

HAEMONETICS CORP

Form 10-Q

November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarter ended: September 26, 2015

Commission File Number: 001-14041

HAEMONETICS CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction

of incorporation or organization)

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 \$0.01 par value common stock outstanding as of October 24, 2015: 50,724,474

HAEMONETICS CORPORATION
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ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net revenues	\$219,693	\$227,580	\$433,106	\$452,068
Cost of goods sold	114,396	119,466	225,270	237,676
Gross profit	105,297	108,114	207,836	214,392
Operating expenses:				
Research and development	11,553	10,938	22,874	26,319
Selling, general and administrative	74,565	84,769	162,177	177,331
Total operating expenses	86,118	95,707	185,051	203,650
Operating income	19,179	12,407	22,785	10,742
Interest and other expense, net	(2,606)	(2,645)	(4,615)	(5,188)
Income before provision for income taxes	16,573	9,762	18,170	5,554
Provision for income taxes	3,710	2,275	5,574	1,715
Net income	\$12,863	\$7,487	\$12,596	\$3,839
Net income per share - basic	\$0.25	\$0.15	\$0.25	\$0.07
Net income per share - diluted	\$0.25	\$0.14	\$0.24	\$0.07
Weighted average shares outstanding				
Basic	50,680	51,391	51,020	51,567
Diluted	51,187	51,925	51,638	52,056
Comprehensive (loss) income	\$(1,526)	\$6,990	\$(4,153)	\$2,495

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

HAEMONETICS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 26, 2015 (Unaudited)	March 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 100,247	\$ 160,662
Accounts receivable, less allowance of \$2,273 at September 26, 2015 and \$1,749 at March 28, 2015	145,411	145,827
Inventories, net	207,645	211,077
Deferred tax asset, net	11,977	12,608
Prepaid expenses and other current assets	35,444	40,103
Total current assets	500,724	570,277
Property, plant and equipment, net	328,233	321,948
Intangible assets, less accumulated amortization of \$150,318 at September 26, 2015 and \$133,175 at March 28, 2015	237,685	244,588
Goodwill	333,575	334,310
Deferred tax asset, long term	3,053	3,023
Other long-term assets	15,674	11,271
Total assets	\$1,418,944	\$1,485,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$46,593	\$21,522
Accounts payable	42,088	48,425
Accrued payroll and related costs	42,852	51,115
Accrued taxes	2,209	3,819
Other current liabilities	54,363	64,211
Total current liabilities	188,105	189,092
Long-term debt, net of current maturities	387,715	406,369
Long-term deferred tax liability	34,781	32,097
Other long-term liabilities	31,463	31,737
Stockholders' equity:		
Common stock, \$0.01 par value; Authorized — 150,000,000 shares; Issued and outstanding — 50,620,986 shares at September 26, 2015 and 51,670,969 shares at March 28, 2015	506	517
Additional paid-in capital	430,488	426,964
Retained earnings	384,359	420,365
Accumulated other comprehensive loss	(38,473	) (21,724
Total stockholders' equity	776,880	826,122
Total liabilities and stockholders' equity	\$1,418,944	\$1,485,417

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

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

	Six Months Ended	
	September 26, 2015	September 27, 2014
Cash Flows from Operating Activities:		
Net income	\$12,596	\$3,839
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization	44,998	41,625
Amortization of financing costs	435	572
Stock compensation expense	3,883	6,938
Loss on sale of property, plant and equipment	139	364
Unrealized (gain)/loss from hedging activities	(710)	) 554
Change in fair value of contingent consideration	171	459
Asset write-down	88	474
Change in operating assets and liabilities:		
Change in accounts receivable, net	243	10,145
Change in inventories	2,510	(13,185)
Change in prepaid income taxes	(182)	) (2,028)
Change in other assets and other liabilities	(1,712)	) (8,160)
Tax benefit of exercise of stock options	1,375	854
Change in accounts payable and accrued expenses	(27,073)	) 2,529
Net cash provided by operating activities	36,761	44,980
Cash Flows from Investing Activities:		
Capital expenditures	(50,130)	) (70,872)
Proceeds from sale of property, plant and equipment	293	377
Other acquisitions and investments	(3,000)) —
Net cash used in investing activities	(52,837)	) (70,495)
Cash Flows from Financing Activities:		
Payments on long-term real estate mortgage	(558)	) (513)
Net increase in short-term loans	6,924	786
Repayment of term loan borrowings	—	(8,531)
Proceeds from employee stock purchase plan	2,263	2,530
Proceeds from exercise of stock options	8,374	4,042
Share repurchases	(60,984)	) (33,770)
Net cash used in financing activities	(43,981)	) (35,456)
Effect of exchange rates on cash and cash equivalents	(358)	) (1,527)
Net Change in Cash and Cash Equivalents	(60,415)	) (62,498)
Cash and Cash Equivalents at Beginning of Period	160,662	192,469
Cash and Cash Equivalents at End of Period	\$100,247	\$129,971
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$4,162	\$4,180
Income taxes paid	\$4,656	\$8,351
Transfers from inventory to fixed assets for placement of Haemonetics equipment	\$5,550	\$4,026

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

HAEMONETICS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 adjustments) considered necessary for a fair presentation have been included. All intercompany transactions have been eliminated. Operating results for the six months ended are not necessarily indicative of the results that may be expected for the full fiscal year ending April 2, 2016, or any other interim period. Operating results for the six months ended September 26, 2015 include the correction of an understatement of the provision for income taxes in fiscal 2015, which was determined to be immaterial to all periods impacted. Absent this correction, the provision for income taxes in the six months ended September 26, 2015 would have been \$1.0 million lower than the amount included in the accompanying Consolidated Statements of Income and Comprehensive (Loss) Income. This understatement was due to an error in the computation of the provision for income taxes due to a recent change in the capital gains tax rate in Puerto Rico related to certain deferred tax liabilities. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and footnotes included in our annual report on Form 10-K for the fiscal year ended March 28, 2015.

We consider 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. We had no significant subsequent events.

Our fiscal year ends on the Saturday closest to the last day of March. Fiscal year 2016 includes 53 weeks with each of the first three quarters having 13 weeks and the fourth quarter having 14 weeks. Fiscal year 2015 included 52 weeks with each quarter having 13 weeks.

