HOLOGIC INC
Form 10-Q
February 03, 2017

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 December 31, 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 January 30, 2017, 279,296,249 shares of the registrant's Common Stock, $0.01 par value, were outstanding.

Table of Contents

HOLOGIC, INC.
INDEX

EXHIBITS

Table of Contents

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	
	December 31, 2016	December 26, 2015
Revenues:		
Product	$613.4	$ 587.2
Service and other	121.0	108.0
	734.4	695.2
Costs of revenues:		
Product	198.3	188.2
Amortization of intangible assets	73.5	73.4
Service and other	57.8	54.5
Gross Profit	404.8	379.1
Operating expenses:		
Research and development	54.4	51.7
Selling and marketing	110.0	99.4
General and administrative	69.8	77.0
Amortization of intangible assets	21.4	22.6
Restructuring and divestiture charges	3.2	2.3
	258.8	253.0
Income from operations	146.0	126.1
Interest income	0.3	0.2
Interest expense	(40.4)	(39.2)
Other income, net	10.2	27.6
Income before income taxes	116.1	114.7
Provision for income taxes	29.6	29.8
Net income	$86.5	$ 84.9
Net income per common share:		
Basic	$0.31	$ 0.30
Diluted	$0.30	$ 0.29
Weighted average number of shares outstanding:		
Basic	278,663	282,976
Diluted	284,224	291,971

See accompanying notes.

Table of Contents

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

	Three Months Ended	
	December 31, 2016	December 26, 2015
Net income	$86.5	$ 84.9
Changes in foreign currency translation adjustment	(15.7)	(4.2)
Changes in unrealized holding gains and losses on available-for-sale securities, net of tax of $1.5 for the three months ended December 31, 2016:		
Gain (loss) recognized in other comprehensive income, net	2.3	(0.6)
Loss (gain) reclassified from accumulated other comprehensive loss to the statement of income	0.1	(7.2)
Changes in value of hedged interest rate caps, net of tax of $0.5 and $0.2 for the three months ended December 31, 2016 and December 26, 2015:		
Gain recognized in other comprehensive loss, net	0.7	0.3
Loss reclassified from accumulated other comprehensive loss to the statement of income	2.1	0.3
Other comprehensive loss	(10.5)	(11.4)
Comprehensive income	$76.0	$ 73.5

See accompanying notes.

Table of Contents

HOLOGIC, INC.

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

	December 31, 2016	September 24, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 646.0	$ 548.4
Accounts receivable, less reserves of $10.3 and $12.7, respectively	419.9	447.0
Inventories	258.3	274.7
Prepaid income taxes	17.7	16.9
Prepaid expenses and other current assets	67.7	39.6
Assets held for sale	928.5	—
Total current assets	2,338.1	1,326.6
Property, plant and equipment, net	432.6	460.2
Intangible assets, net	2,005.7	2,643.4
Goodwill	2,474.5	2,803.1
Other assets	86.9	83.7
Total assets	$ 7,337.8	$ 7,317.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 707.3	$ 296.0
Accounts payable	138.7	156.9
Accrued expenses	298.9	287.6
Deferred revenue	145.8	161.4
Total current liabilities	1,290.7	901.9
Long-term debt, net of current portion	2,615.6	3,049.4
Deferred income tax liabilities	958.9	982.6
Deferred revenue	15.2	15.9
Other long-term liabilities	228.8	224.5
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; 000,000 and 285,015 shares issued, respectively	2.9	2.9
Additional paid-in-capital	5,570.2	5,560.3
Accumulated deficit	(3,051.7)	(3,138.2)
Treasury stock, at cost – 7,289 shares	(250.0)	(250.0)
Accumulated other comprehensive loss	(42.8)	(32.3)
Total stockholders' equity	2,228.6	2,142.7
Total liabilities and stockholders' equity	$ 7,337.8	$ 7,317.0

See accompanying notes.

Table of Contents

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

	Three Months Ended	
	December 31, 2016	December 26, 2015
OPERATING ACTIVITIES		
Net income	$86.5	$ 84.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20.4	19.9
Amortization	94.9	96.0
Non-cash interest expense	14.3	13.2
Stock-based compensation expense	19.2	15.9
Deferred income taxes	(24.6)	(28.0)
Gain on sale of available-for-sale marketable security	—	(25.1)
Other adjustments and non-cash items	(6.0)	(0.2)
Changes in operating assets and liabilities:		
Accounts receivable	21.5	4.3
Inventories	(20.7)	(3.6)
Prepaid income taxes	(0.8)	21.7
Prepaid expenses and other assets	(17.4)	(7.7)
Accounts payable	(17.8)	(4.9)
Accrued expenses and other liabilities	14.6	(9.8)
Deferred revenue	(14.5)	(5.2)
Net cash provided by operating activities	169.6	171.4
INVESTING ACTIVITIES		
Purchase of property and equipment	(11.5)	(9.1)
Increase in equipment under customer usage agreements	(13.2)	(10.6)
Proceeds from sale of available-for-sale marketable security	0.4	31.1
Increase in other assets	(0.9)	0.9
Net cash (used in) provided by investing activities	(25.2)	12.3
FINANCING ACTIVITIES		
Repayment of long-term debt	(18.8)	(18.8)
Repayment of amounts borrowed under accounts receivable securitization program	(12.0)	—
Payments to extinguish convertible notes	(6.4)	(0.1)
Net proceeds from issuance of common stock pursuant to employee stock plans	13.2	11.1
Payment of minimum tax withholdings on net share settlements of equity awards	(16.4)	(14.9)
Net cash used in financing activities	(40.4)	(22.7)
Effect of exchange rate changes on cash and cash equivalents	(6.4)	(2.0)
Net increase in cash and cash equivalents	97.6	159.0
Cash and cash equivalents, beginning of period	548.4	491.3
Cash and cash equivalents, end of period	$646.0	$ 650.3

See accompanying notes.

Table of Contents

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 24, 2016 included in the Company's Form 10-K filed with the SEC on November 17, 2016. 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 months ended December 31, 2016 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 30, 2017. Fiscal 2017 is a 53 week fiscal period and this additional week is included in the results for the three months ended December 31, 2016.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Payment Accounting (ASU 2016-09). The guidance changes how companies account for certain aspects of share-based payments to employees. The amendments in the update are effective for annual periods beginning after December 15, 2016, and are applicable to the Company in fiscal 2018 with early adoption permitted in any interim or annual period. During the first quarter of fiscal 2017, the Company elected to early adopt this standard. The update requires certain changes to presentation of the financial statements as follows:

- All excess tax benefits and deficiencies are recognized as a component of the provision for income taxes on a discrete basis in the period when the equity awards vest and/or are settled. Previously, the Company recorded this tax impact directly to additional paid in capital. For the three months ended December 31, 2016, the Company recorded a tax benefit of $6.0 million. The standard does not permit retroactive presentation of this benefit to prior fiscal years on the Consolidated Statements of Income.

Table of Contents

- The tax benefit or deficiency is required to be classified as a cash flow provided by (used in) operating activities. It was previously required to be presented as a cash flow provided by (used in) financing activities in the Consolidated Statements of Cash Flows, with a corresponding adjustment to operating cash flows. As permitted in the ASU, the Company has elected to adopt this classification on a retrospective basis, and therefore, the prior fiscal period Consolidated Statement of Cash Flows has been recast for this provision resulting in cash flows provided by operations increasing $7.1 million for the three months ended December 26, 2015 with a corresponding increase to cash flows used in financing activities.
- In the diluted net earnings per share calculation, when applying the treasury stock method for shares that could be repurchased, the assumed proceeds no longer include the amount of excess tax benefit. This provision, which is only applicable on a prospective basis, did not have a material impact on the Company's diluted net earnings per share calculation in the first quarter of fiscal 2017.
- ASU 2016-09 allows a Company to elect to account for award forfeitures as they occur or to continue to estimate forfeitures. The Company has elected to continue to estimate potential forfeitures. As such, there is no impact from a change in accounting principle within stockholders' equity.

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 months ended December 31, 2016. On January 31, 2017, the Company completed the sale of its blood screening business for a sales price of $1.85 billion, subject to adjustment. Please see note 10 for further discussion of this transaction.

Table of Contents

(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, the liability is classified within Level 1.

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following at December 31, 2016:

		Fair Value at Reporting Date Using		
	Balance as of December 31, 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	$ 4.4	$ 4.4	$ —	$ —
Interest rate cap - derivative	2.5	—	2.5	—
Forward foreign currency contracts	7.4	—	7.4	—
Total	$ 14.3	$ 4.4	$ 9.9	$ —
Liabilities:				
Deferred compensation liabilities	$ 41.1	$ 41.1	$ —	$ —
Total	$ 41.1	$ 41.1	$ —	$ —

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 $3.4 million and $3.5 million at December 31, 2016 and September 24, 2016, 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 related DCP liability is recorded at fair value. The Company believes the carrying amounts of its cost-method equity investments approximate fair value.

9

Table of Contents

Amounts outstanding under the Company's Credit Agreement and Securitization Program of $1.39 billion and $188.0 million aggregate principal, respectively, as of December 31, 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 $1.05 billion as of December 31, 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 December 31, 2016 were as follows:

2012 Notes	494.2
2013 Notes	451.4
	$945.6

(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 2017 year to date period (3 months ended December 31, 2016) and fiscal 2016 (the year ended September 24, 2016) and a rollforward of the accrued balances from September 24, 2016 to December 31, 2016:

	Fiscal 2016 Actions	Total
Restructuring and Divestiture Charges		
Fiscal 2016 charges:		
Workforce reductions	$ 10.5	$ 10.5
Fiscal 2016 restructuring charges	$ 10.5	$ 10.5
Fiscal 2017 charges:		
Severance adjustments	$ (0.3)	$ (0.3)
Facility closure costs	3.5	3.5
Fiscal 2017 restructuring charges	$ 3.2	$ 3.2

	Fiscal 2016 Actions	Fiscal 2015 Actions	Fiscal 2014 Actions	Total
Rollforward of Accrued Restructuring				
Balance as of September 24, 2016	$ 5.5	$ 0.2	$ 0.6	$ 6.3
Fiscal 2017 facility closure costs	3.5	—	—	3.5
Severance payments and adjustments	(3.8)	(0.1)	—	(3.9)
Other payments	(0.4)	—	(0.1)	(0.5)
Balance as of December 31, 2016	$ 4.8	$ 0.1	$ 0.5	$ 5.4

Table of Contents

Fiscal 2016 Actions

During the fourth quarter of fiscal 2016, the Company decided to initiate a cost reduction initiative in part of its Diagnostic's reportable segment, resulting in the termination of certain employees. The employees were notified of termination and related benefits in the fourth quarter of fiscal 2016, and the Company recorded these charges pursuant to ASC 420, Exit or Disposal Cost Obligations (ASC 420) as the benefits qualify as one-time termination benefits. As such, the Company recorded a charge for severance and benefits of $0.9 million in the fourth quarter. This action is complete and no additional severance and benefits charges are expected.

