|------------------------------|-------------------|------------------------------|
| <b>Euro - Hedge<br/>Spot Rate<br/>(US\$ per<br/>Euro)</b>               |                  |                              |                   |                              |                  |                              |                   |                              |
| FY10  | 1.57             |                              | 1.49              |                              | 1.32             |                              | 1.28              |                              |
| FY11  | 1.36             | (13.4%)                      | 1.41              | (5.4%)                       | 1.43             | 8.3%                         | 1.35              | 5.5%                         |
| FY12  | 1.24             | (8.8%)                       | 1.30              | (7.8%)                       | 1.36             | (4.9%)                       | 1.37              | 1.5%                         |
| FY13  | 1.43             | 15.3%                        | 1.42              | 9.2%                         |                  |                              |                   |                              |
| <b>Japanese Yen -<br/>Hedge Spot<br/>Rate (JPY per<br/>US\$)</b>        |                  |                              |                   |                              |                  |                              |                   |                              |
| FY10  | 105.28           |                              | 105.11            |                              | 96.38            |                              | 93.50             |                              |
| FY11  | 98.17            | 6.8%                         | 94.91             | 9.7%                         | 89.13            | 7.5%                         | 89.78             | 4.0%                         |
| FY12  | 88.99            | 9.4%                         | 85.65             | 9.8%                         | 81.73            | 8.3%                         | 82.45             | 8.2%                         |
| FY13  | 79.40            | 10.8%                        | 76.65             | 10.5%                        |                  |                              |                   |                              |
| <b>Canadian<br/>Dollar - Hedge<br/>Spot Rate<br/>(CAD per<br/>US\$)</b> |                  |                              |                   |                              |                  |                              |                   |                              |
| FY10  | 1.14             |                              | 1.12              |                              | 1.11             |                              | 1.09              |                              |
| FY11  | 1.10             | (3.5%)                       | 1.09              | (2.7%)                       | 1.07             | (3.6%)                       | 1.03              | (5.5%)                       |
| FY12  | 1.05             | (4.5%)                       | 1.03              | (5.5%)                       | 1.00             | (6.5%)                       | 0.99              | (3.9%)                       |
| FY13  | 0.98             | (6.7%)                       | 0.98              | (4.9%)                       |                  |                              |                   |                              |
| <b>British Pound<br/>- Hedge Spot<br/>Rate (US\$ per<br/>GBP)</b>       |                  |                              |                   |                              |                  |                              |                   |                              |
| FY10  | 1.45             |                              | 1.44              |                              | 1.42             |                              | 1.40              |                              |
| FY11  | 1.47             | (1.4%)                       | 1.65              | (14.6%)                      | 1.63             | (14.8%)                      | 1.59              | (13.6%)                      |
| FY12  | 1.50             | (2.0%)                       | 1.54              | 6.7%                         | 1.57             | 3.7%                         | 1.58              | 0.6%                         |
| FY13  | 1.62             | (8.0%)                       | 1.63              | (5.8%)                       |                  |                              |                   |                              |
| <b>Swiss Franc -<br/>Hedge Spot<br/>Rate (CHF per<br/>US\$)</b>         |                  |                              |                   |                              |                  |                              |                   |                              |
| FY11  |                  |                              | 1.05              |                              | 1.04             |                              | 1.05              |                              |
| FY12  | 1.05             |                              | 1.01              | (3.8%)                       | 0.96             | (7.7%)                       | 0.92              | (12.4%)                      |
| FY13  | 0.82             | (21.9%)                      | 0.80              | (20.8%)                      |                  |                              |                   |                              |

\* We generally place our cash flow hedge contracts on a rolling twelve month basis

### **Recent 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.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles – Goodwill and Other (Topic 350)*. ASU 2011-08 allows entities to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the

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goodwill impairment test. The Company anticipates that the adoption of this standard will not have a material impact on its consolidated financial statements and footnote disclosures.

***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 six months ended October 1, 2011 thus the disclosure requirements were not applicable for the period.

**Cautionary Statement Regarding Forward-Looking Information**

Statements contained in this report, as well as oral statements we make which are prefaced with the words *may*, *will*, *expect*, *anticipate*, *continue*, *estimate*, *project*, *intend*, *designed*, and similar expressions, are intended to identify forward looking statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, results of operations, and financial position. These statements are based on our current expectations and estimates as to prospective events and circumstances about which we can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made. As it is not possible to predict every new factor that may emerge, forward-looking statements should not be relied upon as a prediction of our actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include technological advances in the medical field and our standards for transfusion medicine and our ability to successfully implement products that incorporate such advances and standards, product demand and market acceptance of our products, regulatory uncertainties, the effect of economic and political conditions, the impact of competitive products and pricing, the impact of industry consolidation, foreign currency exchange rates, changes in customers' ordering patterns, the effect of industry consolidation as seen in the plasma market, the effect of communicable diseases and the effect of uncertainties in markets outside the U.S. (including Europe and Asia) in which we operate. The foregoing list should not be construed as exhaustive. See the *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* sections contained elsewhere in this report, as well as our Annual Report on Form 10-K for the fiscal year ended April 2, 2011.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Company's exposures relative to market risk are due to foreign exchange risk and interest rate risk.