Summary of Significant Accounting Policies

Revenue Recognition

We offer sales rebates and discounts to certain customers. We treat sales rebates and discounts as a reduction of revenue and classify the corresponding liability as current. We estimate rebates for products where there is sufficient historical information available to predict the volume of expected future rebates. If we are unable to estimate the expected rebates reasonably, we record a liability for the maximum potential rebate or discount that could be earned. In circumstances where we provide upfront rebate payments to customers, we capitalize the rebate payments and amortize the resulting asset as a reduction of revenue using a systematic method over the life of the contract. For additional information regarding significant accounting policies, refer to our annual report on Form 10-K for the fiscal year ended March 28, 2015.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Standards Implemented

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 limits the requirement to report discontinued operations to disposals of components of an entity that represent strategic shifts

that have (or will have) a major effect on an entity's operations and financial results. The amendments also require expanded disclosures concerning discontinued operations and disclosures of certain financial results attributable to a disposal of a significant component of an entity that does not qualify for discontinued operations reporting. The amendments in ASU No. 2014-08 are effective prospectively for reporting periods beginning on or after December 15, 2014, with early adoption permitted. We adopted ASU No. 2014-08 beginning in the first quarter of fiscal 2016. The adoption of ASU No. 2014-08 did not impact our financial position or results of operations.

Standards to be Implemented

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an

amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The impact of adopting ASU No. 2014-09 on our financial position and results of operations is being assessed by management.

In June 2014, the FASB issued ASU No. 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. ASU No. 2014-12 requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, Compensation—Stock Compensation, as it relates to such awards. ASU No. 2014-12 is effective in our first quarter of fiscal 2017 with early adoption permitted using either of two methods: (i) prospective to all awards granted or modified after the effective date; or (ii) retrospective to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter, with the cumulative effect of applying ASU No. 2014-12 as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented in the financial statements. Management does not believe that the adoption of ASU No. 2014-12 will have a material effect on our financial position or results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU No. 2014-15 defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This guidance will be effective for all entities in the first annual period ending after December 15, 2016; however, early adoption is permitted. Management does not believe that the adoption of ASU No. 2014-15 will have a material effect on our financial position or results of operations.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminates from GAAP the concept of extraordinary items. An entity will no longer be required to (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; and (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. ASU No. 2015-01 will be effective for fiscal years beginning after December 15, 2015. An entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Management does not believe that the adoption of ASU No. 2015-01 will have a material effect on our financial position or results of operations.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU No. 2015-02 amended the process that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU No. 2015-02 is effective for annual periods ending after December 15, 2015, and for annual periods and interim periods thereafter with early adoption permitted. Management does not believe that the adoption of ASU No. 2015-02 will have a material effect on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt

liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance simplifies the presentation of debt issuance costs but does not address presentation or subsequent measurement of debt issue costs related to line of credit arrangements. In August 2015, the FASB issued ASU No. 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU No. 2015-15 indicates that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line of credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. ASU No. 2015-03 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. Early adoption is permitted. Management does not believe that the adoption of ASU No. 2015-03 will have a material effect on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-04, Compensation—Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets. ASU No. 2015-04 provides a practical

expedient, for an entity with a fiscal year-end that does not coincide with a month-end, that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. ASU No. 2015-04 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. Management does not believe that the adoption of ASU No. 2015-04 will have a material effect on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. ASU No. 2015-05 will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. ASU No. 2015-05 is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. Management does not believe that the adoption of ASU No. 2015-05 will have a material effect on our financial position or results of operations.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU No. 2015-11 more closely aligns the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards by requiring companies using the first-in, first-out and average costs methods to measure inventory using the lower of cost and net realizable value. ASU No. 2015-11 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years. ASU No. 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. Management does not believe that the adoption of ASU No. 2015-11 will have a material effect on our financial position or results of operations.

In August 2015, the FASB issued ASU No. 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient. Part I of ASU No. 2015-12 designates contract value as the only required measure for fully benefit-responsive investment contracts. Part II simplifies the investment disclosure requirements under Topics 820, 960, 962, and 965 for employee benefits plans and Part III provides a measurement date practical expedient for fiscal periods that do not coincide with a month-end date. ASU No. 2015-12 is effective for fiscal years beginning after December 15, 2015 with early adoption permitted. Management does not believe that the adoption of ASU No. 2015-12 will have a material effect on our financial position or results of operations.

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.

(In thousands, except per share amounts)	Three Months Ended	
	September 26, 2015	September 27, 2014
Basic EPS		
Net income	\$12,863	\$7,487
Weighted average shares	50,680	51,391
Basic income per share	\$0.25	\$0.15
Diluted EPS		
Net income	\$12,863	\$7,487
Basic weighted average shares	50,680	51,391
Net effect of common stock equivalents	507	534
Diluted weighted average shares	51,187	51,925
Diluted income per share	\$0.25	\$0.14

(In thousands, except per share amounts)	Six Months Ended	
	September 26, 2015	September 27, 2014
Basic EPS		
Net income	\$12,596	\$3,839
Weighted average shares	51,020	51,567
Basic income per share	\$0.25	\$0.07
Diluted EPS		
Net income	\$12,596	\$3,839
Basic weighted average shares	51,020	51,567
Net effect of common stock equivalents	618	489
Diluted weighted average shares	51,638	52,056
Diluted income per share	\$0.24	\$0.07

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. Weighted average shares outstanding, assuming dilution, excludes the impact of 1.6 million and 1.1 million anti-dilutive shares for the three and six months ended September 26, 2015, respectively, as compared to 1.6 million anti-dilutive shares for the three and six months ended September 27, 2014.

4. STOCK-BASED COMPENSATION

Total stock-based compensation expense of \$3.9 million and \$6.9 million was recognized for the six months ended September 26, 2015 and September 27, 2014, respectively. The related income tax benefit recognized was \$1.2 million and \$2.2 million for the six months ended September 26, 2015 and September 27, 2014, respectively.

The weighted average fair value for our options granted was \$9.05 and \$8.08 per share for the six months ended September 26, 2015 and September 27, 2014, respectively. The assumptions utilized for estimating the fair value of option grants during the periods presented are as follows:

Stock Options Black-Scholes assumptions (weighted average):	Six Months Ended			
	September 26, 2015	September 27, 2014		
Volatility	22.15	% 22.62	%	
Expected life (years)	4.9	4.9		
Risk-free interest rate	1.65	% 1.80	%	
Dividend yield	—	% —	%	

As of September 26, 2015, there was \$17.8 million of total unrecognized compensation cost related to non-vested equity based compensation, including stock options, restricted stock units, market stock units and performance share units. This cost is expected to be recognized over a weighted average period of 2.3 years.

