HAEMONETICS CORP
Form 10-Q
November 04, 2014
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 27, 2014
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 September 27, 2014: 51,336,678

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ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net revenues	$227,580	$235,755	$452,068	$455,297
Cost of goods sold	119,466	115,871	237,676	224,002
Gross profit	108,114	119,884	214,392	231,295
Operating expenses:				
Research and development	10,938	14,946	26,319	26,155
Selling, general and administrative	84,769	81,508	177,331	188,318
Total operating expenses	95,707	96,454	203,650	214,473
Operating income	12,407	23,430	10,742	16,822
Interest and other expense, net	(2,645)	(2,542)	(5,188)	(5,183)
Income before provision for income taxes	9,762	20,888	5,554	11,639
Provision for income taxes	2,275	4,340	1,715	2,965
Net income	$7,487	$16,548	$3,839	$8,674
Net income per share - basic	$0.15	$0.32	$0.07	$0.17
Net income per share - diluted	$0.14	$0.32	$0.07	$0.17
Weighted average shares outstanding				
Basic	51,391	51,492	51,567	51,360
Diluted	51,925	52,361	52,056	52,200
Comprehensive income	$6,990	$15,308	$2,495	$7,174

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 27, 2014 (Unaudited)	March 29, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$129,971	$192,469
Accounts receivable, less allowance of $2,067 at September 27, 2014 and $1,676 at March 29, 2014	151,055	164,603
Inventories, net	209,418	197,661
Deferred tax asset, net	14,149	14,144
Prepaid expenses and other current assets	52,366	54,099
Total current assets	556,959	622,976
Net property, plant and equipment	311,999	271,437
Intangible assets, less accumulated amortization of $117,770 at September 27, 2014 and $101,694 at March 29, 2014	257,544	271,159
Goodwill	336,301	336,768
Deferred tax asset, long term	1,071	1,184
Other long-term assets	10,671	10,654
Total assets	$1,474,545	$1,514,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current maturities of long-term debt	$1,655	$45,630
Accounts payable	44,173	53,562
Accrued payroll and related costs	55,840	54,913
Accrued income taxes	3,347	3,113
Other liabilities	60,041	59,710
Total current liabilities	165,056	216,928
Long-term debt, net of current maturities	428,253	392,057
Long-term deferred tax liability	26,911	29,664
Other long-term liabilities	33,607	37,641
Stockholders' equity:		
Common stock, $0.01 par value; Authorized — 150,000,000 shares; Issued and outstanding — 51,336,678 shares at September 27, 2014 and 52,041,189 shares at March 29, 2014	513	520
Additional paid-in capital	408,940	402,611
Retained earnings	411,199	433,347
Accumulated other comprehensive income	66	1,410
Total stockholders' equity	820,718	837,888
Total liabilities and stockholders' equity	$1,474,545	$1,514,178

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 27, 2014	September 28, 2013
Cash Flows from Operating Activities:		
Net income	$3,839	$8,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization	41,625	38,256
Amortization of financing costs	572	815
Stock compensation expense	6,938	6,416
Purchase of in-process R&D	—	3,569
Loss on sale of property, plant and equipment	364	265
Unrealized loss from hedging activities	554	2,266
Contingent consideration expense	459	310
Asset write-down	474	1,675
Change in operating assets and liabilities:		
Decrease in accounts receivable, net	10,145	8,689
Increase in inventories	(13,185)	(19,338)
Increase in prepaid income taxes	(2,028)	(1,459)
(Decrease)/Increase in other assets and other liabilities	(8,160)	5,067
Tax benefit of exercise of stock options	854	1,338
Increase/(Decrease) in accounts payable and accrued expenses	2,529	(13,781)
Net cash provided by operating activities	44,980	42,762
Cash Flows from Investing Activities:		
Capital expenditures on property, plant and equipment	(70,872)	(28,202)
Proceeds from sale of property, plant and equipment	377	642
Acquisition of Hemerus	—	(23,124)
Other acquisitions and investments	—	(8,707)
Net cash used in investing activities	(70,495)	(59,391)
Cash Flows from Financing Activities:		
Payments on long-term real estate mortgage	(513)	(472)
Net increase in short-term loans	786	4,240
Repayment of term loan borrowings	(8,531)	(20,000)
Proceeds from employee stock purchase plan	2,530	2,666
Proceeds from exercise of stock options	4,042	8,117
Excess tax benefit on exercise of stock options	—	1,581
Share repurchases	(33,770)	—
Net cash used in financing activities	(35,456)	(3,868)
Effect of exchange rates on cash and cash equivalents	(1,527)	525
Net Decrease in Cash and Cash Equivalents	(62,498)	(19,972)
Cash and Cash Equivalents at Beginning of Period	192,469	179,120
Cash and Cash Equivalents at End of Period	$129,971	$159,148
Non-cash Investing and Financing Activities:		
Transfers from inventory to fixed assets for placement of Haemonetics equipment	$4,026	$6,034
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$4,180	$4,722
Income taxes paid	$8,351	$3,666

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

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 March 28, 2015, or any other interim period. These unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements and footnotes included in our annual report on Form 10-K for the fiscal year ended March 29, 2014.

