HOLOGIC INC
Form 10-Q
July 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 25, 2016
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: 1-36214

Hologic, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-2902449
(State of incorporation)	(I.R.S. Employer Identification No.)
250 Campus Drive, Marlborough, Massachusetts	01752
(Address of principal executive offices)	(Zip Code)

(508) 263-2900
(Registrant's telephone number, including area code)

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. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ý	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 ¨ No ý
As of July 22, 2016, 277,422,856 shares of the registrant's Common Stock, $0.01 par value, were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)
HOLOGIC, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In millions, except number of shares, which are reflected in thousands, and per share data)

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Revenues:				
Product	$601.3	$583.0	$1,771.5	$1,676.0
Service and other	116.1	110.9	334.3	326.2
	717.4	693.9	2,105.8	2,002.2
Costs of revenues:				
Product	191.1	186.2	561.2	559.6
Amortization of intangible assets	77.9	73.1	222.2	225.6
Service and other	55.3	55.9	165.2	163.7
Gross Profit	393.1	378.7	1,157.2	1,053.3
Operating expenses:				
Research and development	58.8	56.0	169.6	161.2
Selling and marketing	109.0	94.3	309.2	263.3
General and administrative	62.5	73.1	202.0	194.7
Amortization of intangible assets	21.9	27.4	67.3	82.8
Restructuring and divestiture charges	1.5	11.9	7.5	21.9
Total operating expenses	253.7	262.7	755.6	723.9
Income from operations	139.4	116.0	401.6	329.4
Interest income	0.2	0.3	0.6	1.0
Interest expense	(39.1)	(52.4)	(117.4)	(154.3)
Debt extinguishment loss	—	(18.2)	(4.5)	(24.9)
Other income, net	0.6	1.0	27.5	0.6
Income before income taxes	101.1	46.7	307.8	151.8
Provision for income taxes	16.3	17.3	69.1	45.3
Net income	$84.8	$29.4	$238.7	$106.5
Net income per common share:				
Basic	$0.31	$0.10	$0.85	$0.38
Diluted	$0.30	$0.10	$0.83	$0.37
Weighted average number of shares outstanding:				
Basic	277,853	281,184	281,101	280,064
Diluted	282,302	292,612	287,377	287,790

See accompanying notes.

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HOLOGIC, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net income	$84.8	$ 29.4	$238.7	$106.5
Changes in foreign currency translation adjustment	(3.8)	4.5	(9.2)	(14.0)
Changes in unrealized holding gains and losses on available-for-sale securities:				
Loss recognized in other comprehensive income (loss)	—	(0.7)	(1.2)	(3.9)
Gain reclassified from accumulated other comprehensive loss to the statement of income	—	—	(7.2)	—
Changes in pension plans, net of taxes	—	—	—	0.1
Changes in value of hedged interest rate caps, net of tax of $0.9 and $2.1 for the three and nine months ended June 25, 2016 and $0.5 and $1.4 for the three and nine months ended June 27, 2015:				
Loss recognized in other comprehensive loss, net	(1.5)	(0.7)	(3.4)	(2.3)
Loss reclassified from accumulated other comprehensive loss to the statement of income	1.2	—	2.2	—
Other comprehensive income (loss)	(4.1)	3.1	(18.8)	(20.1)
Comprehensive income	$80.7	$ 32.5	$219.9	$86.4

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except number of shares, which are reflected in thousands, and par value)

