ORTHOFIX INTERNATIONAL N V
Form 10-Q
November 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 0-19961

ORTHOFIX INTERNATIONAL N.V.

(Exact name of registrant as specified in its charter)

Curaçao	**Not applicable**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
7 Abraham de Veerstraat	
Curaçao	**Not applicable**
(Address of principal executive offices)	**(Zip Code)**

599-9-4658525

(Registrant s telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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), and (2) has been subject to such filing requirements for the past 90 days. x 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). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See definition of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer x	Accelerated filer ¨
Non-Accelerated filer ¨ (Do not check if a smaller reporting company)	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 x No

As of October 29, 2012, 19,320,462 shares of common stock were issued and outstanding.

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Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, relating to our business and financial outlook, which are based on our current beliefs, assumptions, expectations, estimates, forecasts and projections. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, projects, intends, predicts, potenti comparable terminology. These forward-looking statements are not guarantees of our future performance and involve risks, uncertainties, estimates and assumptions that are difficult to predict. Therefore, our actual outcomes and results may differ materially from those expressed in these forward-looking statements. You should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any such statement, or the risk factors described in Item 1A under the heading *Risk Factors* , to reflect new information, the occurrence of future events or circumstances or otherwise.

The forward-looking statements in this filing do not constitute guarantees or promises of future performance. Factors that could cause or contribute to such differences may include, but are not limited to, risks relating to the expected sales of our products, including recently launched products, unanticipated expenditures, changing relationships with customers, suppliers, strategic partners and lenders, changes to and the interpretation of governmental regulations, the resolution of pending litigation matters (including court review and approval of our pending settlement of the government s investigation of our regenerative stimulation business, as well as our indemnification obligations with respect to certain product liability claims against, and the government investigation of, our former sports medicine global business unit) (as further described in the *Legal Proceedings* section of this Form 10-Q), and our ongoing compliance obligations under a corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services and a deferred prosecution agreement with the U.S. Department of Justice, risks relating to the protection of intellectual property, changes to the reimbursement policies of third parties, the impact of competitive products, changes to the competitive environment, the acceptance of new products in the market, conditions of the orthopedic industry, credit markets and the economy, corporate development and market development activities, including acquisitions or divestitures, unexpected costs or operating unit performance related to recent acquisitions, and other risks described in Item 1A under the heading *Risk Factors* in this Form 10-Q and those set forth in our Annual Statement on Form 10-K, as amended, for the year ended December 31, 2011, under Item 1A, *Risk Factors*.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ORTHOFIX INTERNATIONAL N.V.

Condensed Consolidated Balance Sheets

(U.S. Dollars, in thousands, except share data)	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 53,572	$ 33,207
Restricted cash	67,319	45,476
Trade accounts receivable, less allowance for doubtful accounts of $13,381 and $9,376 at September 30, 2012 and December 31, 2011, respectively	155,978	132,828
Inventories, net	80,822	82,969
Deferred income taxes	19,059	16,349
Escrow receivable		41,537
Prepaid expenses and other current assets	28,122	26,069
Assets held for sale		171,185
Total current assets	404,872	549,620
Property, plant and equipment, net	46,550	43,368
Patents and other intangible assets, net	7,000	8,236
Goodwill	73,952	73,094
Deferred income taxes	19,158	18,584
Other long-term assets	13,541	11,570
Total assets	$ 565,073	$ 704,472
Liabilities and shareholders equity		
Current liabilities:		
Bank borrowings	$ 282	$ 1,318
Current portion of long-term debt		17,500
Trade accounts payable	18,089	16,488
Accrued charges related to U.S. Government resolutions	76,743	82,500
Other current liabilities	57,349	45,327
Liabilities held for sale		22,676
Total current liabilities	152,463	185,809
Long-term debt	20,000	191,195
Deferred income taxes	9,779	9,778
Other long-term liabilities	5,221	2,519
Total liabilities	187,463	389,301
Contingencies (Note 16)		
Shareholders equity:		
Common shares $0.10 par value; 50,000,000 shares authorized; 19,279,466 and 18,465,444 issued and outstanding as of September 30, 2012 and December 31, 2011, respectively	1,928	1,846
Additional paid-in capital	246,052	214,310
Retained earnings	128,035	97,254
Accumulated other comprehensive income	1,595	1,761

Total shareholders equity	377,610	315,171
Total liabilities and shareholders equity	$ 565,073	$ 704,472

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

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ORTHOFIX INTERNATIONAL N.V.