During the third quarter of fiscal 2015, the Company decided to close its Bedford, Massachusetts facility where it manufactured its Skeletal Health products and provided certain support manufacturing services for its Breast Health segment. The manufacturing of the Skeletal Health products has been outsourced to a third-party, and the Breast Health manufacturing services were moved to the Company's Danbury, Connecticut and Marlborough, Massachusetts facilities. In addition, research and development, sales and services support and administrative functions have been moved to both Marlborough and Danbury. The transition was substantially completed by the end of calendar 2016. In connection with this plan, certain employees, primarily in manufacturing, were terminated. The employees were notified of termination and related benefits in the first quarter of fiscal 2016, and the Company recorded these charges pursuant to ASC 420. Employees were required to remain employed during this transition period and charges were recorded ratably over the required service period. The Company recorded a total of $1.7 million in severance and benefits charges in fiscal 2016 of which $0.5 million was recorded in the first quarter of fiscal 2016. This action is complete and no additional severance and benefits charges are expected.

In connection with shutting down the Bedford location, during the first quarter of fiscal 2017 the Company recorded $3.5 million for lease obligation charges related to a section of the facility that the Company had determined met the cease-use date criteria. The Company has made certain assumptions regarding the time period it will take to obtain a subtenant and the sublease rates it can obtain. These estimates may vary from the actual sublease agreements executed, if at all, resulting in an adjustment to the charge. In addition, the Company expects to meet the cease-use date criteria for additional sections of the facility in fiscal 2017 resulting in additional charges.

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 during each quarter in 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 $7.9 million in fiscal 2016 related to this plan. Included in this charge was $0.4 million of stock-based compensation. During the first quarter of fiscal 2016, the Company recorded severance and benefits charges of $1.8 million.

(4) Borrowings and Credit Arrangements

The Company’s borrowings consisted of the following:

	December 31, 2016	September 24, 2016
Current debt obligations, net of debt discount:		
Term Loan	$ 93.1	$ 83.8
Securitization Program	188.0	200.0
Convertible Notes	426.2	12.2
Total current debt obligations	$ 707.3	$ 296.0
Long-term debt obligations, net of debt discount:		

Term Loan	1,281.2	1,308.2
2022 Senior Notes	978.8	977.7
Convertible Notes	355.6	763.5
Total long-term debt obligations	$ 2,615.6	$ 3,049.4
Total debt obligations	$ 3,322.9	$ 3,345.4

Table of Contents

Credit Agreement

Borrowings outstanding under the Credit Agreement for the three months ended December 31, 2016 and December 26, 2015 had weighted-average interest rates of 2.05% and 1.95%, respectively. The interest rate on the outstanding Term Loan borrowing at December 31, 2016 was 2.27%. Interest expense under the Credit Agreement aggregated $9.8 million for the three months ended December 31, 2016, which includes non-cash interest expense of $1.1 million related to the amortization of the deferred issuance costs and accretion of the debt discount. Interest expense under the Credit Agreement aggregated $10.0 million for the three months ended December 26, 2015, which includes $1.1 million 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 December 31, 2016, the Company was in compliance with these covenants.

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 $15.1 million and $14.0 million for the three months ended December 31, 2016 and December 26, 2015, respectively, which includes non-cash interest expense of $1.0 million related to the amortization of the deferred issuance costs and accretion of the debt discount for both periods.

Convertible Notes

On November 9, 2016, the Company announced that pursuant to the terms of the indenture for the 2.00% Convertible Exchange Senior Notes due 2037, issued in November 2010 (the “2010 Notes”), holders of the 2010 Notes, had the option of requiring the Company to repurchase their 2010 Notes on December 16, 2016 at a repurchase price payable in cash equal to 100% of the original principal amount of the 2010 Notes. None of the 2010 Notes were surrendered for repurchase pursuant to the option.

In addition, the Company also announced on November 9, 2016 that, pursuant to the terms of the indenture, it had elected to redeem, on December 19, 2016, all of the then outstanding 2010 Notes at a redemption price payable in cash equal to 100% of the accreted principal amount of the 2010 Notes. Holders of the 2010 Notes also had a right to convert their 2010 Notes. As of December 16, 2016, holders of $8.4 million in aggregate principal of the 2010 Notes surrendered notes for conversion, which remained outstanding as of December 31, 2016 and will be paid in cash in the second quarter of fiscal 2017. This amount is included within the current portion of long term debt on the Consolidated Balance Sheet. The premium on the conversion price for the 2010 Notes will also be paid in cash in the second quarter of fiscal 2017 based on the average trading price of the Company's common stock during a thirty-day trading period. The Company also paid $6.4 million in cash for conversion requests in the first quarter of fiscal 2017, which included $2.5 million of premium.

The term "Convertible Notes" refers to the 2010 Notes, the 2012 Notes and the 2013 Notes.

Interest expense under the Convertible Notes was as follows:

	Three Months Ended	
	December 31, 2016	December 26, 2015
Amortization of debt discount	$ 5.2	$ 6.4
Amortization of deferred financing costs	0.2	0.3
Principal accretion	4.6	4.1
Non-cash interest expense	10.0	10.8
2.00% accrued interest (cash)	2.0	3.2
	$ 12.0	$ 14.0

Table of Contents

Accounts Receivable Securitization Program

Borrowings under the Securitization Program for the three month period ended December 31, 2016 had a weighted-average interest rate of 1.25%. Interest expense under the Securitization Program aggregated $0.7 million for the three month period ended December 31, 2016. The interest rate on the amounts outstanding at December 31, 2016 was 1.47%. On December 22, 2016, the Company paid down $12.0 million under the Securitization Program as its qualified borrowing base decreased.

(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 through 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 interest rate on amounts borrowed under its Credit Agreement. Interest rate cap agreements provide the right to receive cash if the reference interest rate rises above a contractual rate. The aggregate premium paid 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 its Credit Agreement and therefore are 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 over a three-year period, which ends on December 29, 2017.

As of December 31, 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 months ended December 31, 2016, $2.1 million 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 $7.1 million from AOCI to the Consolidated Statements of Income in the next twelve months.

The aggregate fair value of these interest rate caps was $2.5 million and $1.4 million at December 31, 2016 and September 24, 2016, respectively and is included in Prepaid expenses and other current 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, the Australian dollar, the Canadian dollar and the Japanese Yen. 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 generally for periods of one year or less. During 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 months ended December 31, 2016 and December 26, 2015, the Company recorded net realized gains of $1.2 million and $0.4 million, respectively, from settling forward foreign currency contracts and unrealized gains of $8.4 million and $1.0

million, respectively, on the mark-to-market for its outstanding forward foreign currency contracts.

As of December 31, 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, Australian dollar, Canadian Dollar and Japanese Yen with an aggregate notional amount of $156.7 million.

Table of Contents

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 December 31, 2016:

	Balance Sheet Location	December 31, 2016	September 24, 2016
Assets:			
Derivative instruments designated as a cash flow hedge:			
Interest rate cap agreements	Prepaid expenses and other current assets	$ 2.5	$ 1.0
Interest rate cap agreements	Other assets	—	0.4
		$ 2.5	$ 1.4
Derivatives not designated as hedging instruments:			
Forward foreign currency contracts	Prepaid expenses and other current assets	$ 7.4	$ 0.2
Liabilities:			
Derivatives not designated as hedging instruments:			
Forward foreign currency contracts	Accrued expenses	$ —	$ 1.3

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

	Three Months Ended December 31, 2016	December 26, 2015
Amount of gain recognized in other comprehensive income, net of taxes:		
Interest rate cap agreements	$0.7	$ 0.3

The following table presents the adjustment to fair value (realized and unrealized) recorded within the Consolidated Statements of Income for derivative instruments for which the Company did not elect hedge accounting:

Derivatives not classified as hedging instruments	Amount of Gain Recognized in Income		Location of Gain Recognized in Income
	Three Months Ended December 31, 2016	Three months ended December 26, 2015	
Forward foreign currency contracts	$ 9.6	$ 1.4	Other income, net

(6) Commitments and Contingencies

Litigation and Related Matters

On June 9, 2010, Smith & Nephew, Inc. ("Smith & Nephew") filed suit against Interlace Medical, Inc. ("Interlace"), which the Company acquired on January 6, 2011, in the United States District Court for the District of Massachusetts. The complaint alleged that the Interlace MyoSure hysteroscopic tissue removal device infringed U.S. patent 7,226,459 (the '459 patent). On November 22, 2011, Smith & Nephew filed suit against the Company in the United States

District Court for the District of Massachusetts. The complaint alleged that use of the MyoSure tissue removal system infringed U.S. patent 8,061,359 (the '359 patent). Both complaints sought preliminary and permanent injunctive relief and unspecified damages. On September 4, 2012, following a two week trial, the jury returned a verdict of infringement of both the ‘459 and ‘359 patents and assessed damages of $4.0 million. A two-day bench trial regarding the Company’s assertion of inequitable conduct on the part of Smith & Nephew with regard to the ‘359 patent began on December 10, 2012 and oral arguments on the issue of inequitable

Table of Contents

conduct were presented on February 27, 2013. On June 27, 2013, the Court denied the Company's motions related to inequitable conduct and allowed Smith & Nephew's request for injunction, but ordered that enforcement of the injunction be stayed until final resolution, including appeal, of the current re-examinations of both patents at the United States Patent and Trademark Office ("USPTO"). The Court also rejected the jury's damage award and ordered the parties to identify a mechanism for resolving the damages issue. The USPTO issued final decisions that the claims of the '459 and the '359 patents asserted as part of the litigation are not patentable, which decisions Smith & Nephew appealed to the U.S. Patent Trial and Appeal Board. In 2016, the U.S. Patent Trial and Appeal Board (i) affirmed the USPTO decision with respect to the '459 patent, holding that the claims at issue are invalid, and (ii) reversed the USPTO decision with respect to the '359 patent, holding that the claims at issue are not invalid. The Company and Smith & Nephew have appealed the decisions by the Patent Trial and Appeal Board on the '359 patent and the '459 patent, respectively, to the U.S. Court of Appeals for the Federal Circuit. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

In January 2012, Enzo Life Sciences, Inc. ("Enzo") filed suit against the Company's subsidiary, Gen-Probe Incorporated ("Gen-Probe"), in the United States District Court for the District of Delaware, alleging that certain of Gen-Probe's diagnostics products, including products that incorporate Gen-Probe's patented hybridization protection assay technology (HPA), including the Aptima line of products, infringe Enzo's U.S. patent 6,992,180 (the '180 patent). On March 6, 2012, Enzo filed suit against the Company in the United States District Court for the District of Delaware, alleging that products based on the Company's Invader chemistry platform, such as Cervista HPV HR and Cervista HPV 16/18, infringe the '180 patent. On July 16, 2012, Enzo amended its complaint to include additional products that include HPA or TaqMan reagent chemistry, including Progensa, AccuProbe and Prodesse product lines. The Company counter-claimed for non-infringement, invalidity and unenforceability of the '180 patent. On September 30, 2013, Enzo filed its infringement contentions which added products including "Torch" probes, PACE and certain Procleix assays. Both complaints seek preliminary and permanent injunctive relief and unspecified damages. Enzo has asserted the '180 patent claims against six other companies. Summary judgment and Daubert motions were filed by the parties on December 15, 2016. A hearing on the summary judgment motions is scheduled for April 4, 2017 and trial in both suits is scheduled to begin on October 2, 2017. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