	June 25, 2016	September 26, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$441.5	$ 491.3
Restricted cash	—	1.4
Accounts receivable, less reserves of $11.4 and $11.1, respectively	426.2	416.1
Inventories	280.5	283.1
Deferred income tax assets	—	19.0
Prepaid income taxes	19.7	21.7
Prepaid expenses and other current assets	52.1	33.8
Total current assets	1,220.0	1,266.4
Property, plant and equipment, net	451.5	457.1
Intangible assets, net	2,737.2	3,023.2
Goodwill	2,804.7	2,808.2
Other assets	93.3	115.2
Total assets	$7,306.7	$ 7,670.1
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$333.4	$ 391.8
Accounts payable	131.2	117.0
Accrued expenses	287.7	272.1
Deferred revenue	158.5	163.1
Total current liabilities	910.8	944.0
Long-term debt, net of current portion	3,088.8	3,248.0
Deferred income tax liabilities	1,030.5	1,178.4
Deferred revenue	17.4	19.6
Other long-term liabilities	216.5	200.9
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.01 par value – 1,623 shares authorized; 0 shares issued	—	—
Common stock, $0.01 par value – 750,000 shares authorized; 284,361 and 282,495 shares issued, respectively	2.8	2.8
Additional paid-in-capital	5,553.5	5,559.9
Accumulated deficit	(3,230.3)	(3,469.0)
Treasury stock, at cost – 7,289 shares at June 25, 2016	(250.0)	—
Accumulated other comprehensive loss	(33.3)	(14.5)
Total stockholders' equity	2,042.7	2,079.2
Total liabilities and stockholders' equity	$7,306.7	$ 7,670.1

See accompanying notes.

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HOLOGIC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Nine Months Ended June 25, 2016	June 27, 2015
OPERATING ACTIVITIES		
Net income	$238.7	$106.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61.3	60.8
Amortization	289.5	308.3
Non-cash interest expense	38.8	49.5
Stock-based compensation expense	45.1	42.2
Excess tax benefit related to equity awards	(9.2)	(8.0)
Deferred income taxes	(104.2)	(110.9)
Gain on sale of available-for-sale marketable security	(25.1)	—
Debt extinguishment loss	4.5	24.9
Loss on sale of business	—	9.6
Other adjustments and non-cash items	1.2	5.0
Changes in operating assets and liabilities:		
Accounts receivable	(10.8)	3.5
Inventories	2.1	32.9
Prepaid income taxes	1.9	(1.3)
Prepaid expenses and other assets	(16.2)	4.7
Accounts payable	14.4	(1.8)
Accrued expenses and other liabilities	34.7	25.3
Deferred revenue	(6.2)	2.4
Net cash provided by operating activities	560.5	553.6
INVESTING ACTIVITIES		
Purchase of property and equipment	(27.0)	(27.9)
Increase in equipment under customer usage agreements	(35.8)	(30.2)
Proceeds from sale of available-for-sale marketable security	31.1	—
Purchases of insurance contracts	(5.2)	(6.4)
Sales of mutual funds	5.2	7.7
Purchase of intellectual property	(4.0)	—
Increase in other assets	(0.4)	—
Net cash used in investing activities	(36.1)	(56.8)
FINANCING ACTIVITIES		
Proceeds from long-term debt	—	1,495.1
Repayment of long-term debt	(56.2)	(2,045.0)
Payments to extinguish convertible notes	(311.5)	—
Proceeds from amounts borrowed under revolving credit line	50.0	175.0
Repayment of amounts borrowed under revolving credit line	(225.0)	—
Proceeds from accounts receivable securitization agreement	200.0	—
Repurchase of common stock	(250.0)	—
Payment of debt issuance costs	—	(8.3)

Purchase of interest rate caps	—	(6.1)
Net proceeds from issuance of common stock pursuant to employee stock plans	27.4	50.4
Excess tax benefit related to equity awards	9.2	8.0
Payment of minimum tax withholdings on net share settlements of equity awards	(16.1)	(12.6)
Net cash used in financing activities	(572.2)	(343.5)
Effect of exchange rate changes on cash and cash equivalents	(2.0)	(4.4)
Net (decrease) increase in cash and cash equivalents	(49.8)	148.9
Cash and cash equivalents, beginning of period	491.3	736.1
Cash and cash equivalents, end of period	$441.5	$885.0

See accompanying notes.

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HOLOGIC, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(all tabular amounts in millions, except number of shares, which are reflected in thousands, and per share data)

(1) Basis of Presentation

The consolidated financial statements of Hologic, Inc. (“Hologic” or the “Company”) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and disclosures required by U.S. generally accepted accounting principles (“GAAP”). These financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended September 26, 2015 included in the Company’s Form 10-K filed with the SEC on November 19, 2015. In the opinion of management, the financial statements and notes contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management’s estimates if past experience or other assumptions do not turn out to be substantially accurate. Operating results for the three and nine months ended June 25, 2016 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 24, 2016.