During the six months ended September 26, 2015 and September 27, 2014, there were 73,360 and 97,415 shares, respectively, purchased under the Employee Stock Purchase Plan at an average price of \$30.84 and \$25.85 per share, respectively.

5. PRODUCT WARRANTIES

We generally provide 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 periodically assess the adequacy of our warranty accrual, making adjustments as necessary.

(In thousands)	Six Months Ended	
	September 26, 2015	September 27, 2014
Warranty accrual as of the beginning of the period	\$531	\$590
Warranty provision	704	577
Warranty spending	(738	) (595
Warranty accrual as of the end of the period	\$497	\$572

6. INVENTORIES

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

(In thousands)	September 26, 2015	March 28, 2015
Raw materials	\$64,127	\$71,794
Work-in-process	17,183	12,462
Finished goods	126,335	126,821
Total inventory	\$207,645	\$211,077

7. DERIVATIVES AND FAIR VALUE MEASUREMENTS

We manufacture, market and sell our products globally. For the six months ended September 26, 2015, approximately 42.8% of our sales were generated outside the U.S. in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency.

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 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, Australian Dollar, British Pound Sterling, Canadian Dollar and the Mexican Peso. This does not eliminate the impact of the volatility of foreign exchange rates, but because we generally enter into forward contracts one year out, rates are fixed for a one-year period, thereby facilitating financial planning and resource allocation.

Designated Foreign Currency Hedge Contracts

All of our designated foreign currency hedge contracts as of September 26, 2015 and March 28, 2015 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 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 \$123.2 million as of September 26, 2015 and \$145.8 million as of March 28, 2015.

During the six months ended September 26, 2015, we recognized net gains of \$6.6 million in earnings from our cash flow hedges, compared to recognized net gains of \$1.6 million during the six months ended September 27, 2014. For the six months ended September 26, 2015, a \$1.2 million loss, net of tax, was recorded in Accumulated Other Comprehensive Loss 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 a gain of \$4.4 million, net of tax, for the six months ended

September 27, 2014. At September 26, 2015, nominal losses, net of tax, will be reclassified to earnings within the next twelve months. All currency cash flow hedges outstanding as of September 26, 2015 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 \$42.7 million as of September 26, 2015 and \$45.8 million as of March 28, 2015.

Interest Rate Swaps

On August 1, 2012, we entered into a credit agreement, as amended June 30, 2014, which provided for a term loan ("Credit Agreement"). Under the terms of this Credit Agreement, we may borrow at a spread to an index, including the LIBOR index of 1-month, 3-months, 6-months, etc. From the date of the Credit Agreement, we have chosen to borrow against the 1-month USD-LIBOR-BBA rounded up, if necessary, to the nearest 1/16th of 1% ("Adjusted LIBOR"). The terms of the Credit Agreement allows us to borrow in multiple tranches.

Accordingly, our earnings and cash flows are exposed to interest rate risk from changes in Adjusted LIBOR. Part of our interest rate risk management strategy includes the use of interest rate swaps to mitigate our exposure to changes in variable interest rates. Our objective in using interest rate swaps is to add stability to interest expense and to manage and reduce the risk inherent in interest rate fluctuations. We formally document our hedge relationships (including identifying the hedged instrument and hedged item) at hedge inception to ensure that our interest rate swaps qualify for hedge accounting. On a quarterly basis, we assess whether the interest rate swaps are highly effective in offsetting changes in the cash flow of the hedged item. We do not hold or issue interest rate swaps for trading purposes. We manage the credit risk of the counterparties by dealing only with institutions that we consider financially sound and consider the risk of non-performance to be remote.

On December 21, 2012, we entered into two interest rate swap agreements (the "Swaps"), whereby we receive Adjusted LIBOR and pay an average fixed rate of 0.68% on a total notional amount of \$250.0 million of debt. The Swaps mature on August 1, 2017. We designated the Swaps as cash flow hedges of variable interest rate risk associated with \$250.0 million of indebtedness. For the six months ended September 26, 2015 and September 27, 2014, a loss of \$0.2 million and a loss of \$0.1 million, respectively, net of tax, were recorded in Accumulated Other Comprehensive Loss to recognize the effective portion of the fair value of interest rate swaps that qualify as cash flow hedges.

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 statements of income and comprehensive income for the six months ended September 26, 2015:

(In thousands)	Amount of Loss Recognized in Accumulated Other Comprehensive Loss	Amount of Gain Reclassified from Accumulated Other Comprehensive	Location in Consolidated Statements of Income and Comprehensive (Loss) Income	Amount of Gain Excluded from Effectiveness Testing *	Location in Consolidated Statements of Income and Comprehensive (Loss) Income
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		Loss into Retained Earnings		
Derivative Instruments				
Designated foreign currency hedge contracts, net of tax	\$(1,243) \$6,592	Net revenues, COGS, and SG&A	\$12
Non-designated foreign currency hedge contracts	—	—		785
Designated interest rate swaps, net of tax	\$(243	) \$—	Interest and other expense, net	\$—

* 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 September 26, 2015 or March 28, 2015.

As of September 26, 2015, the amount recognized as a deferred tax liability for designated foreign currency hedges was \$0.2 million and the amount recognized as a deferred tax asset for interest rate swap hedges was \$0.2 million.

ASC Topic 815 requires all derivative instruments to be recognized at their fair value 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, current interest rate curves, interest rate volatilities, 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 September 26, 2015, we have classified our derivative assets and liabilities within Level 2 of the fair value hierarchy prescribed by ASC 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 September 26, 2015 and March 28, 2015:

(In thousands)	Location in Balance Sheet	September 26, 2015	March 28, 2015
Derivative Assets:			
Designated foreign currency hedge contracts	Other current assets	\$2,620	\$9,740
		\$2,620	\$9,740
Derivative Liabilities:			
Designated foreign currency hedge contracts	Other current liabilities	\$2,870	\$2,499
Designated interest rate swaps	Other current liabilities	548	159
		\$3,418	\$2,658

Other Fair Value Measurements

ASC Topic 820 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 six months ended September 26, 2015, 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.

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 September 26, 2015 and March 28, 2015.