On March 27, 2015, Enzo filed an additional suit against the Company in the United States District Court for the District of Delaware. The complaint alleged that certain additional Company molecular diagnostic products, including, inter alia, the Procleix Parvo/HAV assays and coagulation products, including the Invader Factor II test and the Invader Factor V test, also infringe the '180 patent. The complaint further alleged that certain of the Company's molecular diagnostic products, including the Company's Progensa PCA3, Aptima and Procleix products using target capture technology infringe Enzo's U. S. Patent 7,064,197 (the '197 patent). On June 11, 2015, this matter was stayed pending the resolution of summary judgment motions in the other related suits involving the '197 patent. On March 30, 2016, Hologic filed two requests for inter partes review of the '197 patent at the USPTO. The USPTO instituted the two inter partes reviews on all challenged claims on October 4, 2016. The oral arguments in both inter partes reviews are scheduled for June 1, 2017. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

On October 3, 2016, Enzo filed an additional suit against the Company in the United States District Court for the District of Delaware. The complaint alleged that all of the Company's Progensa PCA3, Aptima and Procleix products infringe U.S. Patent 6,221,581. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

The Company is a party to various other legal proceedings and claims arising out of the ordinary course of its business. The Company believes that except for those matters described above there are no other proceedings or claims pending against it the ultimate resolution of which could have a material adverse effect on its financial

condition or results of operations. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal costs are expensed as incurred.

Table of Contents

(7) Marketable Securities

The following reconciles the cost basis to the fair market value of the Company’s equity securities that are classified as available-for-sale:

Period Ended:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other Than Temporary Impairment	Fair Value
December 31, 2016	$0.7	$ 4.0	$ (0.3)	$ —	$ 4.4
September 24, 2016	$2.4	$ —	$ (0.3)	$ (1.1)	$ 1.0

In the first quarter of fiscal 2017, one of the Company's cost-method equity investments became a marketable security, and the Company recorded the increase in value of $4.0 million to other comprehensive income.

In the first quarter of fiscal 2016, the Company sold all of its shares in one of its marketable securities and recorded a realized gain of $25.1 million in Other income, net.

(8) Net Income Per Share

A reconciliation of basic and diluted share amounts is as follows:

	Three Months Ended	
	December 31, 2016	December 26, 2015
Basic weighted average common shares outstanding	278,663	282,976
Weighted average common stock equivalents from assumed exercise of stock options and stock units	3,143	3,109
Incremental shares from Convertible Notes premium	2,418	5,886
Diluted weighted average common shares outstanding	284,224	291,971
Weighted-average anti-dilutive shares related to:		
Outstanding stock options	1,442	733
Stock units	13	67

The Company has outstanding Convertible Notes, and the principal balance and any conversion premium may be satisfied, at the Company’s option, by issuing shares of common stock, cash or a combination of shares and cash. The Company's current policy is that it will settle the principal balance of the Convertible Notes in cash. As such, the Company applies the treasury stock method to these securities and the dilution related to the conversion premium of the 2010, 2012 and 2013 Notes is included in the calculation of diluted weighted-average shares outstanding to the extent each issuance is dilutive based on the average stock price during each reporting period being greater than the conversion price of the respective Notes.

Table of Contents

(9) Stock-Based Compensation

The following presents stock-based compensation expense in the Company's Consolidated Statements of Income:

	Three Months Ended	
	December 31, 2016	December 26, 2015
Cost of revenues	$ 2.8	$ 2.2
Research and development	2.8	2.4
Selling and marketing	2.7	2.5
General and administrative	10.9	8.8
	$ 19.2	$ 15.9

The Company granted 0.9 million and 0.9 million stock options during the three months ended December 31, 2016 and December 26, 2015, respectively, with weighted-average exercise prices of $37.62 and $39.94, respectively. There were 6.5 million options outstanding at December 31, 2016 with a weighted-average exercise price of $27.43. The Company uses a binomial model to determine the fair value of its stock options. The weighted-average assumptions utilized to value these stock options are indicated in the following table:

	Three Months Ended			
	December 31, 2016		December 26, 2015	
Risk-free interest rate	1.8	%	1.6	%
Expected volatility	36.6	%	37.8	%
Expected life (in years)	4.7		4.7	
Dividend yield	—		—	
Weighted average fair value of options granted	$ 12.18		$ 13.13	

The Company granted 0.9 million and 0.9 million restricted stock units (RSUs) during the three months ended December 31, 2016 and December 26, 2015, respectively, with weighted-average grant date fair values of $37.58 and $39.96 per unit, respectively. As of December 31, 2016, there were 2.8 million unvested RSUs outstanding with a weighted-average grant date fair value of $34.12 per unit. In addition, the Company granted 0.1 million and 0.3 million performance stock units (PSUs) during the three months ended December 31, 2016 and December 26, 2015, respectively, to members of its senior management team, which have a weighted-average grant date fair value of $37.64 and $26.58 per unit, respectively. Each recipient of PSUs is eligible to receive between zero and 200% of the target number of shares of the Company's common stock at the end of three years provided the Company's defined Return on Invested Capital metrics are achieved. The Company is recognizing compensation expense ratably over the required service period based on its estimate of the number of shares that will vest. If there is a change in the estimate of the number of shares that are probable of vesting, the Company will cumulatively adjust compensation expense in the period that the change in estimate is made. The Company also granted 0.1 million market based awards (MSUs) to its senior management team. Each recipient of MSUs is eligible to receive between zero and 200% of the target number of shares of the Company's common stock at the end of three years based upon achieving a certain total shareholder return relative to a defined peer group. The MSUs were valued at $48.90 per share using the Monte Carlo simulation model. The Company is recognizing compensation expense for the MSUs ratably over the service period. At December 31, 2016, there was $28.6 million and $94.4 million of unrecognized compensation expense related to stock options and stock units (comprised of RSUs and PSUs), respectively, to be recognized over a weighted-average period of 3.0 years and 2.2 years, respectively.

Table of Contents

(10) Assets Held-for-Sale

On December 14, 2016, the Company entered into a definitive agreement to sell its blood screening business to its commercial partner, Grifols, for a sales price of $1.85 billion in cash, subject to adjustment based on the closing amount of inventory. The transaction, which is an asset sale, closed on January 31, 2017. Upon closing of the transaction, the Company's existing collaboration agreement with Grifols terminated. The Company has agreed to provide transition services to Grifols, including manufacturing inventory for Grifols. In determining whether or not this disposal qualified to be reported as discontinued operation, the Company considered a number of quantitative and qualitative factors and concluded that the disposal of the blood screening business does not qualify as a strategic shift as the blood screening business has not had and will not have a major effect on the Company's operations and financial results. Under the existing collaboration agreement, the Company performed research and development activities and manufacturing, while Grifols performed the commercial and distribution activities. The blood screening business is embedded within the Company's molecular diagnostics business and the Company retains ownership and will continue to use the intellectual property for the underlying technology of its molecular diagnostics assays and instrumentation. As a result of this transaction, certain of the Company's assets used in the blood screening business have been designated as assets held-for-sale. Assets held-for sale are reflected separately in the Company's Consolidated Balance Sheet and comprise the following as of December 31, 2016:

Assets:	
Inventory	$35.6
Property, plant and equipment	26.2
Goodwill	325.0
Intangible assets	541.7
Total assets held-for-sale	$928.5

Income from operations of the disposed business for the periods ended December 31, 2016 and December 26, 2015 was as follows:

	Three Months Ended	
	December 31, 2016	December 26, 2015
Income from operations	$ 28.6	$ 27.1

The Company believes that the sale of its blood screening business to Grifols constitutes an asset sale under the Credit Agreement and that, subject to the terms and limitations set forth in the Credit Agreement, the Company is permitted to use the after tax net proceeds to reinvest in its business. The Company is then required to apply the balance of net available cash, unless otherwise consented to by its lenders, to Mandatory Prepayments as defined in the Credit Agreement.

Table of Contents

(11) Other Balance Sheet Information

	December 31, 2016	September 24, 2016
Inventories		
Raw materials	$ 95.3	$ 96.4
Work-in-process	38.9	51.7
Finished goods	124.1	126.6
	$ 258.3	$ 274.7

Property, plant and equipment		
Equipment and software	$373.3	$381.9
Equipment under customer usage agreements	338.7	334.6
Building and improvements	168.4	186.1
Leasehold improvements	54.9	65.6
Land	46.2	51.9
Furniture and fixtures	12.7	18.4
	994.2	1,038.5
Less – accumulated depreciation and amortization	(561.6)	(578.3)
	$432.6	$460.2

(12) Business Segments and Geographic Information

The Company has four reportable segments: Diagnostics, Breast Health, GYN Surgical and Skeletal Health. Certain reportable segments represent an aggregation of operating units within each segment. The Company measures and evaluates its reportable segments based on segment revenues and operating income adjusted to exclude the effect of non-cash charges, such as intangible asset amortization expense, intangible asset and goodwill impairment charges, acquisition related fair value adjustments and integration expenses, restructuring, divestiture and facility consolidation charges and other one-time or unusual items.

Table of Contents

Identifiable assets for the four principal operating segments consist of inventories, intangible assets, goodwill, and property, plant and equipment. The Company fully allocates depreciation expense to its four reportable segments. The Company has presented all other identifiable assets as corporate assets. There were no intersegment revenues during the three months ended December 31, 2016 and December 26, 2015. Segment information is as follows:

	Three Months Ended	
	December 31, 2016	December 26, 2015
Total revenues:		
Diagnostics	$325.4	$ 310.7
Breast Health	273.3	262.2
GYN Surgical	114.8	98.8
Skeletal Health	20.9	23.5
	$734.4	$ 695.2
Income from operations:		
Diagnostics	$41.1	$ 31.6
Breast Health	85.2	71.6
GYN Surgical	25.5	20.8
Skeletal Health	(5.8)	2.1
	$146.0	$ 126.1
Depreciation and amortization:		
Diagnostics	$84.9	$ 83.7
Breast Health	5.1	7.3
GYN Surgical	25.1	24.6
Skeletal Health	0.2	0.3
	$115.3	$ 115.9
Capital expenditures:		
Diagnostics	$10.3	$ 11.9
Breast Health	2.2	2.0
GYN Surgical	4.1	3.4
Skeletal Health	0.3	0.1
Corporate	7.8	2.3
	$24.7	$ 19.7

	December 31, 2016	September 24, 2016
Identifiable assets:		
Diagnostics	$ 3,687.1	$ 3,771.9
Breast Health	812.3	809.1
GYN Surgical	1,551.6	1,570.7
Skeletal Health	31.7	30.9
Corporate	1,255.1	1,134.4
	$ 7,337.8	$ 7,317.0

The Company had no customers that represented greater than 10% of consolidated revenues during the three months ended December 31, 2016 and December 26, 2015.