Condensed Consolidated Statements of Operations

For the three and nine months ended September 30, 2012 and 2011

(Unaudited, U.S. Dollars, in thousands, except share and per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net sales	$ 114,752	$ 117,306	$ 350,286	$ 347,036
Cost of sales	22,373	23,854	67,989	69,380
Gross profit	92,379	93,452	282,297	277,656
Operating expenses				
Sales and marketing	49,298	49,358	148,629	146,757
General and administrative	13,849	13,976	42,715	50,105
Research and development	6,858	5,982	23,160	17,655
Amortization of intangible assets	515	537	1,575	1,641
Charges related to U.S. Government resolutions (Note 16)	326		1,689	46,000
	70,846	69,853	217,768	262,158
Operating income	21,533	23,599	64,529	15,498
Other income and expense				
Interest expense, net	(465)	(2,267)	(3,950)	(6,880)
Other expense	(1,020)	(399)	(992)	(1,850)
	(1,485)	(2,666)	(4,942)	(8,730)
Income before income taxes	20,048	20,933	59,587	6,768
Income tax expense	(6,930)	(7,982)	(20,286)	(20,038)
Net income (loss) from continuing operations, net of tax	13,118	12,951	39,301	(13,270)
Discontinued operations (Note 15)				
Gain on sale of Breg, Inc., net of tax	221		1,261	
Income (loss) from discontinued operations	(9,046)	(553)	(15,398)	123
Income tax benefit (expense)	3,267	(20)	5,617	(318)
Net loss from discontinued operations, net of tax	(5,558)	(573)	(8,520)	(195)
Net income (loss)	$ 7,560	$ 12,378	$ 30,781	$ (13,465)
Net income (loss) per common share- basic:				
Net income (loss) from continuing operations, net of tax	$ 0.69	$ 0.70	$ 2.08	$ (0.73)
Net loss from discontinued operations, net of tax	(0.29)	(0.03)	(0.45)	(0.01)
Net income (loss) per common share- basic	$ 0.40	$ 0.67	$ 1.63	$ (0.74)
Net income (loss) per common share- diluted:				
Net income (loss) from continuing operations, net of tax	$ 0.67	$ 0.69	$ 2.04	$ (0.73)
Net loss from discontinued operations, net of tax	(0.28)	(0.03)	(0.45)	(0.01)

Net income (loss) per common share- diluted:	$	0.39	$	0.66	$	1.59	$	(0.74)
Weighted average number of common shares:								
Basic		19,078,590		18,384,451		18,861,374		18,146,076
Diluted		19,533,021		18,850,625		19,300,263		18,146,076
Comprehensive income (loss)	$	9,067	$	5,664	$	30,615	$	(15,254)

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

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ORTHOFIX INTERNATIONAL N.V.

Condensed Consolidated Statements of Cash Flows

For the nine months ended September 30, 2012 and 2011

	Nine Months Ended September 30,	
(Unaudited, U.S. Dollars, in thousands)	**2012**	**2011**
Cash flows from operating activities:		
Net income (loss)	$ 30,781	$ (13,465)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	15,465	17,276
Amortization of debt costs	1,556	938
Provision for doubtful accounts	9,099	7,057
Deferred income taxes	(3,362)	(2,305)
Share-based compensation	5,097	5,358
Provision for inventory obsolescence	1,966	3,465
Gain on sale of Breg, Inc.	(1,261)	
Excess tax benefit on non-qualified stock options	(2,321)	(1,575)
Other	(4,006)	1,304
Change in operating assets and liabilities, net of effect of disposition:		
Trade accounts receivable	(33,824)	(15,746)
Inventories	(959)	(14,510)
Escrow receivable	41,537	(586)
Prepaid expenses and other current assets	(2,337)	2,455
Trade accounts payable	2,100	(2,180)
Charges related to U.S. Government resolutions	1,689	46,000
Other current liabilities	7,175	6,110
Net cash provided by operating activities	68,395	39,596
Cash flows from investing activities:		
Capital expenditures for property, plant and equipment	(18,212)	(16,826)
Capital expenditures for intangible assets	(422)	(495)
Payment made in connection with acquisition		(5,250)
Net proceeds from the sale of Breg, Inc.	153,773	
Net cash provided by (used in) investing activities	135,139	(22,571)
Cash flows from financing activities:		
Net proceeds from issuance of common shares	24,406	18,890
Repayments of long-term debt	(188,695)	(3,750)
Payment of refinancing fees		(758)
Repayment of bank borrowings, net	(1,036)	(2,642)
Changes in restricted cash	(20,219)	(14,288)
Cash payment for purchase of minority interest in subsidiary		(517)
Excess tax benefit on non-qualified stock options	2,321	1,575
Net cash used in financing activities	(183,223)	(1,490)
Effect of exchange rate changes on cash	54	(76)
Net increase in cash and cash equivalents	20,365	15,459
Cash and cash equivalents at the beginning of the period	33,207	13,561

Cash and cash equivalents at the end of the period	$ 53,572	$ 29,020

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

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ORTHFIX INTERNATIONAL N.V.

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Summary of significant accounting policies

(a) Basis of presentation

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S.) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Pursuant to these rules and regulations, certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S., have been condensed or omitted. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. For further information, refer to the Consolidated Financial Statements and Notes thereto of the Company s Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2011.

(b) Reclassifications

The Company has reclassified certain line items to conform to the current year presentation. The reclassifications have no effect on previously reported net earnings or shareholders equity.

(c) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates including those related to the resolution of U.S. government matters, contractual allowances, doubtful accounts, inventories, taxes, shared-based compensation, and potential goodwill and intangible asset impairment. Actual results could differ from these estimates.

(d) Recently Issued Accounting Standards

On June 16, 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income*. This ASU eliminates the current option to present other comprehensive income and its components in the statement of changes in shareholders equity and increases the prominence of other comprehensive income in the statements by providing an alternative to present the components of net income and comprehensive income as either one continuous or two separate but consecutive financial statements. Companies are also required to present reclassification adjustments for items that are reclassified from other comprehensive income to net income within these statements. This standard is to be applied retrospectively and is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company adopted this ASU as of March 31, 2012 and it did not have a material impact on the Company s Consolidated financial statements.

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Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

2. Inventories

Inventories are valued at the lower of cost or estimated net realizable value, after provision for excess or obsolete items. Cost is determined on a weighted-average basis, which approximates the first in, first out (FIFO) method. The valuation of work-in-process, finished products, field inventory and consignment inventory includes the cost of materials, labor and production. Field inventory represents immediately saleable finished products inventory that is in the possession of the Company s direct sales representatives and independent distributors. Consignment inventory represents immediately saleable finished products located at third party customers, such as distributors and hospitals.

Inventories were as follows:

(US$ in thousands)	September 30, 2012	December 31, 2011
Raw materials	$ 9,210	$ 10,115
Work-in-process	7,734	5,606
Finished products	45,718	49,141
Field inventory	38,041	39,400
Consignment inventory	7,085	7,551
	107,788	111,813
Less reserve for obsolescence	(26,966)	(28,844)
	$ 80,822	$ 82,969

3. Patents and other intangible assets

(US$ in thousands)	September 30, 2012	December 31, 2011
Cost		
Patents and developed technologies	$ 37,300	$ 37,683
Trademarks definite lived (subject to amortization)	624	545
	37,924	38,228
Accumulated amortization		
Patents and developed technologies	(30,514)	(29,611)
Trademarks definite lived (subject to amortization)	(410)	(381)
Patents and other intangible assets, net	$ 7,000	$ 8,236

4. Goodwill

The following table presents the changes in the net carrying value of goodwill:

(US$ in thousands)	Total
At December 31, 2011	$ 73,094

Foreign currency	858
At September 30, 2012	$ 73,952

Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

5. Bank borrowings

Borrowings under lines of credit consist of borrowings in Euros used to fund international operations. The borrowings under such facilities were $0.3 million and $1.3 million at September 30, 2012 and December 31, 2011, respectively. The weighted average interest rates on borrowings under lines of credit as of September 30, 2012 and December 31, 2011 were 4.96% and 4.02%, respectively.

The Company had an unused available line of credit of 7.1 million ($9.1 million) and 6.3million ($8.1 million) at September 30, 2012 and December 31, 2011, respectively in its Italian line of credit. This line of credit is unsecured and provides the Company the option to borrow amounts in Italy at rates which are determined at the time of borrowing.

6. Long-term debt

On August 30, 2010, the Company s wholly-owned U.S. holding company, Orthofix Holdings, Inc. (Orthofix Holdings) entered into a Credit Agreement (the Credit Agreement) with certain domestic direct and indirect subsidiaries of the Company (the Guarantors), JPMorgan Chase Bank, N.A., as Administrative Agent, RBS Citizens, N.A., as Syndication Agent, and certain lender parties thereto.

The Credit Agreement provides for a five year, $200.0 million secured revolving credit facility (the Revolving Credit Facility), and a five year, $100.0 million secured term loan facility (the Term Loan Facility , and together with the Revolving Credit Facility, the Credit Facilities). Orthofix Holdings has the ability to increase the amount of the Credit Facilities by an aggregate amount of up to $50.0 million upon satisfaction of certain conditions.

In May 2012, the Company used a portion of the proceeds from the sale of Breg, Inc. (Breg) (see Note 15) to repay in full the remaining $87.5 million balance on the Term Loan Facility and pay down $57.5 million of amounts outstanding under the Revolving Credit Facility. This use of proceeds was required by the lenders consent dated April 23, 2012 to the Credit Agreement. As a result of the sale of Breg, Breg ceased to be a subsidiary of the Company and, therefore, Breg was released as a credit party under the Credit Agreement. Additionally, the Company paid $20 million in June and $20 million in September 2012 to reduce amounts outstanding under the Revolving Credit Facility. As a result, at September 30, 2012, the Term Loan Facility had been repaid in full and there was $20 million outstanding under the Revolving Credit Facility. As of December 31, 2011, the Company had $91.3 million outstanding under the Term Loan Facility and $117.4 million outstanding under the Revolving Credit Facility. Borrowings under the Credit Facilities bear interest at a floating rate, which is, at Orthofix Holdings option, either the London Inter-Bank Offered Rate (LIBOR) plus an applicable margin or a base rate (as defined in the Credit Agreement) plus an applicable margin (in each case subject to adjustment based on financial ratios). Such applicable margin will be up to 3.25% for LIBOR borrowings and up to 2.25% for base rate borrowings depending upon a measurement of the consolidated leverage ratio with respect to the immediately preceding four fiscal quarters. As of September 30, 2012, the entire Revolving Credit Facility was at the LIBOR rate plus a margin of 2.50%. As of December 31, 2011, the entire Term Loan Facility and $100 million of the Revolving Credit Facility was at the LIBOR rate plus a margin of 3.00%. As of December 31, 2011, the remaining $17.4 million of the Revolving Credit Facility was at a base rate (as defined in the Credit Agreement) plus a margin of 2.00%. The effective interest rate on the Credit Facilities as of September 30, 2012 and December 31, 2011 was 2.74% and 3.4%, respectively.

Outstanding principal on the Revolving Credit Facility is due on August 30, 2015.

Borrowings under the Revolving Credit Facility, which may be made in the future, will be used for working capital, capital expenditures and other general corporate purposes of Orthofix Holdings and its subsidiaries. The Guarantors have guaranteed repayment of Orthofix Holdings obligations under the Credit Agreement. The obligations of Orthofix Holdings and each of the Guarantors with respect to the Credit Facilities are secured by a pledge of substantially all of the assets of Orthofix Holdings and each of the Guarantors.

The Credit Agreement, as amended, requires Orthofix Holdings and the Company to comply with coverage ratios on a consolidated basis and contains affirmative and negative covenants, including limitations on additional debt, liens, investments and acquisitions. The Credit Agreement, as amended, also includes events of default customary for facilities of this type. Upon the occurrence of an event of default, all outstanding loans may be accelerated and/or the lenders commitments terminated. The Company was in compliance with the affirmative and negative covenants at September 30, 2012 and there were no events of default.

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Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

Certain subsidiaries of the Company have restrictions on their ability to pay dividends or make intercompany loan advances pursuant to the Company s Credit Facilities. The net assets of Orthofix Holdings and its subsidiaries are restricted for distributions to the parent company. Domestic subsidiaries of the Company, as parties to the credit agreement, have access to these net assets for operational purposes. The amount of restricted net assets of Orthofix Holdings and its subsidiaries as of September 30, 2012 and December 31, 2011 was $204.8 million and $186.0 million, respectively. In addition, the Credit Agreement restricts the Company and subsidiaries that are not parties to the Credit Agreement, as amended, from access to cash held by Orthofix Holdings and its subsidiaries. The amount of cash restricted under this agreement as of September 30, 2012 and December 31, 2011 was $67.3 million and $45.5 million, respectively.

In conjunction with obtaining the Credit Facilities and the Credit Agreement, as amended, the Company incurred debt issuance costs of $5 million. These costs are being amortized using the effective interest method over the life of the Credit Facilities. In conjunction with the Term Loan Facility repayment in May 2012, the Company wrote off $0.8 million of related debt issuance costs. As of September 30, 2012 and December 31, 2011, debt issuance costs, net of accumulated amortization, related to the Credit Agreement were $2 million and $3.5 million, respectively.

7. Derivative instruments

The tables below disclose the types of derivative instruments the Company owns, the classifications and fair values of these instruments within the balance sheet, and the amount of gain (loss) recognized in other comprehensive income (loss) (OCI) or net income (loss).

(US$ in thousands)		
As of September 30, 2012	**Fair value: favorable (unfavorable)**	**Balance sheet location**
Cross-currency swap	$ 1,778	Other long-term assets
As of December 31, 2011		
Cross-currency swap	$ 1,011	Other long-term assets

(US$ in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cross-currency swap unrealized gain (loss) recorded in other comprehensive income (loss), net of taxes	$ 253	$ (927)	$ 177	$ 374

Cross-currency swap

In 2006, the Company entered into a cross-currency swap agreement with Wells Fargo to manage its cash flows related to foreign currency exposure for a portion of the Company s intercompany receivable of a U.S. dollar functional currency subsidiary that is denominated in Euro. The derivative instrument, a ten-year fully amortizable agreement with an initial notional amount of $63.0 million, was scheduled to expire on December 30, 2016. Upon executing the Company s Credit Agreement (See Note 6), the Company terminated this cross-currency swap agreement on September 30, 2010. Also on September 30, 2010, the Company entered into a new cross-currency swap agreement (the replacement swap) agreement with JPMorgan Chase Bank and Royal Bank of Scotland PLC (the counterparties).Upon the termination of the cross-currency swap agreement with Wells Fargo on September 30, 2010, the amount representing the current fair value of the terminated cross-currency swap was $450,000 (the cash settlement amount). The cash settlement amount paid to Wells Fargo was recorded in other long-term assets on the condensed consolidated balance sheets and is being amortized over the remaining life of the underlying transaction, assuming such payments remain probable.

Under the terms of the replacement swap agreement, the Company pays Euros based on a 33.5 million notional value and a fixed rate of 5.00% and receives U.S. dollars based on a notional value of $45.5 million and a fixed rate of 4.635%. The expiration date is December 30, 2016, the date upon which the underlying intercompany debt, to which the replacement swap agreement applies, matures. The replacement swap agreement is designated as a cash flow hedge and therefore the Company recognized an unrealized gain (loss) on the change in fair value, net of tax, within other comprehensive income (loss).

Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

8. Fair value measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Non-financial assets and liabilities of the Company measured at fair value include any long-lived assets or equity method investments that are impaired in a currently reported period. The authoritative guidance also describes three levels of inputs that may be used to measure fair value:

Level 1	quoted prices in active markets for identical assets and liabilities
Level 2	observable inputs other than quoted prices in active markets for identical assets and liabilities
Level 3	unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions

As of September 30, 2012, the Company s financial instruments included cash equivalents, restricted cash, accounts receivable, short-term bank borrowings, accounts payable, long-term secured debt and a cross-currency derivative contract. Cash equivalents consist of short-term highly liquid, income-producing investments, all of which have original maturities of 90 days or less, including money market funds. The carrying amount of restricted cash, accounts receivable, short-term bank borrowings and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company s Credit Facilities carry a floating rate of interest. The fair value of our Credit Facilities approximates book value as of September 30, 2012 because our interest rate was at the one month LIBOR plus an applicable margin.

The Company s cross-currency derivative instrument is the only financial instrument recorded at fair value on a recurring basis. This instrument consists of an over-the-counter contract, which is not traded on a public exchange. The fair value of the swap contract is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized the swap contract as a Level 2 derivative financial instrument. The Company also considers counterparty credit risk and its own credit risk in its determination of estimated fair values. The Company has consistently applied these valuation techniques in all periods presented.

The fair value of the Company s financial assets and liabilities on a recurring basis were as follows:

(US$ in thousands)	Balance September 30, 2012	Level 1	Level 2	Level 3
Derivative financial instruments (1)				
Cash flow hedges				
Cross-currency hedge	$ 1,778	$	$ 1,778	$

(1) See Note 8, *Derivative Instruments*

(US$ in thousands)	Balance December 31, 2011	Level 1	Level 2	Level 3
Derivative financial instruments(1)				
Cash flow hedges				

Cross currency hedge	$	1,011	$		$ 1,011	$

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Notes to the Unaudited Condensed Consolidated Financial Statements (continued)

9. Comprehensive income (loss)

Accumulated other comprehensive income is comprised of foreign currency translation adjustments and the effective portion of the gain (loss) on the Company s cross-currency swap, which is designated and accounted for as a cash flow hedge. The components of and changes in accumulated other comprehensive income were as follows:

(US$ in thousands)	Foreign Currency Translation Adjustments	Fair Value of Cross-Currency Swap	Accumulated Other Comprehensive Income
Balance at December 31, 2011	$ 1,893	$ (132)	$ 1,761
Unrealized gain on cross-currency swap, net of tax of $102		177	177
Foreign currency translation adjustment (1)	(343)		(343)
Balance at September 30, 2012	$ 1,550	$ 45	$ 1,595

(1) As the cash generally remains permanently invested in the non-U.S. dollar denominated foreign subsidiaries, no deferred taxes are recognized on the related foreign currency translation adjustment.

Comprehensive income (loss) was comprised of the following components:

(US$ in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income (loss)	$ 7,560	$ 12,378	$ 30,781	$ (13,465)
Other comprehensive income (loss):				
Unrealized gain (loss) on cross-currency swap, net of tax	253	(927)	177	374
Foreign currency translation adjustment	1,254	(5,787)	(343)	(2,163)
Total comprehensive income (loss)	$ 9,067	$ 5,664	$ 30,615	$ (15,254)

10. Earnings per share

For the three and nine months ended September 30, 2012 and 2011, there were no adjustments to net income (loss) for purposes of calculating basic and diluted net income (loss) available to common shareholders. The following is a reconciliation of the weighted average shares used in the basic and diluted net income (loss) per common share computations.

	Three Months Ended September 30,	Nine Months Ended September 30,
	2012	