(In thousands)	As of September 26, 2015				As of March 28, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Money market funds	\$63,180	\$—	\$—	\$63,180	\$119,946	\$—	\$—	\$119,946
Designated foreign currency hedge contracts	—	2,620	—	2,620	—	9,740	—	9,740
	\$63,180	\$2,620	\$—	\$65,800	\$119,946	\$9,740	\$—	\$129,686
Liabilities								
Designated foreign currency hedge contracts	\$—	\$2,870	\$—	\$2,870	\$—	\$2,499	\$—	\$2,499
Designated interest rate swaps	—	548	—	548	—	159	—	159
Contingent consideration	—	—	4,898	4,898	—	—	4,727	4,727
	\$—	\$3,418	\$4,898	\$8,316	\$—	\$2,658	\$4,727	\$7,385

For the six months ended September 26, 2015, non-designated foreign currency hedge contracts were not significant and are not disclosed separately in the above table.

Contingent Consideration

Contingent consideration liabilities are measured at fair value using projected revenues, discount rates, probabilities of payment and projected payment dates. This Level 3 fair value measurement was performed using a probability-weighted discounted cash flow over a ten year period. Increases or decreases in the fair value of our contingent consideration liability can result from changes in discount periods and rates, as well as changes in the timing and amount of revenue estimates or likelihood of earning revenue. Projected revenues are based on our most recent internal operational budgets.

The table below provides a reconciliation of the beginning and ending Level 3 liabilities for the six months ended September 26, 2015.

(In thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Contingent consideration as of March 28, 2015	\$4,727
Fair value adjustment	171
Ending balance	\$4,898

The fair value adjustment to contingent consideration was a result of updated assumptions pertaining to timing and unit volumes.

Other Fair Value Disclosures

The Term Loan (which is carried at amortized cost), accounts receivable and accounts payable approximate fair value. Details pertaining to the Term Loan can be found in Note 9, Debt.

8. INCOME TAXES

We conduct business globally, and as a result, report our results of operations in a number of foreign jurisdictions in addition to the United States. Our reported tax rate is lower than the U.S. federal statutory rate in all reported periods as the income tax rates in the foreign jurisdictions are generally lower than the U.S. statutory tax rate.

The reported income tax rate for the six months ended September 26, 2015 was 30.7%, as compared to a reported income tax rate of 30.9% for the six months ended September 27, 2014.

During the six months ended September 26, 2015, we recorded pre-tax losses in Scotland, Italy and Malaysia due to restructuring and transformation costs associated with our manufacturing transformation, and we did not record a corresponding tax benefit due to the valuation allowance maintained against our net deferred tax assets in these jurisdictions. Similarly, during the six months ended September 27, 2014, we recorded pre-tax losses in Scotland and Malaysia associated with restructuring costs, and we did not record a corresponding tax benefit due to the valuation allowance maintained against our net deferred tax assets in these jurisdictions.

We recorded tax expense of \$1.0 million during the six months ended September 26, 2015 as a result of a deferred tax rate change which impacted an indefinite-lived deferred tax liability of our Puerto Rican subsidiary.

We are in a three year cumulative loss position in the U.S. and, accordingly, maintain a valuation allowance against our U.S. deferred tax assets. We also maintain a valuation allowance against certain foreign deferred tax assets which we have concluded are not more-likely-than-not realizable.

9. DEBT

On August 1, 2012, in connection with the acquisition of the whole blood business, we entered into a credit agreement ("Credit Agreement") with certain lenders (together, "Lenders") which provided for a \$475.0 million Term Loan and a \$50.0 million revolving loan (the "Revolving Credit Facility"), and together with the Term Loan, (the "Credit Facilities"). The Credit Facilities had a term of five years and mature on August 1, 2017. Interest was based on the Adjusted LIBOR plus a range of 1.125% to 1.500% depending on the achievement of leverage ratios and customary credit terms which included financial and negative covenants.

On June 30, 2014, we modified our existing Credit Facilities by extending the maturity date to July 1, 2019, extending the principal repayments of the Term Loan, and modifying certain restrictive covenants to allow greater operational flexibility and enhanced near term liquidity. In addition, the amended Credit Agreement provides for a \$100.0 million revolving credit facility and establishes interest rates in the range of LIBOR plus 1.125% – 1.500%, depending on certain conditions. At September 26, 2015, \$379.4 million was outstanding under the term loan and \$50.0 million was outstanding on the Revolving Credit Facility, both with an interest rate of 1.625%. No additional amounts were borrowed as a result of this modification. The fair value of debt approximates its current value of approximately \$429.4 million as of September 26, 2015. We were in compliance with the leverage and interest coverage ratios specified in the Credit Agreement as well as all other bank covenants as of September 26, 2015.

The maturity profile is as follows:

Fiscal year (in thousands)	Term Loan
2016	\$21,342
2017	42,683
2018	45,054
2019	151,763
2020	168,564
	\$429,406

10. COMMITMENTS AND CONTINGENCIES

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

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Italian Employment Litigation

Our Italian manufacturing subsidiary is party to several actions initiated by employees of the facility in Ascoli-Piceno, Italy where we have ceased manufacturing operations. These include actions claiming (i) working conditions and minimum salaries should have been established by either a different classification under their national collective bargaining agreement or a different agreement altogether, (ii) certain solidarity agreements, which are arrangements between the Company, employees and the government to continue full pay and benefits for employees who would otherwise be terminated in times of low demand, are void, and (iii) payment of the extra time used for changing into and out of the working clothes at the beginning and end of each shift.

In addition, a union represented in the Ascoli plant has filed an action claiming that the Company discriminated against it in favor of three other represented unions by (i) interfering with an employee referendum, (ii) interfering with an employee petition to recall union representatives from office, and (iii) excluding the union from certain meetings.

Finally, we have been added as defendants on claims filed against Pall Corporation prior to our acquisition of the plant in August 2012. These claims relate to agreements to "freeze" benefit allowances for a certain period in exchange for Pall's commitments on hiring and plant investment.

As of September 26, 2015, the total amount of damages claimed by the plaintiffs in these matters is approximately \$3.8 million. It is not possible at this point in the proceedings to accurately evaluate the likelihood or amount of any potential losses and therefore no amounts have been accrued. We may receive other, similar claims in the future.

11. SEGMENT INFORMATION

We manage a global business which designs, manufactures and markets blood management solutions. Our solutions are marketed through operating units organized primarily on geography: North America Plasma, North America Blood Center and Hospital, Europe, Asia Pacific and Japan.