Subsequent Events Consideration

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that may require additional disclosure. Subsequent events have been evaluated as required. There were no material recognized or unrecognized subsequent events recorded in the unaudited consolidated financial statements as of and for the three and nine months ended June 25, 2016.

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(2) Fair Value Measurements

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company has investments in publicly-traded companies, which are valued using quoted market prices, representing Level 1 assets, and investments in derivative instruments comprised of interest rate caps and forward foreign currency contracts, which are valued using analyses obtained from independent third party valuation specialists based on market observable inputs, representing Level 2 assets. The fair values of the Company's interest rate caps and forward foreign currency contracts represent the estimated amounts the Company would receive or pay to terminate the contracts. Refer to Note 5 for further discussion and information on the interest rate caps and forward foreign currency contracts.

The Company has a payment obligation to the participants under its Nonqualified Deferred Compensation Plan (“DCP”). This liability is recorded at fair value based on the underlying value of certain hypothetical investments under the DCP as designated by each participant for their benefit. Since the value of the DCP obligation is based on market prices of the underlying value of the hypothetical investments, which are Level 1 measurements, the liability itself is classified within Level 1.

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following at June 25, 2016:

		Fair Value at Reporting Date Using		
	Balance as of June 25, 2016	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities	$ 0.9	$ 0.9	$ —	$ —
Interest rate cap - derivative	1.2	—	1.2	—
Forward foreign currency contracts	1.0	—	1.0	—
Total	$ 3.1	$ 0.9	$ 2.2	$ —
Liabilities:				
Deferred compensation liabilities	$ 35.6	$ 35.6	$ —	$ —
Forward foreign currency contracts	0.4	—	0.4	—
Total	$ 36.0	$ 35.6	$ 0.4	$ —

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of cost-method equity investments and long-lived assets, including property, plant and equipment, intangible assets and goodwill.

The Company holds certain cost-method equity investments in non-publicly traded securities aggregating $3.5 million and $4.2 million at June 25, 2016 and September 26, 2015, respectively, which are included in other long-term assets on the Company’s Consolidated Balance Sheets. These investments are generally carried at cost, less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, the Company uses all available financial information related to the entities, including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment’s fair value is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and to make such an estimate would be impractical.

Disclosure of Fair Value of Financial Instruments

The Company’s financial instruments mainly consist of cash and cash equivalents, accounts receivable, marketable securities, cost-method equity investments, interest rate caps, forward foreign currency contracts, insurance contracts, DCP liability, accounts payable and debt obligations. The carrying amounts of the Company’s cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments. The Company’s marketable securities, interest rate caps, and forward foreign currency contracts are recorded at fair value. The carrying amount of the insurance contracts are recorded at the cash surrender value, as required by U.S. GAAP, which approximates fair value, and the

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related DCP liability is recorded at fair value. The Company believes the carrying amounts of its cost-method equity investments approximate fair value.

Amounts outstanding under the Company's Credit Agreement and Securitization Program of $1.43 billion and $200.0 million aggregate principal, respectively, as of June 25, 2016 are subject to variable rates of interest based on current market rates, and as such, the Company believes the carrying amount of these obligations approximates fair value.

The Company's 2022 Senior Notes had a fair value of approximately $1.04 billion as of June 25, 2016 based on their trading price, representing a Level 1 measurement. The fair value of the Company's Convertible Notes is based on the trading prices of the respective notes and represents a Level 1 measurement. Refer to Note 4 for the carrying amounts of the various components of the Company's debt.

The estimated fair values of the Company's Convertible Notes at June 25, 2016 were as follows:

2010 Notes	$88.2
2012 Notes	475.6
2013 Notes	451.4
	$1,015.2

(3) Restructuring and Divestiture Charges

The Company evaluates its operations for opportunities to improve operational effectiveness and efficiency, including facility and operations consolidation, and to better align expenses with revenues. In addition, the Company continually assesses its management structure. As a result of these assessments, the Company has undertaken various restructuring actions, which are described below. The following table displays charges related to these actions recorded in the fiscal 2016 year to date period (9 months ended June 25, 2016) and fiscal 2015 (the year ended September 26, 2015) and a rollforward of the accrued balances from September 26, 2015 to June 25, 2016:

	Fiscal 2016 Actions	Fiscal 2015 Actions	Fiscal 2014 Actions	Other Operating Cost Reductions	Total
Restructuring and Divestiture Charges					
Fiscal 2015 charges:					
Workforce reductions	$ —	$ 10.0	$ 6.0	$ 0.3	$ 16.3
Facility closure costs	—	—	2.0	0.6	2.6
Fiscal 2015 restructuring charges	$ —	$ 10.0	$ 8.0	$ 0.9	$ 18.9
Divestiture net charges					9.6
Fiscal 2015 restructuring and divestiture charges					$ 28.5
Fiscal 2016 charges:					
Workforce reductions	$ 7.5	$ —	$ —	$ —	$ 7.5
Fiscal 2016 restructuring charges	$ 7.5	$ —	$ —	$ —	$ 7.5

	Fiscal 2016 Actions	Fiscal 2015 Actions	Fiscal 2014 Actions	Other Operating Cost Reductions	Total
Rollforward of Accrued Restructuring					
Balance as of September 26, 2015	$ —	$ 3.1	$ 2.5	$ 0.1	$ 5.7
Fiscal 2016 restructuring charges	7.5	—	—	—	7.5
Severance payments	(3.3)	(2.6)	(1.4)	(0.1)	(7.4)
Other payments	—	—	(0.4)	—	(0.4)
Balance as of June 25, 2016	$ 4.2	$ 0.5	$ 0.7	$ —	$ 5.4

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Fiscal 2016 Actions

During the third quarter of fiscal 2015, the Company decided to close its Bedford, Massachusetts facility where it manufactures its Skeletal Health products and provides certain support manufacturing services for its Breast Health segment. The manufacturing of the Skeletal Health products will be outsourced to a third-party, and the Breast Health manufacturing services will be moved to the Company's Danbury, Connecticut and Marlborough, Massachusetts facilities. In addition, research and development, sales and services support and administrative functions will be moved to both Marlborough and Danbury. The transition is expected to be completed by the end of calendar 2016. In connection with this plan, certain employees, primarily in manufacturing, will be terminated. The employees were notified of termination and related benefits in the first quarter of fiscal 2016, and the Company is recording these charges pursuant to ASC 420 Exit or Disposal Cost Obligations (ASC 420). Employees are required to remain employed during this transition period and charges are being recorded ratably over the required service period. The Company recorded $0.5 million and $1.4 million in severance and benefits charges in the three and nine months ended June 25, 2016, respectively, related to this plan. The Company estimates the total severance and benefits charges will be approximately $1.7 million.

During the first quarter of fiscal 2016, the Company began implementing a second plan to consolidate and improve operational efficiency of its international sales and marketing and field services operations and certain support functions. As a result, the Company identified and terminated certain employees in the first, second and third quarters of fiscal 2016. Severance and benefit charges under this action were recorded pursuant to ASC 712, Compensation-Nonretirement Postemployment Benefits (ASC 712), and ASC 420 depending on the circumstances. The Company recorded severance and benefit charges of $1.0 million and $6.1 million in the three and nine months ended June 25, 2016, respectively, related to this plan. The Company is continuing to assess its organizational structure and finalize its plans and additional severance charges are expected in fiscal 2016.

Fiscal 2015 Actions

During each quarter of fiscal 2015, the Company continued to make executive management changes resulting in the termination of certain executives and employees on a worldwide basis. In addition, the Company continued to consolidate and close certain international offices to improve operational efficiency and reduce costs. Severance and benefit charges under these actions were recorded pursuant to ASC 420 and ASC 712 depending on the circumstances, and the Company recorded severance and benefit charges of $10.0 million in fiscal 2015, including $4.1 million of stock-based compensation. During the three and nine months ended June 27, 2015, the Company recorded $0.7 million and $3.7 million, respectively, for severance and benefits charges. Included in the charge is $0.7 million of stock-based compensation in the nine month period. No additional charges will be recorded under these actions.

In connection with its review of operations, the Company decided to shut-down its manufacturing operation in China, which manufactured mammography systems for the Chinese market. As a result, the Company terminated manufacturing and research and development personnel located in China. The severance charges related to this action were insignificant.