***Foreign exchange risk***

See the section entitled Foreign Exchange for a discussion of how foreign currency affects our business. It is our policy to minimize for a period of time, the unforeseen impact on our financial results of fluctuations in foreign exchange rates by using derivative financial instruments known as forward contracts to hedge anticipated cash flows from forecasted foreign currency denominated sales. We do not use the financial instruments for speculative or trading activities.

We estimate the change in the fair value of all forward contracts assuming both a 10% strengthening and weakening of the U.S. dollar relative to all other major currencies. In the event of a 10% strengthening of the U.S. dollar, the change in fair value of all forward contracts would result in a \$10.2 million increase in the fair value of the forward contracts; whereas a 10% weakening of the US dollar would result in a \$11.9 million decrease in the fair value of the forward contracts.

***Interest Rate Risk***

All of our long-term debt is at fixed rates. Accordingly, we do not have any material exposure to interest rates.

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**ITEM 4. CONTROLS AND PROCEDURES**

We conducted an evaluation, as of October 1, 2011, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (the Company's principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of October 1, 2011.

There were no changes in the Company's internal control over financial reporting which occurred during the six months ended October 1, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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### **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

##### *Fenwal Patent Litigation*

For the past five years, we have pursued a patent infringement lawsuit against Fenwal, the details of which are summarized in our Form 10-K for the fiscal year ended April 2, 2011. In January 2010, we were awarded damages and an injunction against Fenwal in connection with this lawsuit.

On June 2, 2010, the United States Court of Appeals reversed the trial court's claim construction and, accordingly, vacated the injunction and damages previously awarded to Haemonetics, and remanded the case to the trial court for further proceedings. On September 15, 2011, the trial court granted a summary judgment motion which essentially ended the U.S. case in Fenwal's favor.

We continue to pursue a patent infringement action in Germany against Fenwal, and its European and German subsidiary, for Fenwal's infringement of Haemonetics' corresponding European patent to the Haemonetics patent at issue in the United States litigation. Further details related to these proceedings have been disclosed in our Form 10-K for the fiscal year ended April 2, 2011. There has been no material developments related to these proceedings during the current fiscal year.

##### *Haemonetics Italia Matter*

In April 2008, our subsidiary Haemonetics Italia, Srl. and two of its employees were found guilty by a court in Milan, Italy of charges arising from allegedly improper payments made under a consulting contract with a local physician and in pricing products under a tender from a public hospital. The two employees found guilty in this matter are no longer employed by the Company. This matter dates to 2004 and involved other unrelated companies and individuals. On June 14, 2011, the final level appeals court affirmed these verdicts. There are no further appeals available and the convictions are now final. When the matters first arose, our Board of Directors commissioned independent legal counsel to conduct investigations on its behalf. Based upon its evaluation of counsel's report, the Board concluded that no disciplinary action was warranted in either case. Neither the original ruling nor its final affirmation has impacted the Company's business in Italy to date.

#### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part 1, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended April 2, 2011, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

In a May 2, 2011 press release, the Company announced that its Board of Directors approved the repurchase of up to \$50.0 million worth of Company shares during fiscal year 2012. Through October 1, 2011, the Company repurchased 852,410 shares of its common stock for an aggregate purchase price of \$50.0 million. We reflect stock repurchases in our financial statements on a trade date basis and as Authorized Unissued (Haemonetics is a Massachusetts company and under Massachusetts law repurchased shares are treated as authorized but unissued).

All of the purchases during the quarter were made under the publicly announced program. All purchases were made in the open market.



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| Period                            | Total<br>Number<br><br>of Shares | Average<br>Price<br>Paid per<br>Share<br><br>including<br>Commissions | Total Dollar<br>Value<br>of Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced Plans<br>or Programs | Maximum<br>Dollar<br>Value of<br>Shares that<br>May Yet be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|-----------------------------------|----------------------------------|---|---|--|
| August 1, 2011 to August 25, 2011 | Repurchased<br>852,410           | \$ 58.65  | \$ 49,997,524   | \$ 2,476   |
| Total                             | 852,410                          | \$ 58.65  | \$ 49,997,524   | \$ 2,476   |

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. [Removed and Reserved]****Item 5. Other Information**

On October 27, 2011, the Board of Directors approved a form of an indemnification agreement that it anticipates entering into with each current director as well as future directors. A copy of the agreement is filed with this report as Exhibit 10.1 and is incorporated herein by reference.

**Item 6. Exhibits**

- 10.1 Form of director indemnification agreement
- 31.1 Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002, of Brian Concannon, President and Chief Executive Officer of the Company
- 31.2 Certification pursuant to Section 302 of Sarbanes-Oxley of 2002, of Christopher Lindop, Chief Financial Officer and Vice President Business Development of the Company
- 32.1 Certification Pursuant to 18 United States Code Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Brian Concannon, President and Chief Executive Officer of the Company
- 32.2 Certification Pursuant to 18 United States Code Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Christopher Lindop, Chief Financial Officer and Vice President Business Development of the Company
- 101\* The following materials from Haemonetics Corporation on Form 10-Q for the quarter ended October 1, 2011, formatted in Extensible Business Reporting Language (XBRL); (i) Consolidated Statements of Income, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

\* In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for the purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.



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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**HAEMONETICS CORPORATION**

Date: November 3, 2011

By: /s/ Brian Concannon  
Brian Concannon, President and  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 3, 2011

By: /s/ Christopher Lindop  
Christopher Lindop, Chief Financial  
Officer and Vice President Business  
Development  
(Principal Financial Officer)