ASC 280, Segment Reporting, permits the aggregation of segments which are economically similar as well as similar in all of the following areas: (i) the nature of the products and services, (ii) the nature of the production processes, (iii) the type or class of customer for their products and services, (iv) the methods used to distribute their products or provide their services, and (v) the nature of the regulatory environment.

Based on the criteria of ASC 280, we have one reportable segment. This conclusion is consistent with how our chief operating decision-maker views the business. Our chief operating decision maker primarily uses consolidated results to make operating and strategic decisions.

12. RESTRUCTURING

On an ongoing basis, we review the global economy, the healthcare industry and the markets in which we compete to identify opportunities for efficiencies, enhance commercial capabilities, align our resources and offer our customers better solutions. In order to realize these opportunities, we undertake restructuring-type activities to transform our business.

On May 1, 2013, we committed to a plan to pursue identified Value Creation and Capture initiatives ("VCC"). These opportunities include investment in product line extensions and next generation products, enhancement of commercial capabilities and a transformation of our manufacturing network. The transformation of our manufacturing network is expected to be completed in fiscal 2017 and included changes to the manufacturing footprint and supply chain

structure (the "Network Plan"). To date, we have (i) discontinued manufacturing activities at our Ascoli-Piceno, Italy and Bothwell, Scotland facilities, (ii) expanded our facility in Tijuana, Mexico, (iii) engaged Sanmina Corporation as a contract manufacturer to produce certain medical equipment, and (iv) built a new manufacturing facility in Penang, Malaysia closer to our customers in Asia. We expect to complete the transfer of manufacturing activities from the Braintree, Massachusetts facility by the end of fiscal 2016 and the Bothwell, Scotland facility by early fiscal 2017. See the Liquidity and Capital Resources discussion of the Management Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the costs of these activities.

We estimate we will incur approximately \$45.0 million in restructuring and restructuring related expense in 2016.

The following summarizes the restructuring costs for the six months ended September 26, 2015 and September 27, 2014:

(In thousands)	Six Months Ended September 26, 2015				Restructuring Accrual Balance at September 26, 2015
	Restructuring Accrual Balance at March 28, 2015	Restructuring Costs Incurred	Less Payments	Less Non-Cash Adjustments	
Severance and other employee costs	\$ 16,393	\$ 7,960	\$(11,547)	\$—	\$ 12,806
Other costs	219	5,576	(4,841)	—	954
Accelerated depreciation	—	843	—	(843)	—
Asset write-down	—	4	—	(4)	—
Total	\$ 16,612	\$ 14,383	\$(16,388)	\$(847)	\$ 13,760

(in thousands)	Six Months Ended September 27, 2014				Restructuring Accrual Balance at September 27, 2014
	Restructuring Accrual Balance at March 29, 2014	Restructuring Costs Incurred	Less Payments	Less Non-Cash Adjustments	
Severance and other employee costs	\$ 22,908	\$ 12,743	\$(12,680)	\$—	\$ 22,971
Other costs	728	9,354	(9,704)	—	378
Accelerated depreciation	—	740	—	(740)	—
Asset write-down	—	96	—	(96)	—
Total	\$ 23,636	\$ 22,933	\$(22,384)	\$(836)	\$ 23,349

We deployed significant financial resources for these activities. Many of the costs necessary to complete the VCC initiatives, such as severance and other plant closing costs, qualify as restructuring expenses under ASC 420, Exit or Disposal Cost Obligations. We incurred \$14.4 million in severance, asset write-downs and other restructuring charges during the six months ended September 26, 2015. In addition, we also incurred \$7.1 million of costs that do not constitute restructuring under ASC 420, which we refer to as "Transformation Costs". These costs consist primarily of expenditures directly related to our transformation activities including program management, product line transfer teams and related costs, infrastructure related costs, accelerated depreciation and asset disposals.

The table below presents transformation and restructuring costs recorded in cost of goods sold, research and development, selling, general and administrative expenses and interest and other expense in our Consolidated Statements of Income and Comprehensive (Loss) Income for the periods presented.

(in thousands)	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Transformation costs	\$ 1,683	\$ 7,225	\$ 7,009	\$ 14,987
Accelerated depreciation	45	168	76	418
Total	\$ 1,728	\$ 7,393	\$ 7,085	\$ 15,405

Restructuring costs (in thousands)	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Severance and other employee costs	\$1,101	\$3,222	\$7,960	\$12,743
Other costs	3,401	4,249	5,576	9,354
Accelerated depreciation	422	481	843	740
Asset disposal	—	—	4	96
Total	\$4,924	\$7,952	\$14,383	\$22,933
Total restructuring and transformation	\$6,652	\$15,345	\$21,468	\$38,338

13. CAPITALIZATION OF SOFTWARE DEVELOPMENT COSTS

For costs incurred related to the development of software to be sold, leased or otherwise marketed, we apply the provisions of ASC 985-20, Software - Costs of Software to be Sold, Leased or Marketed, 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.

We capitalized \$8.5 million and \$3.5 million in software development costs for ongoing initiatives during the six months ended September 26, 2015 and September 27, 2014, respectively. At September 26, 2015 and March 28, 2015, we have a total of \$48.2 million and \$39.7 million of capitalized software costs, of which \$9.9 million and \$7.9 million are related to in-process software development initiatives, respectively. During the six months ended September 26, 2015, \$6.4 million of capitalized costs were placed into service. The costs capitalized for each project are included in intangible assets in the consolidated financial statements. We review these assets for impairment at least annually.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a roll-forward of the components of Accumulated Other Comprehensive Loss, net of tax, for the six months ended September 26, 2015:

(In thousands)	Foreign Currency	Defined Benefit Plans	Net Unrealized Gain/Loss on Derivatives	Total
Balance as of March 28, 2015	\$(20,512)	\$(8,923)	\$7,711	\$(21,724)
Other comprehensive (loss)/income before reclassifications	(8,674)	3	(1,486)	(10,157)
Amounts reclassified from Accumulated Other Comprehensive Loss	—	—	(6,592)	(6,592)
Net current period other comprehensive (loss)/income	(8,674)	3	(8,078)	(16,749)
Balance as of September 26, 2015	\$(29,186)	\$(8,920)	\$(367)	\$(38,473)

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Details pertaining to the amount reclassified from Accumulated Other Comprehensive Loss for the six months ended September 26, 2015 are as follows:

	Amounts Reclassified from Other Comprehensive Loss	Affected Line in the Statement of Income
Derivative instruments reclassified to income statement		
Realized net gain on derivatives	\$6,717	Net revenues, Cost of goods sold, Interest and other expense, net
Income tax effect	(125) Provision for income taxes
Net of taxes	\$6,592	

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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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on May 22, 2015. The following discussion may contain forward-looking statements and should be read in conjunction with the "Cautionary Statement Regarding Forward-Looking Information."

Our Business

Haemonetics is a global healthcare company dedicated to providing innovative blood management solutions to our customers. Our comprehensive portfolio of integrated devices, information management, and consulting services offers blood management solutions for each facet of the blood supply chain, helping improve clinical outcomes and reduce costs for blood and plasma collectors, hospitals, and patients around the world. Our products and services help prevent a transfusion to a patient who does not need one and provide the right blood product, at the right time, in the right dose to the patient who does.

Blood and its components – plasma, platelets, and red cells – have many vital and frequently life-saving clinical applications. Plasma is used for patients with major blood loss and is manufactured into pharmaceuticals to treat a variety of illnesses and hereditary disorders such as hemophilia. Red cells treat trauma patients or patients undergoing surgery with high blood loss, such as open heart surgery or organ transplant. Platelets treat cancer patients undergoing chemotherapy. Blood is essential to a modern healthcare system.

Products

Our medical device systems provide both automated and manual 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") some of which only operate 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 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 manual blood collection and filtration systems enable the manual collection of all blood components while detecting bacteria, thus reducing the risks of infection through transfusion.

We place devices with some of our customers which remain our property. The customer has the right to use these devices for a period of time as long as certain conditions are met, 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.

Recent Developments

Russian Economic Conditions

Economic weakness in Russia has impacted our financial results in the first half of fiscal 2016. While the need for our products in the Russian marketplace continues, there is reduced government healthcare spending and, as a result, our distributors are placing fewer orders and maintaining less inventory. In the second quarter of fiscal 2016 and 2015, Russia accounted for 2% and 3% of net revenues, respectively. We continue to work closely with our Russian distributors to monitor market conditions and manage credit risk.

Declines in U.S. Blood Center Collections

Sales to U.S. blood centers of our whole blood disposables represent approximately 6% of our total revenue in the second quarter of fiscal 2016. The demand for these disposable products in the U.S. declined in fiscal 2015 and 2014 due to a rapid

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decline in demand for blood products associated with actions taken by hospitals to improve blood management techniques and protocols. During the first six months of fiscal 2016, we estimate the decline in U.S. blood center collections to be approximately 8%, compared to approximately 10% in fiscal 2015.

In response to this trend, certain large U.S. blood center collection groups pursued single source vendors for whole blood collection products which required significant reductions in average selling prices in order to retain or increase our share of their business. During fiscal 2014 we entered into a multi-year agreement to supply the HemeXcel Purchasing Alliance, LLC with certain whole blood collection components during the calendar years 2014-2016. The agreement included a reduction in average selling prices which was implemented at the end of first quarter of fiscal 2015 and, as a result, negatively impacted our financial results on a comparative basis during the first quarter of fiscal 2016. In March 2014, the American Red Cross selected another exclusive supplier to provide certain whole blood products. This reduced annualized revenues by approximately \$25.0 million beginning in the second quarter of fiscal 2015.

Apheresis Red Cell Collection Arrangements

During the first half of fiscal 2016, the American Red Cross and two group purchasing organizations representing other U.S. blood collectors ("Blood Center GPOs") pursued arrangements for apheresis red cell collections. These negotiations have largely concluded and will negatively affect red cell revenues and gross margins.

On August 1, 2015, we entered into a contract for apheresis devices and single-use disposables with the American Red Cross. In accordance with this agreement, we provided a one-time payment to assist in the transition of red cell collections to our technology. This contract is expected to result in 100% share of the American Red Cross's apheresis red cell collection business and higher sales volumes, but at lower prices. However, considering the price concessions, we expect that the overall impact of this contract will be a decrease in revenue and gross profit.

In addition, both Blood Center GPOs have selected competitive technologies. We expect revenue to decline as their individual blood center members convert to the competitive technologies.

Red cell disposable revenues in the U.S. totaled \$37.6 million during fiscal 2015 and \$17.9 million during the first half of fiscal 2016.

Interim Impairment Considerations

Goodwill and intangible assets are reviewed at least annually for impairment. We review our amortizable intangible assets when conditions indicate that an impairment may exist. Those conditions include, but are not limited to, a change in the competitive landscape, internal decisions to pursue new or different technology strategies, a loss of a significant customer or a significant change in the market for our products, such as pricing or total market size. We perform our annual goodwill impairment test on the first day of the fiscal fourth quarter for each of our reporting units. We first perform a qualitative test and if necessary, perform a quantitative test. We perform reviews on an interim basis between annual tests when events or circumstances indicate that an impairment may have arisen.

To perform our goodwill impairment test, we estimate the fair value of our reporting units, using either an income approach (discounted cash flow) or a market multiple approach, and compare the fair value of each reporting unit to its carrying value. We have five reporting units that are organized based primarily on geography: North America Plasma, North America Blood Center and Hospital, Europe, Asia-Pacific and Japan. As more fully described in our Form 10-k, we used a market multiple approach in our most recent annual test, in which we estimated the fair value of our reporting units based on a combination of, a) market multiples of projected earnings before interest, taxes, depreciation and amortization ("EBITDA") and b) market multiples of projected net revenues for each individual

reporting unit. Based on this most recent test, none of our reporting units had goodwill impairment.

The aforementioned recent developments in Russia and our US blood center business have negatively impacted EBITDA and revenues for our North America Blood Center and Hospital and Europe reporting units. While we do not currently believe that it is more likely than not that the fair value of any of our reporting units is below its carrying value, declines in forecasted EBITDA and revenues negatively impact reporting unit fair values. As a result, it is reasonably possible that the goodwill allocated to those reporting units will fail the first step of the impairment test in future reporting periods. We also continue to monitor our amortizable intangible assets for potential impairment resulting from reductions in forecasted revenues and EBITDA.