Fiscal 2014 Actions

In each quarter of fiscal 2014, the Company made executive management changes, including in the first fiscal quarter appointing Stephen P. MacMillan as President, Chief Executive Officer and a director of the Company, and implemented a number of cost reduction initiatives resulting in the termination of certain executives and employees on a worldwide basis. In addition, in the fourth quarter of fiscal 2014, the Company decided to consolidate and close certain international offices. Severance and benefit charges under these actions were recorded pursuant to ASC 420 and ASC 712 depending on the circumstances. For those employees who continued to be employed beyond the minimum retention period, charges were recorded ratably over the estimated period of the affected employees. During fiscal 2015, in connection with these actions, the Company recorded $6.0 million for severance and benefits costs and $2.0 million for facility closure costs related to this action. The facility closure costs primarily related to lease obligation charges for three office locations where the Company had met the cease-use date criteria. The Company recorded $0.2 million and $6.1 million for severance and benefit charges in the three and nine months ended

June 27, 2015, respectively, and $1.4 million and $1.6 million for facility closure costs in the three and nine months ended June 27, 2015, respectively. This action was completed in fiscal 2015.

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Divestitures

In the fourth quarter of fiscal 2014, the Company completed the sale of its MRI breast coils product line and recorded a loss on disposal of $5.3 million. The Company also provided certain transition services through April 2015, including the manufacturing and sale of inventory to the buyer. Since all operations had ceased during the third quarter of fiscal 2015, the Company concluded that this subsidiary had been substantially liquidated and recorded a $9.6 million charge in the third quarter of fiscal 2015 to write off the cumulative translation adjustment related to the subsidiary.

(4) Borrowings and Credit Arrangements

The Company’s borrowings consisted of the following:

	June 25, 2016	September 26, 2015
Current debt obligations, net of debt discount:		
Term Loan	$74.7	$ 74.6
Revolver	—	175.0
Securitization Program	200.0	—
Convertible Notes	58.7	142.2
Total current debt obligations	$333.4	$ 391.8
Long-term debt obligations, net of debt discount:		
Term Loan	1,344.7	1,399.8
2022 Senior Notes	988.2	986.7
Convertible Notes	755.9	861.5
Total long-term debt obligations	$3,088.8	$ 3,248.0
Total debt obligations	$3,422.2	$ 3,639.8

Credit Agreement (Term Loan and Revolver)

The Company has a Credit Agreement, which covers the outstanding debt under the Term Loan and Revolver. Borrowings outstanding under the Credit Agreement for the three and nine months ended June 25, 2016 had weighted-average interest rates of 2.19% and 2.11%, respectively. The interest rate on the outstanding Term Loan borrowing at June 25, 2016 was 2.20%. Borrowings outstanding under the Credit Agreement and Prior Credit Agreement for the three and nine months ended June 27, 2015 had weighted-average interest rates of 2.39% and 2.59%, respectively. Interest expense under the Credit Agreement aggregated $10.5 million and $31.2 million for the three and nine months ended June 25, 2016, respectively. This includes non-cash interest expense of $1.1 million and $3.2 million, respectively, related to the amortization of the deferred issuance costs and accretion of the debt discount. Interest expense under the Credit Agreement and Prior Credit Agreement aggregated $12.8 million and $44.7 million for the three and nine months ended June 27, 2015, respectively. This includes $2.2 million and $8.0 million, respectively, of non-cash interest expense related to the amortization of the deferred issuance costs and accretion of the debt discount.

The Credit Agreement contains two financial covenants, a total net leverage ratio and an interest coverage ratio, both of which are measured as of the last day of each fiscal quarter. These terms, and the calculation thereof, are defined in further detail in the Credit Agreement. As of June 25, 2016, the Company was in compliance with these covenants.

On May 6, 2016, the Company used the proceeds borrowed under the Securitization Program, discussed below, to repay $175.0 million owed under its Revolver. No amounts are outstanding under the Revolver as of June 25, 2016.