Table of Contents

The Company operates in the following major geographic areas as noted in the below chart. Revenue data is based upon customer location. Other than the United States, no single country accounted for more than 10% of consolidated revenues. The Company's sales in Europe are predominantly derived from France, Germany and the United Kingdom. The Company's sales in Asia-Pacific are predominantly derived from China, Australia and Japan. The "All others" designation includes Canada, Latin America and the Middle East.
Revenues by geography as a percentage of total revenues were as follows:

	Three Months Ended			
	December 31, 2016		December 26, 2015	
United States	77.9	%	78.4	%
Europe	10.7	%	10.0	%
Asia-Pacific	8.4	%	7.9	%
All others	3.0	%	3.7	%
	100.0	%	100.0	%

(13) Income Taxes
In accordance with ASC 740, Income Taxes (ASC 740), each interim period is considered integral to the annual period, and tax expense is measured using an estimated annual effective tax rate. An entity is required to record income tax expense each quarter based on its annual effective tax rate estimated for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, adjusted for discrete taxable events that occur during the interim period.
The Company's effective tax rate for the three months ended December 31, 2016 was 25.5% compared to 25.9% for the corresponding period in the prior year. For the current three month period, the effective tax rate was lower than the statutory tax rate primarily due to the adoption of ASU 2016-09, which resulted in a tax benefit, earnings in jurisdictions subject to lower tax rates, and the domestic production activities deduction benefit. For the three months ended December 26, 2015, the effective tax rate was lower than the statutory tax rate primarily due to increased earnings in jurisdictions subject to lower tax rates, the domestic production activities deduction benefit, the retroactively reinstated Federal research credit, and a change in the valuation allowance related to the sale of a marketable security that had a gain for book purposes.

The IRS completed its audit of the Company's consolidated Federal income tax returns for fiscal 2013 and 2014 subsequent to December 31, 2016.

Table of Contents

(14) Intangible Assets

Intangible assets consisted of the following:

Description	As of December 31, 2016		As of September 24, 2016	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Developed technology	$3,727.4	$ 1,962.9	$3,983.7	$ 1,991.6
In-process research and development	3.7	—	3.7	—
Customer relationships and contracts	512.1	366.9	1,098.9	546.2
Trade names	236.1	144.1	236.2	141.6
Business licenses	2.3	2.0	2.4	2.1
	$4,481.6	$ 2,475.9	$5,324.9	$ 2,681.5

In the first quarter of fiscal 2017, the Company classified the assets of its blood screening business as assets held for sale. As such, developed technology and customer contract assets of $154.0 million and $387.7 million, respectively, were reclassified accordingly in the Company's Consolidated Balance Sheet as of December 31, 2016.

The estimated remaining amortization expense as of December 31, 2016 for each of the five succeeding fiscal years is as follows:

Remainder of Fiscal 2017	$210.1
Fiscal 2018	$286.5
Fiscal 2019	$274.8
Fiscal 2020	$264.2
Fiscal 2021	$242.6

(15) Product Warranties

Product warranty activity was as follows:

	Balance at Beginning of Period	Provisions	Settlements/ Adjustments	Balance at End of Period
Three Months Ended:				
December 31, 2016	$ 5.0	$ 2.6	$ (1.7)	$ 5.9
December 26, 2015	$ 5.4	$ 5.7	$ (1.7)	$ 9.4

During the first quarter of fiscal 2016, the Company recorded a warranty provision of $4.0 million related to certain products sold exclusively in the Chinese market.

Table of Contents

(16) Accumulated Other Comprehensive Loss

The following tables summarize the changes in accumulated balances of other comprehensive loss for the periods presented:

	Three Months Ended December 31, 2016				
	Foreign Currency Translation	Marketable Securities	Pension Plans	Hedged Interest Rate Caps	Total
Beginning Balance	$(26.1)	$ (0.3)	$ (2.5)	$ (3.4)	$(32.3)
Other comprehensive income (loss) before reclassifications	(15.7)	2.3	—	0.7	(12.7)
Amounts reclassified to statement of income	—	0.1	—	2.1	2.2
Ending Balance	$(41.8)	$ 2.1	$ (2.5)	$ (0.6)	$(42.8)

	Three Months Ended December 26, 2015				
	Foreign Currency Translation	Marketable Securities	Pension Plans	Hedged Interest Rate Caps	Total
Beginning Balance	$(15.7)	$ 6.9	$ (1.8)	$ (3.9)	$(14.5)
Other comprehensive income (loss) before reclassifications	(4.2)	(0.6)	—	0.3	(4.5)
Amounts reclassified to statement of income	—	(7.2)	—	0.3	(6.9)
Ending Balance	$(19.9)	$ (0.9)	$ (1.8)	$ (3.3)	$(25.9)

(18) New Accounting Pronouncements

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740). The guidance requires companies to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the income statement as income tax expense (or benefit) in the period in which the transfer occurs. The guidance is effective for annual periods beginning after December 15, 2017, and is applicable to the Company in fiscal 2019. Early adoption is permitted as of the beginning of an annual reporting period. The Company is currently evaluating the impact of the adoption of ASU 2016-16 on its consolidated financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flow (Topic 230). The guidance reduces diversity in how certain cash receipts and cash payments are presented and classified in the Statements of Cash Flows. Certain of ASU 2016-15 requirements are as follows: 1) cash payments for debt prepayment or debt extinguishment costs should be classified as cash outflows for financing activities, 2) contingent consideration payments made soon after a business combination should be classified as cash outflows for investing activities and cash payment made thereafter should be classified as cash outflows for financing up to the amount of the contingent consideration liability recognized at the acquisition date with any excess classified as operating activities, 3) cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss, 4) cash proceeds from the settlement of Corporate-Owned Life Insurance (COLI) Policies should be classified as cash inflows from investing activities and cash payments for premiums on COLI policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities, and 5) cash paid to a tax authority by an employer when withholding shares from an employee's award for tax-withholding purposes should be classified as cash outflows for financing activities. The guidance is effective for annual periods beginning after December 15, 2017, and is applicable to the Company in fiscal 2019. Early adoption is permitted. The adoption of

ASU 2016-15 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326). The guidance requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected credit losses during the period. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security. The updated guidance is effective for annual periods beginning after December 15, 2019, and is applicable to the Company in fiscal 2021. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial position and results of operations.

Table of Contents

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance requires an entity to recognize a right-of-use asset and a lease liability for virtually all of its leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The guidance is effective for annual periods beginning after December 15, 2018, and is applicable to the Company in fiscal 2020. Early adoption is permitted. The updated guidance requires a modified retrospective adoption. The Company is currently evaluating the anticipated impact of the adoption of ASU 2016-02 on its consolidated financial position and results of operations.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance changes how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values, however; the exception requires the Company to consider relevant transactions that can be reasonably known to identify any observable price changes that would impact the fair value. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. This guidance is effective for annual periods beginning after December 15, 2017, and is applicable to the Company in fiscal 2019. Early adoption is permitted. The Company is currently evaluating the anticipated impact of the adoption of ASU 2016-01 on its consolidated financial position and results of operations.

In July 2015, the FASB issued guidance under ASC 330, Simplifying the Measurement of Inventory. The new guidance requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This new guidance is effective for the Company's first quarter of fiscal 2018 and early adoption is permitted. The guidance must be applied prospectively. The Company is currently evaluating the impact of the adoption of this requirement on its consolidated financial statements but does not anticipate that adoption of this guidance will have a material impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued and provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and is applicable to the Company in fiscal 2018. Early adoption is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 660), which provides guidance for revenue recognition. This ASU is applicable to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. ASU 2014-09 will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled to receive in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current U.S. GAAP. These judgments may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB voted in favor of delaying the effective date of the new standard by one year, with early adoption permitted as of the original effective date. ASU

2014-09 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, which is fiscal 2019 for the Company. The Company is currently evaluating the anticipated impact of the adoption of ASU 2014-09 on its consolidated financial position and results of operations.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements may include, but are not limited to, statements regarding:

- the effect of the continuing worldwide macroeconomic uncertainty, including the UK's decision to leave the European Union, on our business and results of operations;
- the coverage and reimbursement decisions of third-party payors and the guidelines, recommendations, and studies published by various organizations relating to the use of our products and treatments;
- the uncertainty of the impact of cost containment efforts and federal healthcare reform legislation on our business and results of operations;
- the impact to our results of operations from the disposal of our blood screening business to Grifols, and the operational challenges of separating this business unit from our molecular diagnostics business;
- the ability to successfully manage ongoing organizational and strategic changes, including our ability to attract, motivate and retain key employees;
- the impact and anticipated benefits of completed acquisitions and acquisitions we may complete in the future;
- the ability to consolidate certain of our manufacturing and other operations on a timely basis and within budget, without disrupting our business and to achieve anticipated cost synergies related to such actions;
- our goal of expanding our market positions;
- the development of new competitive technologies and products;
- regulatory approvals and clearances for our products;
- production schedules for our products;
- the anticipated development of markets we sell our products into and the success of our products in these markets;
- the anticipated performance and benefits of our products;
- business strategies;
- estimated asset and liability values;
- the impact and costs and expenses of any litigation we may be subject to now or in the future;
- our compliance with covenants contained in our debt agreements;
- anticipated trends relating to our financial condition or results of operations, including the impact of interest rate and foreign currency exchange fluctuations; and
- our capital resources and the adequacy thereof.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “expe “plans,” “anticipates,” “believes,” “estimates,” “projects,” “predicts,” “potential” and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include the cautionary statements set forth herein and in our other filings with the Securities and Exchange Commission, including those set forth under "Risk Factors" set forth in Part II, Item 1A of this Quarterly Report as well as those described in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016. We qualify all of our

forward-looking statements by these cautionary statements.

OVERVIEW

We are a developer, manufacturer and supplier of premium diagnostics products, medical imaging systems and surgical products with an emphasis on women's health. The Company operates in four segments: Diagnostics, Breast Health, GYN Surgical and Skeletal Health. We sell and service our products through a combination of direct sales and service personnel and a network of independent distributors and sales representatives.

We offer a wide range of diagnostic products which are used primarily to aid in the diagnosis of human diseases and screen donated human blood and plasma. Our primary diagnostics products include our Aptima family of assays, which run on our advanced instrumentation systems (Panther and Tigris), our ThinPrep system, the Rapid Fetal Fibronectin Test and our Procleix blood screening assays. The Aptima family of assays is used to detect the infectious microorganisms that cause the common sexually transmitted diseases, or STDs, chlamydia and gonorrhea, certain high-risk strains of human papillomavirus, or HPV, and Trichomonas vaginalis, the parasite that causes trichomoniasis. The ThinPrep System is primarily used in cytology applications, such as cervical cancer screening, and the Rapid Fetal Fibronectin Test assists physicians in assessing the risk of pre-term birth. In blood screening, we develop and manufacture the Procleix family of assays, which are used to detect various infectious diseases. These blood screening products are marketed worldwide by our blood screening collaborator, Grifols S.A., or Grifols, under Grifols' trademarks.