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 years 2015 and 2014 include 52 weeks with each quarter having 13 weeks.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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 2014-08”). ASU 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 this ASU are effective prospectively for reporting periods beginning on or after December 15, 2014, with early adoption permitted. Management does not believe that the adoption of ASU 2014-08 will have a material effect on our Financial Statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), which 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 2014-09 will be effective for the Company retrospectively beginning April 2, 2017, with early adoption not permitted. The impact on our Financial Statements of adopting ASU 2014-09 is being assessed by management.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, 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 2014-12"). ASU 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 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 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 2014-08 will have a material effect on our Financial Statements.

In August 2014, the FASB issued ASU 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 2014-15") ASU 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 2014-15 will have a material effect on our Financial Statements.

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 27, 2014	September 28, 2013
Basic EPS		
Net income	$7,487	$16,548
Weighted average shares	51,391	51,492
Basic income per share	$0.15	$0.32
Diluted EPS		
Net income	$7,487	$16,548
Basic weighted average shares	51,391	51,492
Net effect of common stock equivalents	534	869
Diluted weighted average shares	51,925	52,361
Diluted income per share	$0.14	$0.32

(In thousands, except per share amounts)	Six Months Ended September 27, 2014	September 28, 2013
Basic EPS		
Net income	$3,839	$8,674
Weighted average shares	51,567	51,360
Basic income per share	$0.07	$0.17
Diluted EPS		
Net income	$3,839	$8,674
Basic weighted average shares	51,567	51,360
Net effect of common stock equivalents	489	840
Diluted weighted average shares	52,056	52,200
Diluted income per share	$0.07	$0.17

Weighted average shares outstanding, assuming dilution, excludes the impact of 1.6 million shares for the three and six months ended September 27, 2014, and a negligible number and 0.8 million shares for the three and six months ended September 28, 2013, respectively, because these securities were anti-dilutive during the noted periods.

4. STOCK-BASED COMPENSATION

Stock-based compensation expense of $6.9 million and $6.4 million was recognized for the six months ended September 27, 2014 and September 28, 2013, respectively. The related income tax benefit recognized was $2.2 million and $2.1 million for the six months ended September 27, 2014 and September 28, 2013, respectively.

The weighted average fair value for our options granted was $8.08 and $10.98 for the six months ended September 27, 2014 and September 28, 2013, respectively. The assumptions utilized for estimating the fair value of option grants during the periods presented are as follows:

	Six Months Ended	
	September 27, 2014	September 28, 2013
Stock Options Black-Scholes assumptions (weighted average):		
Volatility	22.62 %	25.49 %
Expected life (years)	4.9	5
Risk-free interest rate	1.80 %	1.40 %
Dividend yield	— %	— %

As of September 27, 2014, there was $22.5 million of total unrecognized compensation cost related to non-vested equity based compensation, including stock options, restricted stock units and markets stock units. This cost is expected to be recognized over a weighted average period of 2.18 years.

During the six months ended September 27, 2014 and September 28, 2013, there were 97,415 and 81,465 shares, respectively, purchased under the Employee Stock Purchase Plan at an average price of $25.85 and $32.73 per share, respectively.

5. PRODUCT WARRANTIES

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

	Six Months Ended	
(In thousands)	September 27, 2014	September 28, 2013
Warranty accrual as of the beginning of the period	$590	$673
Warranty provision	577	775
Warranty spending	(595)	(723)
Warranty accrual as of the end of the period	$572	$725

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 on the first-in, first-out method.

(In thousands)	September 27, 2014	March 29, 2014
Raw materials	$75,480	$72,508
Work-in-process	6,789	7,383
Finished goods	127,149	117,770
	$209,418	$197,661

7. DERIVATIVES AND FAIR VALUE MEASUREMENTS

We manufacture, market and sell our products globally. For the six months ended September 27, 2014, approximately 45.8% of our sales were generated outside the US, generally in local currencies. We also incur certain manufacturing, marketing and selling costs in international markets in local currency.