On December 24, 2014, the Company voluntarily pre-paid $300.0 million of its Term Loan B facility under its Prior Credit Agreement. Pursuant to ASC 470, Debt (ASC 470), the Company recorded a debt extinguishment loss of $6.7 million in the first quarter of fiscal 2015 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to this voluntary prepayment.

During the third quarter of fiscal 2015, the Company refinanced its Prior Credit Agreement with the Credit Agreement. Pursuant to ASC 470, the accounting for the Credit Agreement was evaluated on a creditor-by-creditor basis with regard to the Prior Credit Agreement to determine whether each transaction should be accounted for as a modification or extinguishment. Certain creditors under the Prior Credit Agreement did not participate in this refinancing transaction and ceased being creditors of the Company. As a result, the Company recorded a debt extinguishment loss of $18.2 million in the third quarter of fiscal 2015 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to these creditors. For the remainder of the creditors, this transaction was accounted for as a modification because, on a creditor-by-creditor basis, the present value of the cash flows between the two debt instruments before and after the transaction was less than 10%. Pursuant to ASC 470, subtopic 50-40, third-party costs of $4.6 million related to this transaction were recorded as interest expense and $3.8 million were recorded as deferred issuance costs to be amortized over the term of the agreement.

2022 Senior Notes

The Company's 5.250% Senior Notes due 2022 (the “2022 Senior Notes”) mature on July 15, 2022 and bear interest at the rate of 5.250% per year, payable semi-annually on January 15 and July 15 of each year, commencing on January 15, 2016. The Company recorded interest expense of $14.0 million and $41.9 million in the three and nine month periods ended June 25, 2016, respectively, which includes non-cash interest expense of $1.0 million and $2.9 million, respectively, related to the amortization of the deferred issuance costs and accretion of the debt discount. The Company used the net proceeds from the 2022 Senior Notes, plus available cash to discharge and redeem all of its outstanding 6.25% Senior Notes due 2020 ("Senior Notes"). The Company recorded interest expense related to its Senior Notes of $16.0 million and $48.0 million in the three and nine month periods ended June 27, 2015, respectively, which included non-cash interest expense of $0.4 million and $1.2 million, respectively, related to the amortization of deferred issuance costs.

Convertible Notes

During the third quarter of fiscal 2016, the closing price of the Company's common stock exceeded 130% of the applicable conversion price of its 2010 Notes on at least 20 of the last 30 consecutive trading days of the quarter. As a result, holders of 2010 Notes are able to convert their notes during the fourth quarter of fiscal 2016. Therefore, the Company classified the $58.7 million carrying value of its 2010 Notes (which have a principal value of $59.9 million) as a current debt obligation. In the event the closing price conditions are met in the fourth quarter of fiscal 2016 or a future fiscal quarter, the 2010 Notes will be convertible at a holder's option during the immediately following fiscal quarter. As of June 25, 2016, the if-converted value of the 2010 Notes exceeded the aggregate principal amount by approximately $28.3 million. It is the Company's current intent and policy to settle any conversion of the Convertible Notes as if the Company had elected to make either a net share settlement or all cash election, such that upon conversion, the Company intends to pay the holders in cash for the principal amount of the 2010 Notes and, if applicable, shares of its common stock or cash to satisfy the premium based on a calculated daily conversion value.

On various dates during the second quarter of fiscal 2016, the Company entered into privately negotiated repurchase transactions and extinguished $90.0 million and $136.6 million principal amount of the 2010 Notes and 2012 Notes, respectively, for total payments of $140.1 million and $171.3 million, respectively. These amounts include the conversion premium resulting from the Company's stock price on the date of the transactions being in excess of the conversion price of $23.03 and $31.175 for the 2010 Notes and 2012 Notes, respectively.