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Value Creation and Capture Initiatives

On May 1, 2013, we committed to a plan to pursue identified Value Creation and Capture initiatives ("VCC"). These opportunities include investment in product line extensions and next generation products, enhancement of commercial capabilities and a transformation of our manufacturing network. The transformation of our manufacturing network is expected to be completed in fiscal 2017 and included changes to the manufacturing footprint and supply chain structure (the "Network Plan"). To date, we have (i) discontinued manufacturing activities at our Ascoli-Piceno, Italy and Bothwell, Scotland facilities, (ii) expanded our facility in Tijuana, Mexico, (iii) engaged Sanmina Corporation as a contract manufacturer to produce certain medical equipment, and (iv) built a new manufacturing facility in Penang, Malaysia closer to our customers in Asia. See the Liquidity and Capital Resources discussion for further discussion of the costs of these activities.

Our VCC initiatives are largely completed. We expect to complete the transfer of manufacturing activities from the Braintree, Massachusetts facility by the end of fiscal 2016 and the Bothwell, Scotland facility by early fiscal 2017.

TEG 6s Hemostasis Management Device Receives Final U.S. Regulatory Clearance

During the first quarter of fiscal 2016, our next generation diagnostics device, the TEG 6s, and its single-use disposable cartridges received final U.S. regulatory clearance for use in cardiovascular and cardiology procedures. The U.S. commercial launch is currently commencing and sales have been realized in Europe, Australia, and Japan in the first half of fiscal 2016.

Financial Summary

(In thousands, except per share data)	Three Months Ended			Six Months Ended		
	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	September 26, 2015	September 27, 2014	% Increase/ (Decrease)
Net revenues	\$219,693	\$227,580	(3.5)%	\$433,106	\$452,068	(4.2)%
Gross profit	\$105,297	\$108,114	(2.6)%	\$207,836	\$214,392	(3.1)%
% of net revenues	47.9%	47.5%		48.0%	47.4%	
Operating expenses	\$86,118	\$95,707	(10.0)%	\$185,051	\$203,650	(9.1)%
Operating income	\$19,179	\$12,407	54.6%	\$22,785	\$10,742	112.1%
% of net revenues	8.7%	5.5%		5.3%	2.4%	
Interest and other expense, net	\$(2,606)	\$(2,645)	(1.5)%	\$(4,615)	\$(5,188)	(11.0)%
Income before provision for income taxes	\$16,573	\$9,762	69.8%	\$18,170	\$5,554	227.2%
Provision for income taxes	\$3,710	\$2,275	63.1%	\$5,574	\$1,715	225.0%
% of pre-tax income	22.4%	23.3%		30.7%	30.9%	
Net income	\$12,863	\$7,487	71.8%	\$12,596	\$3,839	228.1%
% of net revenues	5.9%	3.3%		2.9%	0.8%	
Earnings per share-diluted	\$0.25	\$0.14	78.6%	\$0.24	\$0.07	242.9%

Net revenues decreased 3.5% and 4.2% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, net revenues were flat for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Revenue increases in plasma and TEG disposables were offset by declines in Russia due to market conditions and

reduced Japan platelet sales for the three months ended September 26, 2015. Revenues for the six months ended September 26, 2015 were also negatively impacted by our reduced share of the declining U.S. whole blood market.

Operating income increased 54.6% and 112.1% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Foreign exchange did not have an effect on operating income for the three and six months ended September 26, 2015 as compared to the same periods of fiscal 2015. Operating income increased for the three and six months ended September 26, 2015 primarily as a result of the reduction in restructuring and transformation expenses of \$8.7 million and \$16.9 million, respectively, as compared to the same periods of fiscal 2015. The reduction of restructuring and transformation expenses were partially offset by the declines in Russia, Japan, and the U.S. whole blood market discussed above.

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Net income increased 71.8% and 228.1% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Foreign exchange did not have an effect on net income for the three and six months ended September 26, 2015 as compared to the same periods of fiscal 2015. The change in net income is attributable to the increase in operating income described above, offset by an increase in the income tax provision.

RESULTS OF OPERATIONS

Net Revenue by Geography

(In thousands)	Three Months Ended			Six Months Ended			
	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	
United States	\$127,031	\$124,406	2.1 %	\$247,726	\$245,155	1.0 %	
International	92,662	103,174	(10.2)%	185,380	206,913	(10.4)%	
Net revenues	\$219,693	\$227,580	(3.5)%	\$433,106	\$452,068	(4.2)%	

Our principal operations are in the U.S., Europe, Japan and other parts of Asia. Our products are marketed in approximately 100 countries around the world through a combination of our direct sales force, independent distributors and agents. Our revenue generated outside the U.S. approximated 42.2% and 42.8% of total net revenues for the three and six months ended September 26, 2015, respectively. International sales are generally conducted in local currencies, primarily Japanese Yen, Euro, Chinese Yuan and Australian Dollars. Our revenue was impacted by changes in the value of these currencies relative to the U.S. Dollar.

We have placed foreign currency hedges to mitigate our exposure to foreign currency fluctuations. Relative weakness in the Japanese Yen and Euro to the U.S. Dollar is expected to negatively impact revenue and operating income in the second half of fiscal 2016 and into fiscal 2017. International revenue was also negatively impacted by reduced sales to our Russian distributors in the first half of fiscal 2016.

Please see the 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.

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Net revenue by Product Type

(In thousands)	Three Months Ended			Six Months Ended		
	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	September 26, 2015	September 27, 2014	% Increase/ (Decrease)
Disposables	\$188,575	\$194,245	(2.9)%	\$374,305	\$390,438	(4.1)%
Software solutions	17,701	18,145	(2.4)%	34,540	35,883	(3.7)%
Equipment & other	13,417	15,190	(11.7)%	24,261	25,747	(5.8)%
Net revenues	\$219,693	\$227,580	(3.5)%	\$433,106	\$452,068	(4.2)%

Disposables Revenue

(In thousands)	Three Months Ended			Six Months Ended		
	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	September 26, 2015	September 27, 2014	% Increase/ (Decrease)
Plasma disposables	\$83,905	\$80,355	4.4%	\$164,871	\$159,582	3.3%
Blood center disposables						
Platelet	34,138	39,370	(13.3)%	65,167	77,541	(16.0)%
Red cell	9,303	10,176	(8.6)%	19,955	20,422	(2.3)%
Whole blood	30,403	33,738	(9.9)%	62,827	71,688	(12.4)%
	73,844	83,284	(11.3)%	147,949	169,651	(12.8)%
Hospital disposables						
Diagnostics	12,473	10,047	24.1%	24,234	19,645	23.4%
Surgical	14,694	15,661	(6.2)%	29,611	31,281	(5.3)%
OrthoPAT	3,659	4,898	(25.3)%	7,640	10,279	(25.7)%
	30,826	30,606	0.7%	61,485	61,205	0.5%
Total disposables revenues	\$188,575	\$194,245	(2.9)%	\$374,305	\$390,438	(4.1)%

Our disposables revenue stream includes the sales of single-use disposables, which accounted for 85.8% and 85.4% of our total revenue for the three months ended September 26, 2015 and September 27, 2014, respectively, and 86.4% of our total revenue for both the six months ended September 26, 2015 and September 27, 2014.

Disposables revenue decreased 2.9% and 4.1% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, disposables revenue was flat for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Revenue increases in plasma and TEG disposables were offset by declines in sales of our blood center disposables.

Plasma Disposables

Plasma disposables revenue increased 4.4% and 3.3% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, plasma revenue increased 7.3% and 5.9% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Plasma revenue increased due to higher volumes in the U.S. associated with end market growth for plasma-derived biopharmaceuticals. This growth was partially offset by fewer plasma collections in Germany and market conditions in Russia.

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Blood Center Disposables

Platelet

We continue to see significant differences in demand for our platelet products in various markets depending on access to health care and adoption of certain efficient collection techniques. In emerging markets, increased access to health care continues to increase the demand for platelet transfusions, while increases in the demand for platelet transfusions in developed markets is modest. Collection efficiencies which increase the yield of platelets per collection and more efficient use of collected platelets reduce the number of collections required to meet market demand. Where we see adoption of these techniques we experience reduced demand for our products, however, not all markets have adopted these alternative collection methods at the same level. Japan's recent adoption of these techniques has begun to negatively impact revenue from platelet collection disposables.

Platelet disposables revenue decreased 13.3% and 16.0% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, platelet disposable revenue decreased 6.4% and 9.7% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. The decrease in platelet disposable revenue during the second quarter of fiscal 2016 was primarily the result of lower sales in Japan due to the adoption of the collection methods discussed above, partially offset by a strong second quarter in the Middle East. During the first half of fiscal 2016, the decrease in platelet disposable revenue was primarily due to declines in sales in Japan, Russia, and China due to collection methods in Japan, reductions in inventory on hand by our largest Russian distributor, and the timing of orders in China.

Red Cell and Whole Blood

Red cell disposables revenue decreased 8.6% and 2.3% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, red cell disposables revenue decreased 7.6% and 1.2% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. The decrease during the three and six months ended September 26, 2015 was driven by price reductions in our principal red cell market in the U.S. During the first half of fiscal 2016, U.S. blood collection groups pursued arrangements for apheresis red cell collections with the objective of standardizing their collection technology and securing price reductions. These arrangements are now largely in place and began to negatively affect red cell revenues and gross margins during the second quarter of fiscal 2016.

As discussed above, during the second quarter of fiscal 2016, we entered into a contract with the American Red Cross which included an incentive to transition to our technology and price reductions tied to higher volumes. In addition, both Blood Center GPOs have selected competitive technologies. We expect revenue to decline from both the lower pricing in the American Red Cross contract and the conversion by Blood Center GPO's to the competitive technologies. Red cell disposable revenues in the U.S. totaled \$37.6 million during fiscal 2015 and \$17.9 million during the first half of fiscal 2016.

Whole blood disposables revenue decreased 9.9% and 12.4% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, whole blood revenue decreased 6.7% and 9.8% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Revenue for the three and six months ended September 26, 2015 decreased primarily due to a declining U.S. whole blood market. The anniversary of the loss of the American Red Cross whole blood business occurred at the end of the first quarter of fiscal 2016, however, we continue to be negatively impacted by the declining market. Declines in the Middle East were offset by growth in Korea, both of which were primarily the result of the timing of orders.

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Hospital Disposables

Diagnostics

Diagnostics product revenue consists principally of the consumable reagents used with the TEG hemostasis management family of products. Revenue from our diagnostics products increased 24.1% and 23.4% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, diagnostics product revenues increased 23.3% and 21.5% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. The revenue increase is due to continued adoption of our TEG analyzer, principally in the U.S. and China. We are expecting our growth rate to increase with the launch of the TEG 6s device and disposables which received final U.S. regulatory clearance in the first quarter of fiscal 2016.

Surgical

Surgical disposables revenue consists principally of the Cell Saver and CardioPAT products. Revenues from our surgical disposables decreased 6.2% and 5.3% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, surgical disposables revenue was flat for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Minimal growth in emerging markets was offset by minimal declines in the U.S. and Western Europe.

OrthoPAT

Revenues from our OrthoPAT disposables decreased 25.3% and 25.7% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, OrthoPAT disposables revenue decreased 19.4% and 20.5% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Better blood management has reduced orthopedic blood loss and continues to impact demand for OrthoPAT disposables. Recent trends in blood management, particularly the adoption of tranexamic acid to treat and prevent orthopedic post-operative blood loss, continue to lessen hospital use of OrthoPAT disposables.

Software Solutions Revenue

Our software solutions revenues include sales of our information technology software platforms and consulting services. Software revenues decreased 2.4% and 3.7% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, software revenues were flat for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. In fiscal 2016, increased support and maintenance revenue in the U.S. was offset by reductions in implementations as we develop the pipeline for the new BloodTrack product.

Equipment & Other Revenue

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 services 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 decreased 11.7% and 5.8% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, equipment and other revenues decreased 6.5% for the three months ended September 26, 2015 and were flat for the six months ended September 26, 2015, as compared to the same periods of fiscal 2015. The decrease in revenue during the three months ended September 26, 2015 was primarily due to the timing of orders, as sizable orders were made in the second quarter of fiscal 2015. For the six months ended September 26, 2015, the growth in the U.S. and Asia achieved in the first

quarter of fiscal 2016, was offset by the unfavorable timing of orders discussed above.

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Gross Profit

(In thousands)	Three Months Ended			Six Months Ended		
	September 26, 2015	September 27, 2014	% Increase/ (Decrease)	September 26, 2015	September 27, 2014	% Increase/ (Decrease)
Gross profit	\$105,297	\$108,114	(2.6)%	\$207,836	\$214,392	(3.1)%
% of net revenues	47.9	% 47.5	%	48.0	% 47.4	%

Gross profit decreased 2.6% and 3.1% for the three and six months ended September 26, 2015, respectively, as compared to the same periods of fiscal 2015. Without the effect of foreign exchange, gross profit increased 0.8% and 0.4% for the three and six months ended September 26, 2015, respectively, as compared to the