In the first quarter of fiscal 2017, we entered into a definitive agreement to sell our blood screening business to Grifols for a sales price of $1.85 billion in cash, subject to adjustment based on the closing amount of inventory. The transaction closed on January 31, 2017. Upon closing of the transaction, the existing collaboration agreement with Grifols terminated. We have agreed to provide transition services to Grifols, including manufacturing inventory for Grifols. We expect that the after-tax net proceeds from this transaction will be approximately $1.1 billion, subject to adjustment. In the first quarter of fiscal 2017, revenue, gross profit and income from operations for our blood screening business were $65.2 million, $43.6 million and $28.6 million, respectively. In the first quarter of fiscal 2016, revenue, gross profit and income from operations for our blood screening business were $60.7 million, $41.8 million and $27.1 million, respectively. Following the closing of this disposition, we will no longer be operating our blood screening business, and except to the limited extent we have agreed to support Grifols, our future results of operations will reflect this disposition. As a result of our execution of the definitive agreement for the sale, we have classified certain of our assets used in the blood screening business as assets held-for-sale. See footnote 10 to our consolidated financial statements included herein.

Our Breast Health products include a broad portfolio of breast imaging and related products and accessories, including digital mammography systems, computer-aided detection, or CAD, for mammography and minimally invasive breast biopsy devices, breast biopsy site markers, and breast biopsy guidance systems. Our most advanced breast imaging platform, Dimensions, utilizes a technology called tomosynthesis to produce 3D images that show multiple contiguous slice images of the breast, which we refer to as the Genius 3D Mammography exam, as well as conventional 2D full field digital mammography images. Our clinical results for FDA approval demonstrated that conventional 2D digital mammography with the addition of 3D tomosynthesis is superior to 2D digital mammography alone for both screening and diagnostics.

Our GYN Surgical products include our NovaSure Endometrial Ablation System, or NovaSure, and our MyoSure Hysteroscopic Tissue Removal System, or MyoSure. The NovaSure system involves a trans-cervical procedure for the treatment of abnormal uterine bleeding. The MyoSure system is a tissue removal device that is designed to provide incision-less removal of fibroids, polyps, and other pathology within the uterus.

Our Skeletal Health segment offers Discovery and Horizon X-ray bone densitometers that assess the bone density of fracture sites; and mini C-arm imaging systems that assist in performing minimally invasive surgical procedures on a patient's extremities, such as the hand, wrist, knee, foot, and ankle.

Unless the context otherwise requires, references to we, us, Hologic or our company refer to Hologic, Inc. and its consolidated subsidiaries.

Trademark Notice

Hologic is a trademark of Hologic, Inc. Other trademarks, logos, and slogans registered or used by Hologic and its divisions and subsidiaries in the United States and other countries include, but are not limited to, the following: 3D,

AccuProbe, Affirm, Aptima, Cervista, C-View, Dimensions, Discovery, Eviva, Genius 3D Mammography, Gen-Probe, Horizon, Interlace, Invader, MyoSure, NovaSure, PACE, Panther, Prodesse, Progensa, ThinPrep and Tigris.
Procleix is a trademark of Grifols Worldwide Operations Limited.

Table of Contents

RESULTS OF OPERATIONS

All dollar amounts in tables are presented in millions.

Product Revenues

	Three Months Ended								
	December 31, 2016			December 26, 2015			Change		
	Amount	% of Total Revenue		Amount	% of Total Revenue		Amount	%	
Product Revenues									
Diagnostics	$319.1	43.5	%	$303.4	43.6	%	$15.7	5.2	%
Breast Health	165.4	22.5	%	168.4	24.2	%	(3.0)	(1.8)	%
GYN Surgical	114.6	15.6	%	98.5	14.2	%	16.1	16.3	%
Skeletal Health	14.3	1.9	%	16.9	2.4	%	(2.6)	(15.4)	%
	$613.4	83.5	%	$587.2	84.4	%	$26.2	4.5	%

We generated an increase in product revenues in the current quarter compared to the corresponding period in the prior year in our Diagnostics and GYN Surgical segments and a decrease in product revenues in our Breast and Skeletal Health segments. Product revenues increased 4.5% in the current quarter, as reported growth was partially offset by the negative foreign currency exchange impact of the strengthening U.S. dollar against a number of currencies, most notably the Euro and UK Pound.

Diagnostics product revenues increased 5.2% in the current quarter compared to the corresponding period in the prior year primarily due to increases in Molecular Diagnostics of $11.4 million and Blood Screening of $4.2 million. Molecular Diagnostics product revenue, and in particular revenue related to our Aptima family of assays, increased in the current quarter primarily due to our increased installed base of Panther instruments, which is driving higher volumes of assay testing, and an additional week in the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. Fiscal 2017 is a 53-week year and the first quarter of fiscal 2017 was a 14-week quarter, while the first quarter of fiscal 2016 had 13 weeks. These increases were partially offset by a slight decline in average selling prices, a reduction in Cystic Fibrosis revenues as we discontinued the product at the end of the second quarter of fiscal 2016, a reduction in Cervista HPV revenues as our larger customers transition to our Panther system and the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. Blood screening revenues increased in the current quarter compared to the corresponding period in the prior year primarily due to the Zika virus assay, which was launched in late fiscal 2016.

Breast Health product revenues decreased 1.8% in the current quarter compared to the corresponding period in the prior year primarily due to slight decreases in component revenue related to our digital mammography systems and the negative foreign currency effect of the strengthening U.S. dollar on our sales denominated in foreign currencies. These decreases were partially offset by the increase in our recently launched Affirm Prone table and higher volumes of our Eviva product primarily due to an additional week in the current quarter.

GYN Surgical product revenues increased 16.3% in the current quarter compared to the corresponding period in the prior year primarily due to an increase in MyoSure system sales of $11.4 million as MyoSure continues to gain strong market acceptance as unit sales increase globally, partially offset by product mix shift and slightly lower average selling prices. NovaSure revenues increased $4.5 million in the current quarter compared to the corresponding period in the prior year as volumes increased globally, which we believe is partially attributable to a competitive withdrawal from the market during fiscal 2016. In addition, revenues increased due to an extra week in the current quarter. These increases were partially offset by the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies.

Skeletal Health product revenues decreased 15.4% in the current quarter compared to the corresponding period in the prior year primarily due to a decrease in our Horizon osteoporosis assessment product sales volume. In addition, mini C-arm sales decreased in the US in the current quarter primarily due to competitive pressures, which was partially

offset by an increase in international volumes.

Table of Contents

Product revenues by geography as a percentage of total product revenues were as follows:

	Three Months Ended	
	December 31, 2016	December 26, 2015
United States	76.8 %	77.1 %
Europe	11.4 %	10.4 %
Asia-Pacific	8.8 %	8.8 %
All others	3.0 %	3.7 %
	100.0%	100.0 %

Service and Other Revenues

	Three Months Ended					
	December 31, 2016		December 26, 2015		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Service and Other Revenues	$121.0	16.5 %	$108.0	15.5 %	$13.0	12.0%

Service and other revenues are primarily comprised of revenue generated from our field service organization to provide ongoing service, installation and repair of our products. The majority of these revenues are generated within our Breast Health segment. Service and other revenues increased 12.0% in the current quarter compared to the corresponding period in the prior year primarily due to higher service contract conversion and renewal rates, an additional week in the current quarter, and higher spare parts sales. These increases were partially offset by lower royalty revenues in our Diagnostics segment.

Cost of Product Revenues

	Three Months Ended					
	December 31, 2016		December 26, 2015		Change	
	Amount	% of Product Revenue	Amount	% of Product Revenue	Amount	%
Cost of Product Revenues	$198.3	32.3 %	$188.2	32.0 %	$10.1	5.4%
Amortization of Intangible Assets	73.5	12.0 %	73.4	12.5 %	0.1	0.2%
	$271.8	44.3 %	$261.6	44.5 %	$10.2	3.9%

Cost of Product Revenues. The cost of product revenues as a percentage of product revenues was 32.3% in the current quarter compared to 32.0% in the corresponding period in the prior year. Cost of product revenues as a percentage of product revenues in the current quarter were higher in Diagnostics, GYN Surgical and Skeletal Health but decreased in Breast Health compared to the prior year period, resulting in the slight decrease in overall product margins. Diagnostics' product costs as a percentage of revenue increased in the current quarter compared to the corresponding period in the prior year primarily due to a shift in sales to lower margin international molecular diagnostic products, unfavorable absorption, slight decline in Aptima average selling prices, and the negative impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, partially offset by the increase in Aptima assay volumes. Breast Health’s product costs as a percentage of revenue decreased in the current quarter compared to the corresponding period in the prior year primarily due to higher software revenues primarily due to our C-View product and 3D upgrades, which have higher gross margins than capital equipment sales. In addition, the prior year period included a $6.0 million aggregate charge related to inventory and warranty costs associated with product produced exclusively for the Chinese market was recorded in the first quarter of fiscal 2016 that did not recur in the current year period.

28

Table of Contents

GYN Surgical's product costs as a percentage of revenue increased in the current quarter compared to the corresponding period in the prior year primarily due to a product mix shift to our slightly lower margin MyoSure product domestically, a slight decrease in average selling prices.

Skeletal Health's product costs as a percentage of revenue increased in the current quarter compared to the corresponding period in the prior year primarily due to lower volumes and an increase in obsolescence charges.

Amortization of Intangible Assets. Amortization of intangible assets relates to acquired developed technology, which is generally amortized over its estimated useful life of between 8.5 and 15 years using a straight-line method or, if reliably determinable, based on the pattern in which the economic benefits of the assets are expected to be consumed. While there is an extra week of expense in the current quarter, this increase is offset by lower amortization expense from intangible assets from the Cytyc acquisition, which are amortized based on their pattern of economic use, and lower amortization from the blood screening developed technology asset as amortization ceased upon these assets meeting the held-for-sale criteria during the first quarter of fiscal 2017.

Cost of Service and Other Revenues

	Three Months Ended					
	December 31, 2016		December 26, 2015		Change	
	Amount	% of Service Revenue	Amount	% of Service Revenue	Amount	%
Cost of Service and Other Revenue	$57.8	47.8 %	$54.5	50.4 %	$3.3	6.2%

Service and other revenues gross margin increased to 52.2% in the current three month period compared to 49.6% in the corresponding period in the prior year. Within our Breast Health segment, the increase in gross margin is related to higher service revenue from the continued conversion of a high percentage of our installed base of digital mammography systems to service contracts upon expiration of the warranty period improving leverage of our service infrastructure.

Operating Expenses

	Three Months Ended					
	December 31, 2016		December 26, 2015		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Operating Expenses						
Research and development	$54.4	7.4 %	$51.7	7.4 %	$2.7	5.2 %
Selling and marketing	110.0	15.0 %	99.4	14.3 %	10.6	10.7 %
General and administrative	69.8	9.5 %	77.0	11.1 %	(7.2)	(9.3)%
Amortization of intangible assets	21.4	2.9 %	22.6	3.3 %	(1.2)	(5.3)%
Restructuring and divestiture charges	3.2	0.4 %	2.3	0.3 %	0.9	39.1 %
	$258.8	35.2 %	$253.0	36.4 %	$5.8	2.3 %

Research and Development Expenses. Research and development expenses increased 5.2% in the current quarter compared to the corresponding period in the prior year primarily due to higher compensation, increased consulting and project spend. The increase in headcount primarily occurred in our Breast Health segment, which was partially offset by lower headcount in Diagnostics. There was also an increase in new product development project and consulting spend in Breast Health and GYN Surgical. In addition, there is an extra week of spend in the current quarter. At any point in time, we have a number of different research projects and clinical trials being conducted and the timing of these projects and related costs can vary from period to period.

29

Table of Contents

Selling and Marketing Expenses. Selling and marketing expenses increased 10.7% in the current period compared to the corresponding period in the prior year primarily due to higher compensation from an increase in headcount in GYN Surgical and Breast Health as well as increased investment in our international infrastructure including additional headcount, increased commissions as a result of higher sales, and higher trade show and meeting expenses. In addition, there was an extra week of spend in the current quarter. These increases were partially offset by lower marketing initiatives in Breast Health and Diagnostics.

General and Administrative Expenses. General and administrative expenses decreased 9.3% in the current quarter compared to the corresponding period in the prior year. The decrease in the current quarter compared to the corresponding period in the prior year is primarily due to lower medical device excise tax of $6.7 million as it is currently not imposed on the sale of medical devices in the United States, lower legal fees which is primarily due to the fact that the prior year period included a $6.0 million charge to settle a legal fee dispute, and lower consulting fees related to organizational structure changes and improvements. The decrease in the current quarter was partially offset by an increase in compensation and benefits, an additional week of expenses in the current quarter, transaction related expenses of $2.6 million for the divestiture of our blood screening business and an increase in information systems infrastructure and project costs.

Amortization of Intangible Assets. Amortization of intangible assets results from customer relationships, trade names and business licenses related to our acquisitions. These intangible assets are generally amortized over their estimated useful lives of between 2 and 30 years using a straight-line method or, if reliably determinable, based on the pattern in which the economic benefits of the assets are expected to be consumed utilizing expected undiscounted future cash flows. Amortization expense decreased 5.3% in the current quarter compared to the corresponding period in the prior year primarily due to lower amortization expense from intangible assets from the Gen-Probe Incorporated acquisition and the Cytyc acquisition, which are being amortized based on the pattern of economic use, partially offset by an additional week of expense in the current quarter.

Restructuring and Divestiture Charges. In fiscal 2015, we decided to shut down our Bedford, Massachusetts facility and transfer production of our Skeletal Health products to a third-party contract manufacturer and other activities to our Marlborough, Massachusetts and Danbury, Connecticut facilities. We also implemented additional organizational changes to our international operations in fiscal 2016. Pursuant to U.S. generally accepted accounting principles, the related severance and benefit charges are recognized either ratably over the respective required employee service periods or up-front for contractual benefits, and other charges are being recognized as incurred. In the current quarter, we recorded net charges of $3.2 million primarily related to lease obligation charges for a vacated section of our Bedford facility, and we expect to incur additional charges in fiscal 2017 as we vacate additional sections. In the prior year period, we recorded aggregate charges of $2.3 million related to the actions noted above for severance and benefits. For additional information pertaining to restructuring actions and charges, please refer to Note 3 to the consolidated financial statements contained in Part I, Item 1 of this Quarterly Report.

Interest Expense

	Three Months Ended			
	December 31, 2016	December 26, 2015	Change	
	Amount	Amount	Amount	%
Interest Expense	$(40.4)	$ (39.2)	$(1.2)	3.0%

Interest expense consists primarily of the cash interest costs and the related amortization of the debt discount and deferred issuance costs on our Convertible Notes, 2022 Senior Notes, and amounts borrowed under our Credit Agreement and Accounts Receivable Securitization Program. The increase in interest expense in the current quarter compared to the corresponding period in the prior year was primarily due to an additional week in the current quarter, an increase in the LIBOR rate, partially offset by lower outstanding debt balances as a result of scheduled principal payments, and Convertible Note repurchases in fiscal 2016 of $274.2 million principal amount.

30

Table of Contents

Other Income, net

	Three Months Ended		Change	
	December 31, 2016	December 26, 2015		
	Amount	Amount	Amount	%
Other Income, net	$10.2	$ 27.6	$(17.4)	(63.0)%

For the current three month period, this account was primarily comprised of gains of $8.4 million on the mark-to-market of outstanding forward foreign currency contracts due to the strengthening US dollar, $0.8 million on net foreign currency exchange gains and $0.8 million on the cash surrender value of life insurance contracts related to our deferred compensation plan. For the first quarter of fiscal 2016, this account was primarily comprised of $25.1 million realized gain on the sale of a marketable security, gains of $1.2 million on the cash surrender value of life insurance contracts and mutual funds related to our deferred compensation plan, and net foreign currency exchange gains of $1.1 million.

Provision for Income Taxes

	Three Months Ended		Change	
	December 31, 2016	December 26, 2015		
	Amount	Amount	Amount	%
Provision for Income Taxes	$29.6	$ 29.8	$(0.2)	(0.7)%

Our effective tax rate for the current quarter was 25.5% compared to 25.9% for the corresponding period in the prior year. For the current quarter the effective tax rate was lower than the statutory tax rate primarily due to the adoption of ASU 2016-09, which resulted in a tax benefit, earnings in jurisdictions subject to lower tax rates, and the domestic production activities deduction benefit. For the three months ended December 26, 2015, the effective tax rate was lower than the statutory tax rate primarily due to increased earnings in jurisdictions subject to lower tax rates, the domestic production activities deduction benefit, the retroactively reinstated Federal research credit, and a change in the valuation allowance related to the sale of a marketable security that had a gain for book purposes.

Segment Results of Operations

We report our business as four segments: Diagnostics, Breast Health, GYN Surgical and Skeletal Health. The accounting policies of the segments are the same as those described in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016. We measure segment performance based on total revenues and operating income or loss. Revenues from product sales of each of these segments are described in further detail above. The discussion that follows is a summary analysis of total revenues and the primary changes in operating income or loss by segment.

Diagnostics

	Three Months Ended		Change	
	December 31, 2016	December 26, 2015		
	Amount	Amount	Amount	%
Total Revenues	$325.4	$ 310.7	$14.7	4.7 %
Operating Income	$41.1	$ 31.6	$9.5	30.1%
Operating Income as a % of Segment Revenue	12.7 %	10.2 %		

Table of Contents

Diagnostics revenues increased in the quarter compared to the corresponding period in the prior year primarily due to the increase in product revenues discussed above.

Operating income for this business segment increased in the current quarter compared to the corresponding period in the prior year due to lower operating expenses and to a lesser extent an increase in gross profit as a result of higher revenues. Gross margin was 48.8% in the current quarter compared with 50.4% in the corresponding prior year period primarily due to a shift in sales to lower margin international molecular diagnostic products, unfavorable absorption, slight decline in Aptima average selling prices, and the negative impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, partially offset by the increase in Aptima assay volumes.

Operating expenses decreased in the current quarter compared to the corresponding period in the prior year primarily due to a reduction of legal fees and charges as the prior year period included a $6.0 million settlement of a legal fee dispute, lower marketing initiatives, and lower medical device excise taxes of $2.8 million, partially offset by an additional week of expenses in the current quarter.

Breast Health

	Three Months Ended			
	December 31, 2016	December 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$273.3	$ 262.2	$11.1	4.2 %
Operating Income	$85.2	$ 71.6	$13.6	19.1%
Operating Income as a % of Segment Revenue	31.2 %	27.3 %		

Breast Health revenues increased in the current quarter compared to the corresponding period in the prior year primarily due to an increase of $14.1 million in service revenue, partially offset by the $3.0 million decrease in product revenue discussed above in the current quarter.

Operating income for this business segment increased in the current quarter due to an increase in gross profit from higher revenue, which was partially offset by higher operating expenses compared to the corresponding period in the prior year. The overall gross margin increased to 60.6% in the current quarter compared to 56.7% in the corresponding period in the prior year primarily due to the increase in service revenue and software product sales compared to the prior year period. In addition, the prior year period included a $6.0 million aggregate charge related to inventory and warranty costs associated with product produced exclusively for the Chinese market.

Operating expenses increased in the current quarter compared to the corresponding period in the prior year primarily due to an increase in compensation and commissions from increased head count, higher marketing expenditures internationally, and increased trade show and meeting expenses. These expense increases were partially offset by lower medical device excise taxes of $2.5 million and a reduction of domestic marketing initiatives.

GYN Surgical

	Three Months Ended			
	December 31, 2016	December 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$114.8	$ 98.8	$16.0	16.2%
Operating Income	$25.5	$ 20.8	$4.7	22.6%
Operating Income as a % of Segment Revenue	22.2 %	21.1 %		

Table of Contents

GYN Surgical revenues increased in the current quarter compared to the corresponding period in the prior year primarily due to the increase in product revenues discussed above.

Operating income for this business segment increased in the current three months compared to the corresponding period in the prior year primarily due to an increase in gross profit as result of higher revenues, partially offset by an increase in operating expenses. Gross margin increased to 63.9% in the current quarter from 63.5% in the corresponding period in the prior year primarily due to a decrease in amortization expense, partially offset by the slight increase in product costs as a percentage of product revenue discussed above.

Operating expenses increased in the current quarter primarily due to an increase in compensation from additional headcount, higher commissions due to increased sales, increased spend on marketing initiatives increased product development spend and higher legal fees.

Skeletal Health

	Three Months Ended			
	December 31, 2016	December 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$20.9	$ 23.5	$(2.6)	(11.1)%
Operating Income	$(5.8)	$ 2.1	$(7.9)	(382.4)%
Operating Income as a % of Segment Revenue	(27.8)%	8.8 %		

Skeletal Health revenues decreased in the current quarter compared to the corresponding periods in the prior year primarily due to the decrease in product revenues discussed above.

Operating income decreased in the current quarter compared to the corresponding period in the prior year primarily due to a decrease in gross profit from lower revenues and increased obsolescence charges. The gross margin rate is 34.3% in the current quarter as compared to 48.3% in the corresponding period in the prior year. This business also had higher operating expenses related to the facility closure costs incurred for the Bedford facility of $3.5 million.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2016, we had $1,047.4 million of working capital, which included $928.5 million of assets held for sale, and our cash and cash equivalents totaled $646.0 million. Our cash and cash equivalents balance increased by $97.6 million during the first three months of fiscal 2017 primarily due to cash generated through operating activities, partially offset by repayments of debt and capital expenditures.

In the first three months of fiscal 2017, our operating activities provided us with $169.6 million of cash, primarily due to net income of $86.5 million, non-cash charges for depreciation and amortization aggregating $115.3 million, stock-based compensation expense of $19.2 million and non-cash interest expense of $14.3 million related to our outstanding debt. These adjustments to net income were partially offset by a decrease in net deferred tax liabilities of $24.6 million, primarily from the amortization of intangible assets. Cash provided by operations also included a net cash outflow of $35.1 million from changes in our operating assets and liabilities. Changes in our operating assets and liabilities were driven primarily by an increase in inventories of $20.7 million as inventory levels were built up to meet anticipated demand, an increase in prepaid expenses and other assets of $17.4 million primarily related to the timing of insurance and maintenance renewals, a decrease in accounts payable of $17.8 million due to timing of payments and a decrease in deferred revenue of $14.5 million primarily due to meeting revenue recognition criteria on certain transactions during the first quarter of fiscal 2017 and an additional week of amortization for service contracts. The cash outflows were partially offset by a decrease in accounts receivable of $21.5 million due to improved collections and an increase in accrued expenses of $14.6 million primarily due to an increase in accrued income and other taxes, accrued interest based on timing of payments, partially offset by lower compensation accruals as the fiscal 2016 bonus was paid out in the first quarter of fiscal 2017.

In the first three months of fiscal 2017, we used $25.2 million of cash from investing activities, primarily related to $24.7 million for capital expenditures, which consisted of the placement of equipment under customer usage agreements and purchases of manufacturing equipment and computer hardware.

In the first three months of fiscal 2017, our financing activities used cash of $40.4 million primarily for a principal payment of $18.8 million related to amounts outstanding under our Credit Agreement, repayment of $12.0 million under our asset securitization agreement, payments of $6.4 million to extinguish certain of our 2010 Notes, and payments of $16.4 million for employee-related taxes withheld for the net share settlement of vested restricted stock units. Partially offsetting these uses of cash were proceeds of $13.2 million from our equity plans, primarily from the exercise of stock options.

Debt

We had total recorded debt outstanding of $3.3 billion at December 31, 2016, which is comprised of amounts outstanding under our Credit Agreement of $1.37 billion (principal $1.39 billion), 2022 Senior Notes of $978.8 million (principal $1.0 billion), Convertible Notes of $781.8 million (principal $741.8 million), which includes accretion of interest at 4.0% per annum on the 2013 Notes, and amounts outstanding under the accounts receivable securitization program of $188.0 million.

Credit Agreement

The credit facilities under the Credit Agreement consist of:

•A $1.5 billion secured term loan to Hologic with a final maturity date of May 29, 2020 (the "Term Loan"); and

•A secured revolving credit facility under which we may borrow up to $1 billion, subject to certain sublimits, with a final maturity date of May 29, 2020 (the "Revolver").

As of December 31, 2016, the principal amount outstanding under the Term Loan was $1.39 billion of which $93.8 million was classified as a current debt obligation. As of December 31, 2016, there were no amounts outstanding under the Revolver.

Borrowings are secured by first-priority liens on, and a first-priority security interest in, substantially all of our assets, with certain exceptions.

We are required to make scheduled principal payments under the Term Loan in increasing amounts ranging from $18.75 million per three-month period commencing with the three-month period ending on September 25, 2015 to $37.5 million per three-month period commencing with the three-month period ending on September 28, 2018. The remaining balance of the Term Loan is due at maturity. In addition, subject to the terms and conditions set forth in the Credit Agreement, we are required to make certain mandatory prepayments from specified excess cash flows from operations (to the extent our net senior secured leverage ratio exceeds a certain ratio) and from the net proceeds of specified types of asset sales (subject to certain reinvestment rights), debt issuances and insurance recoveries (subject to certain reinvestment rights) (“Mandatory Prepayments”). Mandatory Prepayments are required to be applied by us, first, to the Term Loan, second, to any outstanding amount under the swing line sublimit, and third to any outstanding amount under a letter of credit sublimit. Subject to certain limitations, we may voluntarily prepay any of the credit facilities under the Credit Agreement without premium or penalty. We believe that the sale of our blood screening business to Grifols constitutes an asset sale under our Credit Agreement and that, subject to the terms and limitations set forth in our Credit Agreement, we are permitted to use the after tax net proceeds to reinvest in our business. We are then required to apply the balance of net available cash, unless otherwise consented to by our lenders, to Mandatory Prepayments.

The Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including covenants restricting our ability and that of the subsidiary guarantors, subject to negotiated exceptions, to incur additional indebtedness and additional liens on our assets, engage in mergers or acquisitions or dispose of assets, enter into sale-leaseback transactions, pay dividends or make other distributions, voluntarily prepay other indebtedness, enter into transactions with affiliated persons, make investments, and change the nature of our businesses.

The Credit Agreement contains two financial ratio covenants measured as of the last day of each fiscal quarter: a total net leverage ratio and an interest coverage ratio. We were in compliance with these covenants as of December 31, 2016.

Senior Notes

On July 2, 2015, we issued $1.0 billion aggregate principal amount of our 2022 Senior Notes. The 2022 Senior Notes are our general senior unsecured obligations and are guaranteed on a senior unsecured basis by certain of our domestic subsidiaries

(the "Guarantors"). 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.

We may redeem the 2022 Senior Notes at any time prior to July 15, 2018 at a price equal to 100% of the aggregate principal amount so redeemed, plus accrued and unpaid interest, if any, to the redemption date and a make-whole premium set forth in the 2022 Senior Notes indenture ("the Indenture"). We may also redeem up to 35% of the aggregate principal amount of our 2022 Senior Notes with the net cash proceeds of certain equity offerings at any time and from time to time before July 15, 2018, at a redemption price equal to 105.250% of the aggregate principal amount so redeemed, plus accrued and unpaid interest, if any, to the redemption date. We also have the option to redeem the 2022 Senior Notes on or after: July 15, 2018 through July 14, 2019 at 102.625% of par; July 15, 2019 through July 14, 2020 at 101.313% of par; and July 15, 2020 and thereafter at 100% of par. If we undergo a change of control, as provided in the Indenture, we will be required to make an offer to purchase each holder’s 2022 Senior Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date. We believe that the sale of our blood screening business to Grifols constitutes an Asset Disposition under the Indenture. Subject to the terms and limitations set forth in the Indenture, we are permitted to use the after tax net proceeds received from an Asset Disposition (as defined in the Indenture), among other things, to repay our senior secured indebtedness, to repay or repurchase our Convertible Notes, to reinvest in our business, to make certain prepayments or repurchases of senior indebtedness, including the 2022 Senior Notes, and/or to establish a reserve of proceeds from all Asset Dispositions of up to the greater of $300 million or 3.0% of our total assets. We are then required to apply the balance of net available cash after application in accordance with the Indenture, to make an offer to the holders of the 2022 Senior Notes and other of our senior indebtedness to repurchase such Notes or other senior indebtedness at a price of no less than 100% of the then outstanding principal amount thereof plus accrued and unpaid interest.

Convertible Notes

At December 31, 2016, our Convertible Notes, in the aggregate principal amount of $741.8 million, are recorded at $781.8 million, which includes accretion of interest at 4.0% per annum on the 2013 Notes and is net of the unamortized debt discount attributed to the embedded conversion feature of the convertible notes. These notes consist of:

- $8.4 million of our 2.00% Convertible Exchange Senior Notes due 2037 issued in November 2010 ("2010 Notes");
- $363.4 million of our 2.00% Convertible Senior Notes due 2042 issued in March 2012 ("2012 Notes"); and
- $370.0 million of our 2.00% Convertible Senior Notes due 2043 issued in February 2013 ("2013 Notes").

On November 9, 2016, we announced that pursuant to the terms of the indenture for the 2.00% Convertible Exchange Senior Notes due 2037, or the “2010 Notes”, holders of the 2010 Notes had the option of requiring us to repurchase their 2010 Notes on December 16, 2016 at a repurchase price payable in cash equal to 100% of the original principal amount of the 2010 Notes. None of the 2010 Notes were surrendered for repurchase pursuant to the option.

In addition, we also announced on November 9, 2016 that, pursuant to the terms of the indenture, we had elected to redeem, on December 19, 2016, all of the then outstanding 2010 Notes at a redemption price payable in cash equal to 100% of the accreted principal amount of the 2010 Notes. Holders of the Notes also had a right to convert their 2010 Notes. As of December 16, 2016, holders of $8.4 million in aggregate principal of the 2010 Notes surrendered notes for conversion, which remained outstanding as of December 31, 2016 and will be paid in cash in the second quarter of fiscal 2017. The premium on the conversion price for the 2010 Notes that were converted will be paid in the second quarter of fiscal 2017 based on the average trading price of our common stock during a thirty-day trading period.

The 2012 Notes and 2013 Notes have conversion prices of approximately $31.175 and $38.59, respectively, and are subject in each case to adjustment. Holders of the 2012 Notes and 2013 Notes may convert their Convertible Notes at the applicable conversion price under certain circumstances, including without limitation (x) if the last reported sale price of our common stock exceeds 130% of the applicable conversion price for at least 20 trading days in the 30

consecutive trading days ending on the last trading day of the preceding calendar quarter and (y) if the applicable series of Convertible Notes has been called for redemption. It is our current intent and policy to settle any conversion of the Convertible Notes as if we had elected to make either a net share settlement or all cash election, such that upon conversion, we intend to pay the holders in cash for the principal amount of the Convertible Notes and, if applicable shares of our common stock or cash to satisfy the premium based on a calculated daily conversion value.
Holders may require us to repurchase the 2012 Notes on each of March 1, 2018, 2022, 2027 and 2032, and on March 2, 2037, or upon a fundamental change, as provided in the indenture for the 2012 Notes, at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest.

Holders may require us to repurchase the 2013 Notes on each of December 15, 2017, 2022, 2027, 2032 and 2037, or upon a fundamental change, as provided in the indenture for the 2013 Notes, at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest.

We may redeem any of the 2012 Notes and 2013 Notes beginning March 6, 2018 and December 15, 2017, respectively. We may redeem all or a portion of the 2012 Notes, and 2013 Notes (i.e., in cash or a combination of cash and shares of our common stock) at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the applicable redemption date.

We have recorded deferred tax liabilities related to our Convertible Notes original issuance discount, representing the spread between the stated cash coupon rate and the higher interest rate that is deductible for tax purposes based on the type of security. When our Convertible Notes are extinguished, we are required to recapture the original issuance discount previously deducted for tax purposes. The tax recapture, however, decreases as the fair market value of the Convertible Notes and the amount paid on settlement increases.

Accounts Receivable Securitization Program

On April 25, 2016, we entered into a one-year $200.0 million accounts receivable securitization program (the "Securitization Program") with several of our wholly owned subsidiaries and certain financial institutions. Under the terms of the Securitization Program, we and certain of our wholly-owned subsidiaries sell our customer receivables to a bankruptcy remote special purpose entity, which is wholly-owned by us. The special purpose entity, as borrower, and we, as servicer, have entered into a Credit and Security Agreement with several lenders pursuant to which the special purpose entity may borrow from the lenders up to $200.0 million, 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. As of December 31, 2016, $188.0 million was outstanding under the Securitization Program. The assets of the special purpose entity secure the amounts borrowed and cannot be used to pay our other debts or liabilities.

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. In addition, it contains financial covenants consistent with that of the Credit Agreement. As of December 31, 2016, we were in compliance with these covenants.

Stock Repurchase Program

On June 21, 2016, the Board of Directors authorized the repurchase of up to $500.0 million of the Company's outstanding common stock over the next five years. There were no repurchases of common stock made under this authorization during the three months ended December 31, 2016.

Legal Contingencies

We are currently involved in several legal proceedings and claims. In connection with these legal proceedings and claims, management periodically reviews estimates of potential costs to be incurred by us in connection with the adjudication or settlement, if any, of these proceedings. These estimates are developed, as applicable in consultation with outside counsel, and are based on an analysis of potential litigation outcomes and settlement strategies. In accordance with ASC 450, Contingencies, loss contingencies are accrued if, in the opinion of management, an adverse outcome is probable and such financial outcome can be reasonably estimated. It is possible that future results for any particular quarter or annual period may be materially affected by changes in our assumptions or the effectiveness of our strategies relating to these proceedings.

Future Liquidity Considerations

We believe that our cash and cash equivalents, cash flows from operations, the cash available under our Revolver and our accounts receivable securitization program and the net cash proceeds received from the sale of our blood screening business, will provide us with sufficient funds in order to fund our expected normal operations and debt payments, including interest and potential payouts for any Convertible Notes for which conversion is triggered, over the next twelve months. Our longer-term liquidity is contingent upon future operating performance. We may also require additional capital in the future to fund capital expenditures, repayment of debt and related deferred tax liabilities, as applicable, acquisitions, strategic transactions or other investments. As described above, we have significant indebtedness outstanding under our Credit Agreement, 2022 Senior Notes, Convertible Notes and the Securitization Program. These capital requirements could be substantial. For a description of risks to our operating performance and our indebtedness, see “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our interim consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition for multiple element arrangements, allowance for doubtful accounts, reserves for excess and obsolete inventories, valuations, purchase price allocations and contingent consideration related to business combinations, expected future cash flows including growth rates, discount rates, terminal values and other assumptions used to evaluate the recoverability of long-lived assets and goodwill, estimated fair values of intangible assets and goodwill, amortization methods and periods, warranty reserves, certain accrued expenses, restructuring and other related charges, stock-based compensation, contingent liabilities, tax reserves and recoverability of our net deferred tax assets and related valuation allowances. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates if past experience or other assumptions do not turn out to be substantially accurate. Any differences may have a material impact on our financial condition and results of operations. For a discussion of how these and other factors may affect our business, see the “Cautionary Statement” above and “Risk Factors” set forth in Part II, Item 1A of this Quarterly Report as well as those described in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016.

The critical accounting estimates that we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016. There have been no material changes to our critical accounting policies or estimates from those set forth in our Annual Report on Form 10-K for the fiscal year ended September 24, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Table of Contents

Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments. Financial instruments consist of cash equivalents, accounts receivable, publicly-traded equity securities, cost-method equity investments, insurance contracts and related deferred compensation plan liabilities, interest rate caps, forward foreign currency contracts, accounts payable and debt obligations. Except for our outstanding Convertible Notes and 2022 Senior Notes, the fair value of these financial instruments approximates their carrying amount. As of December 31, 2016, we have $741.8 million in principal amount of Convertible Notes outstanding, including $8.4 million principal amount of our 2010 Notes, $363.4 million principal amount of our 2012 Notes and $370.0 million principal amount of our 2013 Notes. The Convertible Notes are recorded net of the unamortized debt discount on our consolidated balance sheets. The fair value of our 2012 Notes and 2013 Notes as of December 31, 2016 was approximately, $494.2 million and $451.4 million, respectively. The fair value of our 2022 Senior Notes was approximately $1.05 billion. Amounts outstanding under our Credit Agreement and Securitization Program of $1.39 billion and $188.0 million, respectively, as of December 31, 2016 are subject to variable rates of interest based on current market rates, and as such, we believe the carrying amount of these obligations approximates fair value.

Primary Market Risk Exposures. Our primary market risk exposure is in the areas of interest rate risk and foreign currency exchange rate risk. We incur interest expense on borrowings outstanding under our Convertible Notes, 2022 Senior Notes and Credit Agreement, as well as under our accounts receivable securitization program. The Convertible Notes and 2022 Senior Notes have fixed interest rates. Borrowings under our Credit Agreement currently bear interest at the Eurocurrency Rate (i.e., Libor) plus the applicable margin of 1.50% per annum. Borrowings under our accounts receivable securitization program currently bear interest at Libor plus the applicable margin of 0.7%.

As of December 31, 2016, there was $1.39 billion of aggregate principal outstanding under the Credit Agreement and $188.0 million aggregate principal outstanding under the securitization program. Since these debt obligations are variable rate instruments, our interest expense associated with these instruments is subject to change. A 10% adverse movement (increase in LIBOR rate) would increase annual interest expense by less than $1.0 million due to the low current interest rate environment. During fiscal 2015, we entered into multiple interest rate cap agreements to help mitigate the interest rate volatility associated with the variable rate interest on the amounts outstanding. The critical terms of the interest rate caps were designed to mirror the terms of our LIBOR-based borrowings under the Credit Agreement, and therefore the interest rate caps are highly effective at offsetting the cash flows being hedged. We designated these derivatives as cash flow hedges of the variability of the Libor-based interest payments on $1.0 billion of principal over a 3-year period, which ends on December 31, 2017.

The return from cash and cash equivalents will vary as short-term interest rates change. A hypothetical 10% increase or decrease in interest rates, however, would not have a material adverse effect on our business, financial condition or results of operations.

Foreign Currency Exchange Risk. Our international business is subject to risks, including, but not limited to: unique economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

We conduct business worldwide and maintain sales and service offices outside the United States as well as manufacturing facilities in Costa Rica and the United Kingdom. Our international sales are denominated in a number of currencies, primarily the Euro, U.S. dollar, UK Pound and Renminbi. The majority of our foreign subsidiaries functional currency is the local currency, although certain foreign subsidiaries functional currency is the U.S. dollar based on the nature of their operations or functions. Our revenues, denominated in foreign currencies, are positively affected when the U.S. dollar weakens against them and adversely effected when the U.S. dollar strengthens. Fluctuations in foreign currency rates could affect our sales, cost of goods and operating margins and could result in exchange losses. In addition, currency devaluations can result in a loss if we hold deposits of that currency. We have executed forward foreign currency contracts to hedge a portion of results denominated in the Euro, UK Pound, Australian dollar, Japanese Yen and Canadian dollar. These contracts do not qualify for hedge accounting. As a result, we may experience volatility in our Consolidated Statements of Income due to (i) the impact of unrealized gains and losses reported in other income, net on the mark-to-market of outstanding contracts and (ii) realized gains and losses

recognized in other income, net, whereas the offsetting economic gains and losses are reported in the line item of the underlying cash flow, for example, revenue.

We believe that the operating expenses of our international subsidiaries that are incurred in local currencies will not have a material adverse effect on our business, results of operations or financial condition. Our operating results and certain assets and liabilities that are denominated in foreign currencies are affected by changes in the relative strength of the U.S. dollar against those currencies. Our expenses, denominated in foreign currencies, are positively affected when the U.S. dollar strengthens against them and adversely affected when the U.S. dollar weakens. However, we believe that the foreign currency

Table of Contents

exchange risk is not significant. A hypothetical 10% increase or decrease in foreign currencies in which we transact would not have a material adverse impact on our business, financial condition or results of operations.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2016.

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

Information with respect to this Item may be found in Note 6 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Additional information on our commitments and contingencies can be found in our Annual Report on Form 10-K for our fiscal year ended September 24, 2016.

Item 1A. Risk Factors.

There are no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for our fiscal year ended September 24, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer's Purchases of Equity Securities

Period of Repurchase	Total Number of Shares Purchased (#) (1)	Average Price Paid Per Share ($) (1)	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (#) (2)	Average Price Paid Per Share As Part of Publicly Announced Plans or Programs ($) (2)	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under Our Programs (in millions) ($) (2)
September 25, 2016 – October 22, 2016	2,669	$ 38.69	—	$ —	$ 500.0
October 23, 2016 – November 26, 2016	412,753	38.01	—	—	500.0
November 27, 2016 – December 31, 2016	15,109	38.51	—	—	500.0
Total	430,531	$ —	—	$ —	$ 500.0

(1) For the majority of restricted stock units granted, the number of shares issued on the date that the restricted stock units vest is net of the minimum statutory tax withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. These repurchases of our common stock were to cover employee income tax withholding obligations in connection with the vesting of restricted stock units under our equity incentive plans.

(2) On June 21, 2016, the Board of Directors authorized the repurchase of up to an additional $500.0 million of our outstanding common stock over the next five years. There were no repurchases of common stock made under this authorization during the quarter ended December 31, 2016.

Table of Contents

Item 6. Exhibits.
(a) Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference	
		Form	Filing Date/ Period End Date
2.1	Asset Purchase Agreement, dated as of December 14, 2016, by and among Hologic, Inc., Grifols Diagnostic Solutions Inc. and Grifols, S.A.	8-K	December 14, 2016
10.1	Form of Performance Stock Unit Award Agreement (ROIC) (adopted fiscal 2017)	8-K	November 9, 2016
10.2	Form of Performance Stock Unit Award Agreement (relative TSR) (adopted fiscal 2017)	8-K	November 9, 2016
10.3	Form of Restricted Stock Unit Award Agreement (adopted fiscal 2017)	8-K	November 9, 2016
10.4	Form of Non-Qualified Stock Option Agreement (adopted fiscal 2017)	8-K	November 9, 2016
10.5	License Agreement, dated as of January 31, 2017, by and among Hologic, Inc., Gen-Probe Incorporated and Grifols Diagnostic Solutions Inc.	8-K	February 2, 2017
31.1*	Certification of Hologic's CEO pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.2*	Certification of Hologic's CFO pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.1**	Certification of Hologic's CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
32.2**	Certification of Hologic's CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
101.INS*	XBRL Instance Document		
101.SCH*	XBRL Taxonomy Extension Schema Document		
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document		
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document		

101.DEF* XBRL Taxonomy Extension Definition

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* Filed herewith.
** Furnished herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hologic, Inc.
(Registrant)

Date: February 3, 2017 /s/ Stephen P. MacMillan

Stephen P. MacMillan
Chairman, President and Chief Executive Officer

Date: February 3, 2017 /s/ Robert W. McMahon

Robert W. McMahon
Chief Financial Officer
(Principal Financial Officer)