The Company accounted for the 2010 Notes and 2012 Notes extinguishment under the derecognition provisions of subtopic ASC 470-20-40, which requires the allocation of the fair value of the consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component. In connection with these transactions, the Company recorded a debt extinguishment loss on the 2010 Notes of $3.8 million and a debt extinguishment loss on the 2012 Notes of $0.7 million, for a total debt extinguishment loss of $4.5 million in the second quarter of fiscal 2016. The 2010 Notes debt extinguishment loss was comprised of the loss on the debt itself of $3.3 million, the write-off of the pro-rata amount of debt issuance costs of $0.3 million allocated to the notes retired, and allocated third party costs of $0.2 million. The 2012 Notes debt extinguishment loss was comprised of the write-off of the pro-rata amount of debt issuance costs of $0.5 million allocated to the notes retired, and allocated third party costs of $0.2 million. The loss on the debt itself was calculated as the difference between the fair value of the liability component immediately before the respective transactions and their related carrying values. The fair value of the liability component was calculated using a discounted cash flow technique, and the Company used effective interest rates of 2.71% for the 2010 Notes and 3.87% and 3.41% for the 2012 Notes, which had two valuation dates, representing the estimated rate for non-convertible debt (with similar features as the 2010 and 2012 Notes excluding the conversion feature) issued by a company with a credit rating similar to the Company. In addition, under this accounting standard, a portion of the fair value of the consideration transferred is allocated to the reacquisition of the equity component, which is the difference between the fair value of the consideration transferred and the fair value of the liability component immediately before the extinguishment. As a result, on a gross basis, $49.9 million related to the 2010 Notes and $38.9 million related to the 2012 Notes were allocated to the reacquisition of the equity component of the original instrument, which was recorded net of deferred taxes of $10.0 million and $12.5 million, respectively, within additional paid-in-capital.

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Interest expense under the Convertible Notes was as follows:

	Three Months Ended		Nine Months Ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Amortization of debt discount	$5.2	$ 9.2	$17.3	$ 27.0
Amortization of deferred financing costs	0.2	0.4	0.9	1.3
Principal accretion	4.2	4.0	12.4	11.9
Non-cash interest expense	9.6	13.6	30.6	40.2
2.00% accrued interest (cash)	2.1	4.7	8.0	14.2
	$11.7	$ 18.3	$38.6	$ 54.4

Accounts Receivable Securitization Program

On April 25, 2016, the Company entered into a one-year $200.0 million accounts receivable securitization program (the "Securitization Program") with several of its wholly owned subsidiaries and certain financial institutions. Under the terms of the Securitization Program, the Company and certain of its wholly-owned subsidiaries sell their respective customer receivables to a bankruptcy remote special purpose entity, which is also a wholly-owned subsidiary of the Company. In addition, the Company also contributed a portion of its customer receivables to the special purpose entity in connection with its establishment. The Company retains servicing responsibility. The special purpose entity, as borrower, and the Company, as servicer, have entered into a Credit and Security Agreement with several lenders pursuant to which the special purpose entity may borrow up to $200.0 million from the lenders, with the loans secured by the receivables. The amount that the special purpose entity may borrow at a given point in time is determined based on the amount of qualifying receivables that are present in the special purpose entity at such point in time. The entire amount available was borrowed in the third quarter of fiscal 2016. Borrowings outstanding under the Securitization Program bear interest at LIBOR plus the applicable margin of 0.70% and are included as a component of current liabilities in the Company's consolidated balance sheet, while the accounts receivable securing these obligations remain as a component of net receivables in the Company's consolidated balance sheet. The Company and the special purpose entity have been formed and are operated and maintained as separate legal entities. The assets of the special purpose entity secure the amounts borrowed and cannot be used to pay other debts or liabilities of the Company.

Borrowings under the Securitization Program for the three and nine month periods ended June 25, 2016 had a weighted-average interest rate of 1.14%. Interest expense under the Securitization Program aggregated $0.4 million for the three and nine month periods ended June 25, 2016.

The Credit and Security Agreement contains customary representations and warranties and events of default, including payment defaults, breach of representations and warranties, covenant defaults, and an event of default upon a change of control of the Company. In addition, it contains financial covenants consistent with that of the Credit Agreement. As of June 25, 2016, the Company was in compliance with these covenants.

(5) Derivatives

Interest Rate Cap - Cash Flow Hedge

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages its exposure to some of its interest rate risk by the use of interest rate caps, which are derivative financial instruments. The Company does not use derivatives for speculative purposes. For a derivative that is designated as a cash flow hedge, changes in the fair value of the derivative are recognized in accumulated other comprehensive income ("AOCI") to the extent the derivative is effective at offsetting the changes in the cash flows being hedged until the hedged item affects earnings. To the extent there is any hedge ineffectiveness, changes in fair value relating to the ineffective portion are immediately recognized in earnings in Other income (expense) in the Consolidated Statements of Income.