Accordingly, our earnings and cash flows are exposed to market risk from changes in foreign currency exchange rates relative to the US Dollar, our reporting currency. We have a program in place that is designed to mitigate our exposure to changes in foreign currency exchange rates. That program includes the use of derivative financial instruments to minimize for a period of time, the unforeseen impact on our financial results from changes in foreign exchange rates. We utilize foreign currency forward contracts to hedge the anticipated cash flows from transactions denominated in foreign currencies, primarily Japanese

Yen and Euro, and to a lesser extent Swiss Francs, British Pounds, Australian Dollars, Canadian Dollars and Mexican Pesos. 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 27, 2014 and March 29, 2014 were cash flow hedges under ASC 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 $145.2 million as of September 27, 2014 and $157.9 million as of March 29, 2014.

During the six months ended September 27, 2014, we recognized net gains of $1.6 million in earnings on our cash flow hedges, compared to recognized net gains of $1.7 million during the six months ended September 28, 2013. For the six months ended September 27, 2014, a $4.4 million gain related to foreign exchange hedge contracts, net of tax, was recorded in Accumulated Other Comprehensive Income to recognize the effective portion of the fair value of any designated foreign currency hedge contracts that are, or previously were, designated as foreign currency cash flow hedges, as compared to net gain of $1.7 million, net of tax, for the six months ended September 28, 2013. At September 27, 2014, gains of $4.4 million, net of tax, may be reclassified to earnings within the next twelve months. All currency cash flow hedges outstanding as of September 27, 2014 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 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 815 outstanding in the contract amount of $63.0 million as of September 27, 2014 and $72.9 million as of March 29, 2014.

Interest Rate Swaps

On August 1, 2012, we entered into a credit agreement which provided for a $475.0 million 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 also allow us to borrow in multiple tranches. As of September 27, 2014, we had three tranches outstanding, each based on Adjusted LIBOR. On June 30, 2014, we modified our Credit Agreement 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. The interest rates and LIBOR spreads remained the same in the modified Credit Agreement.

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 27, 2014, a loss of $0.1 million, net of tax, was recorded in Accumulated

Other Comprehensive Income 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 815 in our consolidated statements of income and comprehensive income for the six months ended September 27, 2014.

Derivative Instruments	Amount of Gain/(Loss) Recognized in AOCI (Effective Portion)	Amount of Gain/(Loss) Reclassified from AOCI into Earnings (Effective Portion)	Location in Consolidated Statements of Income and Comprehensive Income	Amount of Gain/(Loss) Excluded from Effectiveness Testing *	Location in Consolidated Statements of Income and Comprehensive Income
(In thousands)					
Designated foreign currency hedge contracts, net of tax	$4,443	$1,638	Net revenues, COGS, and SG&A	$142	Interest and other expense, net
Non-designated foreign currency hedge contracts	—	—		2,680	Interest and other expense, net
Designated interest rate swaps, net of tax	$(106)	$—	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 27, 2014 or March 29, 2014.

As of September 27, 2014, the amount recognized as a deferred tax asset for designated foreign currency hedges was $0.4 million and the amount recognized as a deferred tax liability for interest rate swap hedges was $0.4 million.

ASC 815 requires all derivative instruments to be recognized at their fair values as either assets or liabilities on the balance sheet. We determine the fair value of our derivative instruments using the framework prescribed by ASC 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 27, 2014, 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 27, 2014 by type of contract and whether it is a qualifying hedge under ASC 815.

(In thousands)	Location in Balance Sheet	September 27, 2014	March 29, 2014
Derivative Assets:			
Designated foreign currency hedge contracts	Other current assets	$5,069	$2,574
Designated interest rate swaps	Other current assets	1,080	1,250

		$6,149	$3,824
Derivative Liabilities:			
Designated foreign currency hedge contracts	Other current liabilities	$1,054	$1,255
		$1,054	$1,255

Other Fair Value Measurements

ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosures about fair value measurements. ASC 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 820, for the six months ended September 27, 2014, we applied the requirements under ASC 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 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 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 27, 2014.

(In thousands)	Quoted Market Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Money market funds	$90,349	$—	$—	$90,349
Designated foreign currency hedge contracts	—	5,069	—	5,069
Designated interest rate swap	—	1,080	—	1,080
	$90,349	$6,149	$—	$96,498
Liabilities				
Designated foreign currency hedge contracts	$—	$1,054	$—	$1,054
Contingent consideration	—	—	8,105	8,105