HAEMONETICS CORP
Form 10-Q
February 02, 2016
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: December 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)	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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
Yes o No þ
The number of shares of $0.01 par value common stock outstanding as of January 23, 2016: 50,847,663

HAEMONETICS CORPORATION
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ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net revenues	$233,384	$231,827	$666,490	$683,895
Cost of goods sold	124,529	120,166	349,799	357,842
Gross profit	108,855	111,661	316,691	326,053
Operating expenses:				
Research and development	10,942	10,643	33,816	36,962
Selling, general and administrative	78,940	82,512	240,946	259,383
Impairment of goodwill and intangible assets	85,048	—	85,048	—
Contingent consideration (income) expense	(4,898)	246	(4,727)	706
Total operating expenses	170,032	93,401	355,083	297,051
Operating (loss) income	(61,177)	18,260	(38,392)	29,002
Interest and other expense, net	(2,141)	(2,308)	(6,756)	(7,496)
(Loss) income before (benefit from) provision for income taxes	(63,318)	15,952	(45,148)	21,506
(Benefit from) provision for income taxes	(3,878)	(36)	1,696	1,679
Net (loss) income	$(59,440)	$15,988	$(46,844)	$19,827
Net (loss) income per share - basic	$(1.17)	$0.31	$(0.92)	$0.38
Net (loss) income per share - diluted	$(1.17)	$0.31	$(0.92)	$0.38
Weighted average shares outstanding				
Basic	50,741	51,432	50,927	51,521
Diluted	50,741	51,962	50,927	52,024
Comprehensive (loss) income	$(62,316)	$8,346	$(66,469)	$10,841

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

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

	December 26, 2015 (Unaudited)	March 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$105,167	$160,662
Accounts receivable, less allowance of $2,251 at December 26, 2015 and $1,749 at March 28, 2015	148,774	145,827
Inventories, net	203,863	211,077
Deferred tax asset, net	11,995	12,608
Prepaid expenses and other current assets	31,564	40,103
Total current assets	501,363	570,277
Property, plant and equipment, net	332,772	321,948
Intangible assets, less accumulated amortization of $177,424 at December 26, 2015 and $133,175 at March 28, 2015	214,809	244,588
Goodwill	266,945	334,310
Deferred tax asset, long term	5,290	3,023
Other long-term assets	15,243	11,271
Total assets	$1,336,422	$1,485,417
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$46,293	$21,522
Accounts payable	39,636	48,425
Accrued payroll and related costs	38,204	51,115
Accrued taxes	1,791	3,819
Other current liabilities	49,410	64,211
Total current liabilities	175,334	189,092
Long-term debt, net of current maturities	380,814	406,369
Long-term deferred tax liability	33,510	32,097
Other long-term liabilities	27,212	31,737
Stockholders' equity:		
Common stock, $0.01 par value; Authorized — 150,000,000 shares; Issued and outstanding — 50,798,396 shares at December 26, 2015 and 51,670,969 shares at March 28, 2015	508	517
Additional paid-in capital	435,477	426,964
Retained earnings	324,916	420,365
Accumulated other comprehensive loss	(41,349)	(21,724)
Total stockholders' equity	719,552	826,122
Total liabilities and stockholders' equity	$1,336,422	$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)

	Nine Months Ended December 26, 2015	Nine Months Ended December 27, 2014
Cash Flows from Operating Activities:		
Net (loss) income	$(46,844)	$19,827
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization	67,721	63,891
Impairment of goodwill and intangible assets	85,048	—
Amortization of financing costs	648	797
Stock-based compensation expense	6,199	10,219
Deferred tax benefit	(7,088)	—
Loss on sale of property, plant and equipment	29	612
Unrealized (gain)/loss from hedging activities	(2,867)	1,477
Change in fair value of contingent consideration	(4,727)	706
Asset write-down	185	1,246
Change in operating assets and liabilities:		
Change in accounts receivable, net	(3,608)	14,422
Change in inventories	6,268	(17,906)
Change in prepaid income taxes	997	(219)
Change in other assets and other liabilities	6,622	(18,834)
Tax benefit of exercise of stock options	—	961
Change in accounts payable and accrued expenses	(39,971)	(5,326)
Net cash provided by operating activities	68,612	71,873
Cash Flows from Investing Activities:		
Capital expenditures	(73,871)	(100,530)
Proceeds from sale of property, plant and equipment	397	387
Other acquisitions and investments	(3,000)	—
Net cash used in investing activities	(76,474)	(100,143)
Cash Flows from Financing Activities:		
Payments on long-term real estate mortgage	(845)	(778)
Net increase (decrease) in short-term loans	7,143	(357)
Repayment of term loan borrowings	(7,114)	(8,531)
Proceeds from employee stock purchase plan	4,340	4,763
Proceeds from exercise of stock options	10,489	7,926
Share repurchases	(60,984)	(38,701)
Net cash used in financing activities	(46,971)	(35,678)
Effect of exchange rates on cash and cash equivalents	(662)	(3,321)
Net Change in Cash and Cash Equivalents	(55,495)	(67,269)
Cash and Cash Equivalents at Beginning of Period	160,662	192,469
Cash and Cash Equivalents at End of Period	$105,167	$125,200
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$6,206	$6,271
Income taxes paid	$5,884	$10,727
Transfers from inventory to fixed assets for placement of Haemonetics equipment	$9,259	$5,755

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 nine months ended December 26, 2015 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 nine months ended December 26, 2015 include the correction of an understatement of the provision for income taxes in fiscal 2015, as well as the correction of an overstated liability in fiscal 2014, both of which were determined to be immaterial to all periods impacted. Absent these corrections, our net income for the nine months ended December 26, 2015 would have been $1.1 million lower than the amount included in the accompanying Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income. 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

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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.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. ASU No. 2015-17 simplifies the presentation of deferred taxes on a classified balance sheet. Currently under GAAP, deferred income tax assets and liabilities are separated into current and non-current amounts in the balance sheet. ASU No. 2015-17 requires that all deferred tax assets and liabilities be classified as non-current in the balance sheet. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. Management believes the adoption of ASU No. 2015-17 will have an impact on our financial statement presentation, but will not 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.

	Three Months Ended	
(In thousands, except per share amounts)	December 26, 2015	December 27, 2014
Basic EPS		
Net (loss) income	$(59,440)	$15,988
Weighted average shares	50,741	51,432

Basic (loss) income per share	$(1.17)	$0.31
Diluted EPS		
Net (loss) income	$(59,440)	$15,988
Basic weighted average shares	50,741	51,432
Net effect of common stock equivalents	—	530
Diluted weighted average shares	50,741	51,962
Diluted (loss) income per share	$(1.17)	$0.31

(In thousands, except per share amounts)	Nine Months Ended December 26, 2015	Nine Months Ended December 27, 2014
Basic EPS		
Net (loss) income	$(46,844)	$19,827
Weighted average shares	50,927	51,521
Basic (loss) income per share	$(0.92)	$0.38
Diluted EPS		
Net (loss) income	$(46,844)	$19,827
Basic weighted average shares	50,927	51,521
Net effect of common stock equivalents	—	503
Diluted weighted average shares	50,927	52,024
Diluted (loss) income per share	$(0.92)	$0.38

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. For the three and nine months ended December 26, 2015, we recognized a net loss; therefore we excluded the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an anti-dilutive effect. Weighted average shares outstanding, assuming dilution, excludes the impact of 1.7 million and 1.6 million anti-dilutive shares for the three and nine months ended December 27, 2014, respectively.

4. STOCK-BASED COMPENSATION

Total stock-based compensation expense of $6.2 million and $10.2 million was recognized for the nine months ended December 26, 2015 and December 27, 2014, respectively. There was no related income tax benefit recognized for the nine months ended December 26, 2015 and the related income tax benefit recognized for the nine months ended December 27, 2014 was $3.3 million.

The weighted average fair value for our options granted was $7.41 and $7.89 per share for the nine months ended December 26, 2015 and December 27, 2014, respectively. The assumptions utilized for estimating the fair value of option grants during the periods presented are as follows:

	Nine Months Ended December 26, 2015	Nine Months Ended December 27, 2014
Stock Options Black-Scholes assumptions (weighted average):		
Volatility	22.82 %	22.45 %
Expected life (years)	4.9	4.9
Risk-free interest rate	1.40 %	1.75 %
Dividend yield	— %	— %

As of December 26, 2015, there was $18.2 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 2.9 years.

During the nine months ended December 26, 2015 and December 27, 2014, there were 145,334 and 183,808 shares, respectively, purchased under the Employee Stock Purchase Plan at an average price of $29.87 and $25.92 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)	Nine Months Ended December 26, 2015	December 27, 2014
Warranty accrual as of the beginning of the period	$531	$590
Warranty provision	532	890
Warranty spending	(701)	(941)
Warranty accrual as of the end of the period	$362	$539

6. GOODWILL AND INTANGIBLE ASSETS
Goodwill Impairment Testing and Charges

Under ASC Topic 350, Intangibles - Goodwill and Other, goodwill and intangible assets determined to have indefinite useful lives are not amortized. Instead these assets are evaluated for impairment at least annually, or on an interim basis between annual tests when events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. We perform our annual impairment test on the first day of the fiscal fourth quarter for each of our reporting units. Our reporting units for purposes of assessing goodwill impairment are the same as our operating segments, which are organized primarily based on geography and include: North America Plasma, Americas Blood Center and Hospital, Europe, Middle East, and Africa (collectively "EMEA"), Asia-Pacific and Japan. The North America Plasma reporting unit is a separate operating segment with dedicated segment management due the size and scale of the plasma business.

During the third quarter of each fiscal year, we prepare our long term projections for net revenues, income and operating cash flows. The economic weakness in EMEA, particularly Russia, and declines in our U.S. blood center collections have negatively impacted earnings before interest, taxes, depreciation, and amortization ("EBITDA") and net revenues for our EMEA and Americas Blood Center and Hospital reporting units. Because of these market conditions and key uncertainties, including the market rate of adoption of our new products and the negative impact of intense competitive pressure on pricing and market share, we lowered our expectations in terms of the timing and amount of our future revenue, income and cash flows. As a result, we concluded in the third quarter of fiscal 2016 that indicators of potential goodwill impairment were present for the EMEA and Americas Blood Center and Hospital reporting units, therefore requiring an interim test for goodwill impairment.

In accordance with ASC Topic 350, we prepared a “Step 1” Test that compared the estimated fair value of each reporting unit to its carrying value. We utilized a discounted cash flow approach in order to value our reporting units for the Step 1 Test, which required that we forecast future cash flows of the reporting units and discount the cash flow stream based upon a weighted average cost of capital that was derived, in part, from comparable companies within similar industries. The discounted cash flow calculations also included a terminal value calculation that was based upon an expected long-term growth rate for the applicable reporting unit. We believe that our procedures for estimating discounted future cash flows, including the terminal valuation, are reasonable and consistent with market conditions at the time of estimation. We corroborated the valuations that arose from the discounted cash flow approach by performing both a market multiple valuation and by reconciling the aggregate fair value of our reporting units to our market capitalization at the time of the test.

The results of the Step 1 Test performed in the third quarter of fiscal 2016 indicated that the estimated fair value of all of our reporting units exceeded their respective carrying values, with the exception of EMEA, for which we recorded an estimated goodwill impairment charge, as discussed below. Based on this Step 1 analysis, the reporting unit that is most at risk of impairment in future periods is the Americas Blood Center and Hospital, which has an excess fair value over carrying value of approximately 25.8% and has allocated goodwill of $175.9 million as of December 26, 2015. We believe that our assumptions used to determine the fair value of the Americas Blood Center and Hospital reporting unit were reasonable. If different assumptions were to be used, particularly with respect to estimating future cash flows, or if actual operating results and cash flows of the Americas Blood Center and Hospital differ from the estimated operating results and related cash flows, there is the potential that an impairment charge could result in future periods. Additionally, changes to the discount rate or the long-term growth rate could also give rise to an impairment in future periods.

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As a result of the carrying value of the EMEA reporting unit exceeding its estimated fair value, a "Step 2" Test is required for this reporting unit. The Step 2 Test measures the impairment loss by allocating the estimated fair value of the reporting unit, as determined in Step 1, to the reporting units' assets and liabilities, with the residual amount representing the implied fair value of goodwill. To the extent the implied fair value of goodwill is less than the carrying value, an impairment loss is recognized.
The Step 2 Test under ASC Topic 350 requires us to perform a theoretical purchase price allocation for the EMEA reporting unit to determine the implied fair value of goodwill as of the evaluation date. Due to the complexity of the analysis required to complete the Step 2 Test and the timing of our determination of the Step 1 goodwill impairment, we have not yet finalized our Step 2 Test, however, we have completed a preliminary assessment of the expected impact of the Step 1 and Step 2 Tests using reasonable estimates of discounted cash flows and for the theoretical purchase price allocation. Based on this assessment, we have recorded a preliminary estimate of the goodwill impairment loss for the third quarter and first nine months ended December 26, 2015 of $66.3 million, which represents the entire goodwill balance allocated to EMEA. This charge does not impact our liquidity, cash flows from operations, future operations, or compliance with debt covenants.

The preliminary estimates of goodwill impairment loss will be finalized prior to the issuance of our Form 10-K for the year ended April 2, 2016 as part of our annual evaluation as of the first day of our fiscal fourth quarter. We believe that the preliminary estimate of goodwill impairment loss is reasonable and represents our best estimate of the goodwill impairment loss to be incurred; however, it is possible that when the year-end tests are completed we may be required to record a material adjustment to this preliminary estimate.

The following procedures are, among others, the more significant analyses that we need to complete to finalize our year end Step 2 Tests for the EMEA reporting unit:

- Final appraisals to determine the estimated fair value of identifiable intangible assets.
- Final analysis to determine the estimated fair value adjustment required to inventory.
- Final deferred tax analysis.

In connection with the preliminary Step 2 Tests, we made what we considered to be reasonable estimates of each of the above items in order to determine our preliminary best estimate of the goodwill impairment loss under the theoretical purchase price allocation required for Step 2 Tests by ASC Topic 350. The completion of the final analyses described above may result in significant changes to the estimates used and therefore may have a significant impact on the final goodwill impairment loss recorded for fiscal 2016. In addition, we may identify other issues during the completion of the Step 2 Tests that may have a significant impact on the final goodwill impairment loss recorded for fiscal 2016.
The changes in the carrying amount of goodwill for fiscal 2016 and 2015 are as follows:

(In thousands)	
Carrying amount as of March 29, 2014	$336,768
Effects of change in foreign currency exchange rates	(2,458)
Carrying amount as of March 28, 2015	$334,310
Impairment charge	(66,305)
Effects of change in foreign currency exchange rates	(1,060)
Carrying amount as of December 26, 2015	$266,945

Intangible Asset Impairment
In April 2013, we acquired a patented red cell storage solution, referred to as SOLX, from Hemerus Medical, LLC for cash consideration of $24.1 million plus an agreement to make certain future payments accounted for as contingent consideration.
During the third quarter of fiscal 2016, we received U.S. Food and Drug Administration clearance for the SOLX solution with a Haemonetics whole blood filter. Currently, the vast majority of the U.S. market utilizes a red cell filter,

not a whole blood filter, for whole blood collection procedures as they seek to optimize blood component yield from each collection. To bring SOLX to market with a red cell filter requires substantial additional investment. Accordingly, we conducted a final market review prior to proceeding with this investment, which indicated customers would not pay a price for a SOLX collection kit sufficient to recover the cost to produce it, or to provide an adequate return on the additional investment. As result, we have suspended further investment in the SOLX technology and have recorded an impairment charge of $18.7 million to write down the carrying value of the SOLX intangible assets as of December 26, 2015. In addition, we reversed the $4.9 million of contingent consideration liability we had recorded, as we now do not expect to achieve the conditions that called for its payment.

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The gross carrying amount of intangible assets and the related accumulated amortization, as of December 26, 2015 and March 28, 2015 is as follows:

(In thousands)	Gross Carrying Amount	Accumulated Amortization[1]	Net	Weighted Average Useful Life (In years)
As of December 26, 2015				
Patents	$11,210	$7,445	$3,765	9
Capitalized software	52,557	9,242	43,315	6
Other developed technology	126,066	70,887	55,179	12
Customer contracts and related relationships	195,368	84,758	110,610	10
Trade names	7,032	5,092	1,940	11
Total intangibles	$392,233	$177,424	$214,809	10

[1]Includes impairment of SOLX asset, as discussed above.

(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Useful Life (In years)
As of March 28, 2015				
Patents	$10,473	$7,373	$3,100	9
Capitalized software	39,690	5,654	34,036	7
Other developed technology	124,573	46,474	78,099	12
Customer contracts and related relationships	195,985	70,440	125,545	10
Trade names	7,042	3,234	3,808	11
Total intangibles	$377,763	$133,175	$244,588	10

Intangible assets include the value assigned to license rights and other developed technology, patents, customer contracts and relationships and trade names. The estimated useful lives for all of these intangible assets are 2 to 19 years. The changes to the net carrying value of our intangible assets from March 28, 2015 to December 26, 2015 reflect the impact of the SOLX impairment discussed above and amortization expense, partially offset by the investment in capitalized software and other less significant intangible assets.

Aggregate amortization expense for amortized intangible assets, excluding the impact of the SOLX impairment, for the nine months ended December 26, 2015 and fiscal year 2015 was $25.9 million and $33.5 million, respectively.

Future annual amortization expense on intangible assets is estimated to be as follows:

Fiscal Year	Amount (in thousands)
2016	$7,771
2017	$32,195
2018	$31,411
2019	$29,666
2020 and thereafter	$96,395

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 using the first-in, first-out method.

(In thousands)	December 26, 2015	March 28, 2015
Raw materials	$62,596	$71,794
Work-in-process	16,421	12,462
Finished goods	124,846	