During fiscal 2015, the Company entered into separate interest rate cap agreements with multiple counter-parties to help mitigate the interest rate volatility associated with the variable rate interest on its credit facilities under the Prior

Credit Agreement, which was replaced by the new Credit Agreement. Interest rate cap agreements provide the right to receive cash if the designated interest rate rises above the contractual rate. The aggregate premium paid by the Company for the interest rate cap agreements was $13.2 million, which was the initial fair value of the instruments recorded in the Company's financial statements.

The critical terms of the interest rate caps were designed to mirror the terms of the Company’s LIBOR-based borrowings under the Prior Credit Agreement. The terms in the new Credit Agreement are consistent with the Prior Credit Agreement, and

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therefore the interest rate caps continue to be highly effective at offsetting the cash flows being hedged. The Company designated these derivatives as cash flow hedges of the variability of the LIBOR-based interest payments on $1.0 billion of principal for a three-year period, which ends on December 29, 2017.

As of June 25, 2016, the Company determined that the existence of hedge ineffectiveness, if any, was immaterial and all changes in the fair value of the interest rate caps were recorded in the Consolidated Statements of Comprehensive Income as a component of AOCI.

During the three and nine months ended June 25, 2016, $1.2 million and $2.2 million, respectively, was reclassified from AOCI to the Company’s Consolidated Statements of Income related to the interest rate cap agreements. The Company expects to similarly reclassify a loss of approximately $6.6 million from AOCI to the Consolidated Statements of Income in the next twelve months.

The aggregate fair value of these interest rate caps was $1.2 million and $6.9 million at June 25, 2016 and September 26, 2015, respectively and is included in both Prepaid expenses and other current assets and Other assets on the Company’s Consolidated Balance Sheet. Refer to Note 2 “Fair Value Measurements” above for related fair value disclosures.

Forward Foreign Currency Contracts

The Company enters into forward foreign currency exchange contracts to mitigate certain operational exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations that are denominated in currencies other than the U.S. dollar, primarily the Euro, the UK Pound, and the Australian dollar. These foreign currency exchange contracts are entered into to support transactions made in the ordinary course of business and are not speculative in nature. The contracts are for periods of one year or less. During the first quarter of fiscal 2016, the Company began to execute forward foreign currency contracts in order to mitigate its exposure to fluctuations in various currencies against its reporting currency, the U.S. dollar. The Company did not elect hedge accounting for these forward foreign currency contracts; however, the Company may seek to apply hedge accounting in future scenarios. The change in the fair value of these contracts is recognized directly in earnings as a component of other income (expense), net. During the three and nine months ended June 25, 2016, the Company recorded net unrealized gains of $0.2 million and $0.6 million, respectively, on the mark-to-market for its outstanding forward foreign currency contracts within other income (expense), net in the Consolidated Statements of Income and a realized loss of $0.2 million and realized gain of $0.8 million, respectively, from settling forward foreign currency contracts.

As of June 25, 2016, the Company had outstanding forward foreign currency contracts that were not designated for hedge accounting and were used to hedge fluctuations in the U.S. dollar of forecasted transactions denominated in the Euro, UK Pound and the Australian dollar with a notional amount of $35.0 million.

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Financial Instrument Presentation

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the balance sheet as of June 25, 2016:

	Balance Sheet Location	June 25, 2016	September 26, 2015
Assets:			
Derivative instruments designated as a cash flow hedge:			
Interest rate cap agreements	Prepaid expenses and other current assets	$ 0.4	$ 0.7
Interest rate cap agreements	Other assets	0.8	6.2
		$ 1.2	$ 6.9
Derivatives not designated as hedging instruments:			
Forward foreign currency contracts	Prepaid expenses and other current assets	$ 1.0	$ —
Liabilities:			
Derivatives not designated as hedging instruments:			
Forward foreign currency contracts	Accrued expenses	$ 0.4	$ —

The following table presents the unrealized loss recognized in AOCI related to the interest rate caps for the following reporting periods: