PC TEL INC
Form DEF 14A
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

PCTEL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Wednesday, June 10, 2015

4:00 p.m.

To Our Stockholders:

The 2015 annual meeting of stockholders of PCTEL, Inc., a Delaware corporation, will be held on Wednesday, June 10, 2015 at 4:00 p.m. local time at our headquarters, located at 471 Brighton Drive, Bloomingdale, Illinois 60108, for the following purposes:

1. The election of the two Class I director nominees named in the proxy statement to serve as directors for three-year terms that will expire at the 2018 annual meeting of stockholders;

2. A non-binding advisory vote to approve the Company s named executive officer compensation;

3. The approval of the amendment and restatement of the 1997 Stock Plan;

4. The ratification of the appointment of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015; and

5. The transaction of such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. Only stockholders of record at the close of business on April 16, 2015 are entitled to notice of and to vote at the meeting.

Pursuant to the rules promulgated by the Securities and Exchange Commission, we have elected to provide access to our proxy materials over the Internet. Accordingly, we will mail, on or about April 30, 2015, a Notice of Internet Availability of Proxy Materials to our stockholders of record and beneficial owners at the close of business on April 16, 2015. On the date of mailing of the Notice of Internet Availability of Proxy Materials, all stockholders and beneficial owners will have the ability to access all of the proxy materials on a website referred to in the Notice of Internet Availability of Proxy Materials. These proxy materials will be available free of charge.

Your participation in the annual meeting is important. You can vote by telephone, Internet or, if you request that proxy materials be mailed to you, by completing and signing the proxy card enclosed with those materials and returning it in the envelope provided. If you wish to attend the meeting in person, you must bring evidence of your ownership as of April 16, 2015, or a valid proxy showing that you are representing a shareholder.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to deliver your proxy by telephone or the Internet or to mark, sign, date and return the proxy card as promptly as possible. Any stockholder attending the meeting may vote in person, even if he or she has previously returned a proxy.

Sincerely,

MARTIN H. SINGER
Chief Executive Officer and
Chairman of the Board of Directors

Bloomingdale, IL

April 30, 2015

YOUR VOTE IS IMPORTANT.

PLEASE SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE

BY FOLLOWING THE INSTRUCTIONS LOCATED ON THE NOTICE OF INTERNET

AVAILABILITY OF PROXY MATERIALS OR THE PROXY CARD.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on June 10, 2015: The Proxy Statement and Annual Report to Stockholders for the fiscal year ended December 31, 2014 are available electronically free of charge at http://www.proxyvote.com.

PCTEL, INC.

471 Brighton Drive

Bloomingdale, Illinois 60108

PROXY STATEMENT FOR THE

2015 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION

The Board of Directors of PCTEL, Inc. is soliciting proxies for the 2015 annual meeting of stockholders. This proxy statement contains important information for you to consider when deciding how to vote on the matters brought before the meeting. Please read it carefully.

Our Board of Directors has set April 16, 2015 as the record date for the meeting. Stockholders of record at the close of business on April 16, 2015 are entitled to vote at and attend the meeting, with each share entitled to one vote. There were 18,715,677 shares of our common stock outstanding on the record date. On the record date, the closing price of our common stock on the NASDAQ Global Market was $7.32 per share.

This proxy statement is made available on or about April 30, 2015 to stockholders entitled to vote at the meeting.

In this proxy statement:

We, Company and PCTEL mean PCTEL, Inc.

If you hold shares in street name, it means that your shares are held in an account at a brokerage firm, bank, broker dealer or other similar organization and record ownership is not in your name.

SEC means the Securities and Exchange Commission.

Beneficial ownership of stock is defined under various SEC rules in different ways for different purposes, but it generally means that, although you (or the person or entity in question) do not hold the shares of record in your name, you do have investment or voting control, and/or an economic or pecuniary interest, in the shares through an agreement, relationship or the like.

QUESTIONS AND ANSWERS

Q: When and where is the stockholder meeting?

A: Our annual meeting of stockholders is being held on Wednesday, June 10, 2015 at 4:00 p.m. local time at our headquarters, located at 471 Brighton Drive, Bloomingdale, Illinois 60108.

Q: Why did I receive a Notice Regarding the Availability of Proxy Materials ?

A: We are furnishing proxy materials to our stockholders primarily via the Internet, instead of mailing printed copies of those materials to each stockholder. By doing so, we save costs and reduce the environmental impact of our annual meeting. On or about April 30, 2015, we mailed a Notice Regarding the Availability of Proxy Materials (the Notice of Availability) to certain of our stockholders. The Notice of Availability contains instructions on how to access our proxy materials and vote online or how to vote in person or by mail. The Notice of Availability also contains a control number that you will need to vote your shares.

Q: How do I request paper copies of the proxy materials?

A: You may request, free of charge, paper copies of the proxy materials for the annual meeting by following the instructions listed on the Notice of Availability. In addition, we will provide you, free of charge, a copy of our Annual Report on Form 10-K, upon written request sent to PCTEL, Inc., 471 Brighton Drive, Bloomingdale, Illinois 60108, Attention: John W. Schoen, Corporate Secretary.

Q: What information is included in this proxy statement?

A: This proxy statement describes issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision. This proxy statement also outlines the means by which you can vote your shares.

Q: How do proxies work?

A: The Board is requesting your proxy. Giving your proxy means that you authorize the persons named as proxies therein (Martin H. Singer and John W. Schoen) to vote your shares at the annual meeting in the manner you specify in your proxy (or to exercise their discretion as described herein). If you hold your shares as a record holder and submit a proxy but do not specify how to vote on a proposal, the persons named as proxies will vote your shares in accordance with the Board s recommendations. The Board has recommended that stockholders vote FOR the election of each of the director nominees listed in Proposal #1, FOR the non-binding, advisory vote to approve our named executive officer compensation in Proposal #2, FOR the amendment and restatement of the 1997 Stock Plan in Proposal #3; and FOR ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015 in Proposal #4. Giving your proxy also means that you authorize the persons named as proxies to vote on any other matter properly presented at the annual meeting in such manner as they determine. We are not aware of any other matters to be presented at the annual meeting as of the date of this proxy statement.

Q: What is the difference between holding shares as a beneficial owner in street name and as a stockholder of record?

A: If your shares are held in street name through a broker, bank, trustee or other nominee, you are considered the beneficial owner of shares held in street name. As the beneficial owner, you have the right to direct your broker, bank, trustee or other nominee how to vote your shares.

If your shares are registered directly in your name, you are considered to be a stockholder of record with respect to those shares. As a stockholder of record, you have the right to grant your voting proxy directly to the Company or to a third party, or to vote in person at the annual meeting.

Q: What am I voting on?

A: You are being asked to vote on the following proposals:

The election of the two Class I director nominees named in this proxy statement to serve as directors for three-year terms whose terms will expire at the 2018 annual meeting of stockholders (Proposal #1);

A non-binding advisory vote to approve the Company s named executive officer compensation (Proposal #2);

The approval of the amendment and restatement of the 1997 Stock Plan (Proposal #3); and

The ratification of the appointment of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015 (Proposal #4).

Q: How do I vote?

A: If you are a stockholder of record, you may vote by proxy or in person at the annual meeting. If you received a paper copy of the proxy materials by mail, you may vote your shares by proxy by doing any one of the following: (1) by voting online at the Internet site address listed on your proxy card; (2) calling the toll-free number listed on your proxy card; or (3) mailing your signed and dated proxy card in the self-addressed envelope provided. If you received only the Notice of Availability by mail, you may vote your shares online at the Internet site address listed on your Notice of Availability or in person at the annual meeting. You may also request a paper copy of our proxy materials by following the procedures outlined above or in the Notice of Availability. Even if you plan to attend the annual meeting, we recommend that you vote by proxy prior to the annual meeting. You can always change your vote as described below.

If you hold your shares in street name, you should follow the voting instructions provided to you by the organization that holds your shares. If you hold your shares in street name and plan to attend the annual meeting and vote in person, you must bring a legal proxy from the stockholder of record indicating that you were the beneficial owner of the shares on the record date in order to vote in person.

Q: What does it mean if I receive more than one Notice of Availability or set of proxy materials?

A: You may receive more than one Notice of Availability or more than one paper copy of the proxy materials, depending on how you hold your shares. For example, if you hold your shares in more than one brokerage account, you may receive a separate Notice of Availability or a separate set of proxy materials for each brokerage account in which you hold your shares. To vote all of your shares by proxy, you must vote at the Internet site address listed on the Notice of Availability or your proxy card, call the toll-free number listed on your proxy card, or sign, date and return each proxy card that you receive.

Q: What if I change my mind after I return my proxy?

A: You may revoke your proxy (that is, cancel it) and change your vote at any time prior to the voting at the annual meeting by providing written notice to our Corporate Secretary at the following address: 471 Brighton Drive, Bloomingdale, Illinois 60108, Attention: John W. Schoen, Corporate Secretary.

You may also do this by:

- Signing and returning another proxy card with a later date;

- Voting in person at the meeting; or

- Voting via the Internet or by telephone on a date after the date on your proxy (your latest proxy is counted).

Q: What is a broker non-vote ?

A: Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients (who are the beneficial owners of the shares), brokers have the discretion to vote such shares on routine matters (such as the ratification of the appointment of our independent registered public accounting firm, Proposal #4), but not on non-routine matters (such as the election of directors (Proposal #1), the non-binding advisory vote to approve the Company s named executive officer compensation (Proposal #2), and the approval of the amendment and restatement of the 1997 Stock Plan (Proposal #3)) without specific instructions from their clients. The vote with respect to any non-routine matter is referred to as a broker non-vote. Thus, because the proposals to be acted upon at the meeting consist of both routine and non-routine matters, the broker may turn in a proxy card for uninstructed shares that vote FOR the routine matter, but expressly states that the broker is NOT voting on the non-routine matters. A broker non-vote may also occur with respect to routine matters if the broker expressly instructs on the proxy card that it is not voting on a certain matter.

Q: How are broker non-votes counted?

A: Broker non-votes are counted for the purpose of determining the presence or absence of a quorum, but are not counted for determining the number of votes cast for or against a proposal, whether such proposal is a routine or non-routine matter.

Q: Will my shares be voted if I do not submit a proxy?

A: *Stockholders of record* If you are a stockholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the annual meeting.

Beneficial owners If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors (Proposal #1), the advisory vote to approve the Company s named executive officer compensation (Proposal #2), and the approval of the amendment and restatement of the 1997 Stock Plan (Proposal #3), all of which are considered non-routine matters. If you do not provide the organization that holds your shares with specific voting instructions, under the rules of the NASDAQ, the organization that holds your shares cannot vote on non-routine matters. This is generally referred to as a broker non-vote. The organization that holds your shares will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of our independent registered public accounting firm (Proposal #4), which is considered a routine matter.

Q: How do I attend the Annual Meeting?

A: The 2015 annual meeting of stockholders will be held on Wednesday, June 10, 2015, at 471 Brighton Drive, Bloomingdale, Illinois 60108 at 4:00 p.m., local time.

Q: How many votes can be cast at the meeting?

A: As of the record date, 18,715,677 shares of PCTEL common stock were outstanding. Each outstanding share of common stock entitles the holder of such share to one vote on all matters covered in this proxy statement. Therefore, there are a maximum of 18,715,677 votes that may be cast at the meeting.

Q: What is a quorum ?

A: A quorum is the number of shares that must be present, in person or by proxy, in order for business to be transacted at the meeting. The required quorum for the annual meeting is a majority of the shares outstanding on the record date. There must be a quorum present for the meeting to be held. All completed and signed proxy cards, Internet votes, telephone votes and votes cast by those stockholders who attend the annual meeting in person, whether representing a vote FOR, AGAINST, ABSTAIN, or a broker non-vote, will be counted toward the quorum.

Q: What is the required vote for each of the proposals to pass?

A: Election of the two director nominees under Proposal #1 requires the affirmative vote of the holders of a plurality of the common stock present, represented and entitled to vote at the annual meeting. Broker non-votes and proxies marked WITHHOLD AUTHORITY will not be counted toward the election of directors or toward the election of individual nominees and, thus, will have no effect other than that they will be counted for establishing a quorum.

The proposal to approve the resolution regarding the Company s named executive officer compensation under Proposal #2 requires the affirmative vote of the holders of a majority of the common stock present, represented and entitled to vote at the annual meeting. Stockholders may vote FOR, AGAINST or ABSTAIN on Proposal #2. Broker non-votes will not be counted for the purposes of determining whether Proposal #2 has been approved. Abstentions will be counted as present and entitled to vote for purposes of Proposal #2 and, therefore, will have the same effect as a vote against Proposal #2.

The proposal to approve the amendment and restatement of the 1997 Stock Plan under Proposal #3 requires the affirmative vote of the holders of a majority of the common stock present, represented and entitled to vote at the annual meeting. Stockholders may vote FOR, AGAINST or ABSTAIN on Proposal #3. Broker non-votes will not be counted for the purposes of determining whether Proposal #3 has been approved. Abstentions will be counted as present and entitled to vote for purposes of Proposal #3 and, therefore, will have the same effect as a vote against Proposal #3.

The ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm under Proposal #4 requires the affirmative vote of the holders of a majority of the common stock present, represented and entitled to vote at the annual meeting. Stockholders may vote FOR, AGAINST or ABSTAIN on Proposal #4. Abstentions will be counted as present and entitled to vote for purposes of Proposal #4 and, therefore, will have the same effect as a vote against Proposal #4.

Q: Who is soliciting my vote?

A: PCTEL is making this proxy solicitation and will bear the entire cost of it, including the preparation, assembly, printing, posting and mailing of proxy materials. PCTEL may reimburse brokerage firms and other custodians for their reasonable out-of-pocket expenses for forwarding these proxy materials to you. PCTEL expects Broadridge Financial Solutions, Inc. to tabulate the proxies and to act as the inspector of the election. In addition to this solicitation, proxies may be solicited by the Company s directors, officers and other employees by telephone, the Internet or fax, in person or otherwise. None of these persons will receive any additional compensation for assisting in the solicitation.

Deadline for Receipt of Stockholder Proposals and Nominations for 2016 Annual Meeting of Stockholders

Stockholders are entitled to present proposals for action and director nominations at the 2016 annual meeting of stockholders only if they comply with applicable requirements of the proxy rules established by the SEC and the applicable provisions of our bylaws. Stockholders must ensure that such proposals and nominations are received by our Corporate Secretary at the following address: 471 Brighton Drive, Bloomingdale, Illinois 60108, Attention: John W. Schoen, Corporate Secretary, on or prior to the deadline for receiving such proposals and nominations.

Proposals for the 2016 annual meeting of stockholders that are intended to be considered for inclusion in the proxy statement and form of proxy relating to such meeting must be received no later than January 1, 2016, and must comply with the procedures of Rule 14a-8 under the Securities Exchange Act of 1934 (the Exchange Act) and the provisions of our bylaws.

If a stockholder intends to submit a proposal or director nomination for consideration at our 2015 annual meeting of stockholders outside the procedures of Rule 14a-8 under the Exchange Act, the stockholder must comply with the requirements of our bylaws. We are not currently required to include such proposal or nomination in the proxy statement and form of proxy relating to such meeting. Our bylaws contain an advance notice provision that requires stockholders to submit a written notice containing certain information not less than 120 days prior to the date of our proxy statement for the previous year s annual meeting of stockholders. For purposes of the 2016 annual meeting of stockholders, this means that such proposals or nominations must also be received by January 1, 2016. A copy of the relevant bylaw provision is available upon written request to our Corporate Secretary at the address provided above.

Discretionary Voting Authority

The accompanying proxy card grants the proxy holders discretionary authority to vote on any business raised at the annual meeting. If you fail to comply with the advance notice provisions set forth above in submitting a proposal or nomination for the 2016 annual meeting of stockholders, the proxy holders will be allowed to use their discretionary voting authority if such proposal or nomination is raised at that meeting.

SUMMARY OF PROPOSALS

The Board of Directors has included four proposals on the agenda for our 2015 annual meeting of stockholders. The following is a brief summary of the matters to be considered and voted upon by the stockholders.

<u>Proposal #1</u>: Election of Directors

The Company has a classified Board of Directors. Each director serves a three-year term. The first proposal on the agenda for the annual meeting is the election of two Class I directors to serve until the 2018 annual meeting of stockholders. The Board of Directors has nominated Cindy K. Andreotti and Brian J. Jackman to serve as the Class I directors. Additional information about the election of directors and a biography of each nominee begins on page 7.

The Board of Directors recommends a vote FOR each of the two nominees.

<u>Proposal #2</u>: Advisory Vote to Approve the Company s Named Executive Officer Compensation

The Company is providing its stockholders with the opportunity to cast a non-binding advisory vote on the Company s proposed compensation for its named executive officers, as described in this proxy, in accordance with SEC rules. The Company s overall philosophy is to offer competitive compensation opportunities that enable the Company to attract, motivate and retain highly experienced executive officers who will provide leadership for the Company s success and enhance stockholder value. The Company believes that its compensation for named executive officers, which includes short-term and long-term elements, fulfills this goal and is closely aligned with the long-term interests of its stockholders. More information about this proposal begins on page 11.

The Board of Directors recommends a vote FOR approval of the Company s Named Executive Officer Compensation.

<u>Proposal #3</u>: Approval of the Amendment and Restatement of the 1997 Stock Plan

The third proposal on the agenda for the annual meeting is the approval of the amendment and restatement of the 1997 Stock Plan to increase the number of shares of PCTEL common stock available for grants pursuant to awards under such Plan and to make certain other changes. More information about this proposal begins on page 12.

The Board of Directors recommends a vote FOR approval of the Amendment and Restatement of the Employee Stock Purchase Plan.

<u>Proposal #4</u>: Ratification of the appointment of the Independent Registered Public Accounting Firm

The fourth proposal on the agenda for the annual meeting is the ratification of the appointment of Grant Thornton LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2015. More information about this proposal begins on page 21.

The Board of Directors recommends a vote FOR the ratification of the appointment of Grant Thornton LLP as the independent registered public accounting firm.

Other Matters

Other than the proposals listed above, the Board of Directors does not currently intend to present any other matters to be voted on at the meeting. The Board of Directors is not currently aware of any other matters that will be presented by others for action at the meeting. However, if other matters are properly presented at the meeting and you have signed and returned your proxy card or voted on the Internet or by telephone, the proxies will have discretion to vote your shares on these matters to the extent authorized under the Exchange Act.

PROPOSAL #1

ELECTION OF DIRECTORS

Classification of Board of Directors

PCTEL has a classified Board of Directors, currently consisting of three classes. At each annual meeting of stockholders, one class of directors is elected for a term of three years to succeed those directors whose terms expire on the annual meeting date. There are two Class II directors whose terms will expire at the annual meeting next year. There are also three Class III directors whose terms are expiring at the 2017 annual meeting of stockholders, and two Class I directors whose terms will expire at this annual meeting of stockholders. The nominees for Class I directors are indicated in the section Nominees immediately below.

Nominees

On the recommendation of the Board of Directors, the nominees for election at the 2015 annual meeting of stockholders as Class I directors are Cindy K. Andreotti and Brian J. Jackman. If elected, each of the nominees will continue as a director until their terms expire at the annual meeting of stockholders in 2018.

The proxy holders may not vote the proxies for a greater number of persons than the number of nominees named. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the two Class I director nominees. In the event that any of the nominees is unable or declines to serve as a director at the time of the annual meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy. We are not aware of any nominee who will be unable or will decline to serve as a director.

Vote Required and Board of Directors Recommendation

If a quorum is present and voting, the two nominees receiving the highest number of votes will be elected to the Board of Directors. Abstentions and broker non-votes are not counted in the election of directors.

The Board of Directors has approved the director nominees and recommends that stockholders vote FOR the election of the director nominees listed above.

Directors and Nominees

The following table sets forth certain information regarding the current directors and director nominees to be elected at the 2015 annual meeting of stockholders:

Name	Age	Position with PCTEL	Since
Class I director nominees to be elected at the 2015 annual meeting of stockholders whose terms will expire at the 2018 annual meeting of stockholders:			
Cindy K. Andreotti	59	Director	2013
Brian J. Jackman	74	Director	2002
Class II directors whose terms will expire at the 2016 annual meeting of stockholders:			
M. Jay Sinder	48	Director	2014
Carl A. Thomsen	70	Director	2001

Class III director nominees whose terms will expire at the 2017 annual meeting of stockholders:			
Steven D. Levy	58	Director	2006
Giacomo Marini	63	Director	1996
Martin H. Singer	63	Chief Executive Officer, Chairman of the Board	1999

Class I Directors / Nominees

Ms. Andreotti became a director in 2013. She is the President and CEO of The Andreotti Group LLC, a strategic business advisory firm serving domestic and global enterprise clients, private equity and institutional firms and international investment groups. Prior to launching The Andreotti Group in 2005, Ms. Andreotti enjoyed a 26-year career in the telecommunications industry (12 years with AT&T and 14 years with MCI). While at MCI, Ms. Andreotti managed a $14 billion operation. In her last leadership role at MCI, she served as President, Enterprise Markets, which included the Global Accounts Segment, Government Markets, the Conferencing Business Unit and MCI Solutions (the managed services division of MCI). Before joining MCI, Ms. Andreotti managed national accounts at AT&T, most notably Dayton Hudson (currently Target). She delivered the first-touch sensitive PDAs with related back office systems and network into Dayton Hudson s retail operation. Ms. Andreotti has served as Vice Chairman of the Japan American Society since 2007, a member of the Board of Trustees for the Americans in Wartime Museum since 2010, a member of the Board of Directors for the Community Foundation for Northern Virginia since November 2014, and a Senior Advisor and Executive Coach for WJM Associates, Inc. since 2009. Ms. Andreotti is also a past member of the Board of Directors for DiaXsys Inc., where she served on the Audit and Compensation Committees between 2011 and 2014, and a past member of the Board of Directors for APAC Customer Services, Inc., where she served as chair of the Compensation Committee and served on the Audit and Nominating and Corporate Governance Committees between 2005 and 2011. She also served on the Audit Committee of the Board of Directors of Rivermine Software Inc. between 2006 and 2011. Ms. Andreotti earned a B.A. from the College of St. Catherine in Business Administration and Women in Management. She has also attended executive management training at the Aspen Institute, Menninger Foundation and the Stanford School of Business Executive Leadership Program. Ms. Andreotti s industry experience in telecommunications sales, marketing, operations and management qualify her to serve on the Company s Board of Directors.

Mr. Jackman has been a director since February 2002. He is currently the President of The Jackman Group, Inc., a management consulting company that he formed in 2005. In September 2001, Mr. Jackman retired from Tellabs, a communications company he had been with since 1982. Mr. Jackman served as President, Global Systems and Technology, and Executive Vice President of Tellabs since 1998 and as President of Tellabs Operations from 1993 to 1998. Prior to that, Mr. Jackman held various management positions in sales and marketing for IBM from 1965 to 1982. Commencing in January 2003, he joined the board of directors of Open Text, Inc., an enterprise content management solutions company, where he also currently serves on the Compensation Committee. Commencing January 2005 through December 2010, Mr. Jackman served on the board of directors of Keithley Instruments, a test and measurement equipment company. In total, Mr. Jackman has served on the boards of eight companies in the technology sector. In addition, Mr. Jackman served on the board of trustees of Gannon University in Erie, Pennsylvania from May 2001 to May 2010. Mr. Jackman holds a Bachelor of Arts degree in English literature from Gannon University and a Master s degree in Business Administration from Penn State University. Mr. Jackman s specific experience with a test and measurement equipment company as well as his extensive experience in sales, marketing and management functions with telecommunications and high tech companies, and his current and prior service on the board of directors of other companies, make him qualified to serve on the Company s Board of Directors and as the Lead Independent Director.

Class II Directors

Mr. Sinder has been a director since December 2014. Mr. Sinder is a telecommunications industry veteran with executive and financial experience at both public and private companies. He currently works as a management consultant and private investor. Since September 2013, he has served as a member of the board of directors of Contec, LTD, a cable set-top box repair company based in New York, and as a member of the board of directors of TNCI Operating Company, LLC, a national telecommunications company based in California. Previously, he served as CEO of CoreLink Data Centers LLC from 2012-2013. Prior to his promotion to CEO, Mr. Sinder was CFO of CoreLink from 2010-2012. Mr. Sinder also served as CFO at Hostway Corporation from

2009-2010 and at Hu-Friedy Mfg. Co., Inc. from 2005-2008. From 1998-2004, he served at Focal Communications Corporation in a variety of executive and financial positions, including CFO, Treasurer, and Vice President, Corporate Development. Prior to joining Focal, Mr. Sinder held finance positions at Ameritech, MCI Communications, Telephone and Data Systems and IBM. Mr. Sinder holds a B.S. from the University of Michigan and an MBA from the University of Chicago. Mr. Sinder s financial knowledge and expertise and his experience serving in a variety of executive and financial positions at various corporations, including as CEO, CFO and Treasurer, make him qualified to serve on the Company s Board of Directors and Audit Committee.

Mr. Thomsen has been a director since March 2001. Mr. Thomsen served as Senior Vice President, Chief Financial Officer and Corporate Secretary at Stratex Networks, Inc. (now Aviat Networks, Inc.), a provider of wireless transmission solutions, from 1995 to 2007. At Stratex, Mr. Thomsen was responsible for worldwide financial reporting, legal and treasury functions, tax, IT, human resources and investor relations. From 1984 to 1995, Mr. Thomsen worked at Measurex Corporation, a process control systems company (now a part of Honeywell Corporation) where he served as Senior Vice President and Chief Financial Officer. From 1975 to 1983, Mr. Thomsen was employed by Ampex Corporation (now a part of Honeywell Corporation) in various senior financial positions. From May 2007 to April 2010, and beginning in April 2012 and continuing to the present, Mr. Thomsen serves as a member of the board of directors of the Cardiac Therapy Foundation of the Mid-Peninsula, a non-profit organization providing a cardiovascular wellness and rehabilitation program. Commencing in April 2013, Mr. Thomsen also serves as Chief Financial Officer of the Cardiac Therapy Foundation. From December 2009 through July 2010, Mr. Thomsen served as a member of the board of directors and the Audit Committee of SonicWALL, Inc., a developer of security solutions. Mr. Thomsen holds a Bachelor of Science degree in Business Administration from Valparaiso University and a Master s degree in Business Administration from the University of Michigan. He is also a certified public accountant, with over 40 years of financial experience in a variety of companies and as an auditor with a public accounting firm, having started his financial career with Arthur Andersen LLP, a public accounting firm. Mr. Thomsen s experience as a certified public accountant and chief financial officer, his past responsibilities for worldwide financial reporting and other treasury, tax and investor relations matters, as well as his prior participation on two other boards of directors, particularly on the Audit Committee, make him qualified to serve as the Chairman of the Audit Committee of the Company s Board of Directors.

Class III Directors

Mr. Levy has been a director since March 2006. He served as a Managing Director and Global Head of Communications Technology Research at Lehman Brothers from July 1998 until September 2005. Before joining Lehman Brothers, Mr. Levy was a Director of Telecommunications Research at Salomon Brothers from March 1997 to July 1998, a Managing Director and Head of the Communications Research Team at Oppenheimer & Co. from July 1994 to March 1997, and a senior communications analyst at Hambrecht & Quist from July 1986 to July 1994. As a securities analyst for almost 20 years, Mr. Levy became proficient in analyzing business strategies and financial results, having evaluated well over 100 companies. Mr. Levy is currently a member of the board of directors and the audit committee and chairs both the compensation and governance committees of Allot Communications, a data communications provider for carriers, and also a member of the board of directors of privately held GENBAND Inc., an innovator of IP Infrastructure. From January 2006 to February 2010, he served on the board of directors of Zhone Technologies, Inc., a broadband technology company, and commencing September 2005 as a Board member of Tut Systems, Inc., a technology company providing advanced content processing and distribution products and system integration services, prior to its March 2007 acquisition by Motorola, Inc. In total, Mr. Levy has served on five boards of directors and has been a member of the Audit Committee of each company. Mr. Levy holds a Master s degree in Business Administration and a Bachelor of Science degree in Materials Engineering from Rensselaer Polytechnic Institute. Mr. Levy provides a unique perspective to the Board of Directors, its Compensation Committee, and to its Nominating and Governance Committee which he chairs, as a result of his investment banking experience related to the telecommunications industry and his analytical skills. The Company benefits from his knowledge of financial markets, business strategies and competitive data analysis.

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Mr. Marini has been a director since October 1996. Mr. Marini has been Chairman and Chief Executive Officer of Neato Robotics, a home robots company, since February 2013. He is also the founder and Managing Director of Noventi Ventures, a Silicon Valley-based early stage technology venture capital firm begun in March 2002. Mr. Marini also served as interim Chief Executive Officer of FutureTel, a digital video capture company, and as President and Chief Executive Officer of No Hands Software, an electronic publishing software company. Prior to this, Mr. Marini was the co-founder, Executive Vice President and Chief Operating Officer of Logitech, a computer peripherals company. Previously, he held technical and management positions with Olivetti and IBM. Mr. Marini has extensive and broad executive operating experience. At Neato he leads a fast growing company with complex technology products and broad worldwide sales network. At Logitech International SA he managed engineering, operations and finance as the company grew from inception to over $200M in annual revenues, effected an initial public offering and expanded manufacturing and development in North America, Asia and Europe and sales presence in over 30 countries worldwide. At FutureTel (1998-1999) and No Hands Software (1993-1994) he managed rapid product development, decisive restructuring, new markets and product entries. Over the last 15 years he has also been managing venture capital investments in technology companies. This activity entails evaluating business plans, making investment decisions, assisting management in the formulation and execution of operating plans and strategic plans involving all facets of company operations. It also includes continuous evaluation of the performance of management teams, directing management changes and helping in recruiting executives for portfolio companies. Further, it requires the identification, evaluation and execution of exit strategies, such as acquisitions by other companies or initial public offerings. He has directed investments in over 15 companies, some of which have been acquired by market leaders such as BEA Systems, Cisco, HP and Symantec. He currently serves on the board of the University of California at Davis Foundation and on the boards of several private companies, including Ecrio Inc. since March 1999; Neato Robotics, Inc. since December 2006; and Velomat S.r.l since April 2012. Other past board service included TES S.p.A. from September 1994 to January 2012; Minerva Networks, Inc. from May 2003 through March 2013; Aurora Algae, Inc. from January 2007 to August 2012; Cosmo Industrie S.p.A. from December 2007 to December 2011; Windspire Energy, Inc. beginning December 2008 through March 2012, and Lumenergi, Inc. beginning February 2008 to May 2013. Mr. Marini holds a Computer Science Laurea degree from the University of Pisa, Italy. Overall, Mr. Marini brings experience with a wide variety of company situations both as a general management executive and as active board member and investor. These qualifications provide a solid basis for serving as a director, and member of the Audit Committee of a technology company, dealing with issues of growth, product and marketing strategy, international expansion and merger and acquisition activities.

Dr. Singer serves as the Company s Chief Executive Officer and Chairman of the Board, a position he has held since October 2001. Prior to that, he served as the Company s non-executive Chairman of the Board from February 2001 until October 2001, and he has been a director of the Company since August 1999. From December 1997 to August 2000, Dr. Singer served as President and Chief Executive Officer of SAFCO Technologies, a wireless communications company. He left SAFCO in August 2000 after its sale to Agilent Technologies. From September 1994 to December 1997, he served as Vice President and General Manager of the wireless access business development division for Motorola, Inc., a communications equipment company. Prior to this period, Dr. Singer held senior management and technical positions in Motorola, Tellabs, AT&T and Bell Labs. Dr. Singer holds a Bachelor of Arts degree in psychology from the University of Michigan and a Master of Arts degree and Ph.D. in Experimental Psychology from Vanderbilt University. He served on the Standing Advisory Group for the Public Company Accounting Oversight Board and on the Advisory Board for the MMM program at Kellogg School of Business. From March 2009 until September 2010 he served on the board of directors of Westell Technologies, Inc., a leading provider of broadband products, gateways and conferencing services, and was Chair of Westell s Compensation Committee. In 2006, Dr. Singer was appointed to the board of directors of ISCO International, a provider of spectrum conditioning solutions to wireless and cellular providers worldwide, where he also chaired the Compensation Committee until he left the board in 2007. In 2012, he was elected to the board of directors of Multiband Corporation, and served as Chair of the Compensation Committee until the sale of Multiband last year. Dr. Singer is a member of the Economic Club of Chicago. Dr. Singer has 8 patents in telecommunications and is the author of several essays on the telecommunications industry and technology competitiveness. He provides expertise in business strategy, intellectual property, strategic alliances and business technology.

PROPOSAL #2

ADVISORY VOTE TO APPROVE THE COMPANY S

NAMED EXECUTIVE OFFICER COMPENSATION

As required by Section 14A of the Exchange Act and related SEC rules, the Board of Directors is requesting that the stockholders approve, on a non-binding, advisory basis, the following resolution relative to the compensation of the Company s named executive officers:

RESOLVED, that the stockholders hereby APPROVE the compensation of the Company s named executive officers, as disclosed pursuant to the compensation rules of the SEC, including the Compensation Discussion and Analysis, the compensation tables and related narrative discussion disclosed in this proxy statement.

The compensation of the Company s named executive officers is described in the Compensation Discussion and Analysis section of this proxy, including the compensation tables that accompany the narrative. The overall objectives of the executive compensation program is to provide incentives to motivate the Company s executive officers and key managers to perform to the best of their abilities and to closely align their interests with those of the Company s stockholders, with the objective of enhancing stockholder value and promoting long-term, sustainable growth. A significant portion of each named executive officers overall compensation is performance-based and tied to the achievement of defined goals, with short-term incentive payments made in cash and long-term incentive payments made in restricted stock.

The proposal to approve the compensation of the Company s named executive officers requires the affirmative vote of the holders of a majority of the shares of common stock present, represented and entitled to vote at the annual meeting. Accordingly, broker non-votes will not be relevant to the outcome. Abstentions will be counted as being present and entitled to vote for purposes of Proposal #2 and, therefore, will have the same effect as a vote against Proposal #2. Because this vote is advisory, it will not be binding on the Compensation Committee or the Board of Directors. However, the Board of Directors and the Compensation Committee will carefully evaluate the voting results and take them into account when considering future executive compensation matters.

The Board of Directors recommends a vote FOR approval of the Company s named executive officer compensation, as disclosed in this proxy statement.

PROPOSAL #3

APPROVAL OF THE 1997 STOCK PLAN

AS AMENDED AND RESTATED

The stockholders are being asked to approve an amendment and restatement of the PCTEL, Inc. 1997 Stock Plan (the Stock Plan), including an increase in the number of shares reserved for issuance under the Stock Plan and certain other amendments as described below. The Board of Directors has approved the proposed amendment and restatement of the Stock Plan, subject to, and effective as of, approval from the stockholders at this 2015 annual meeting. If the stockholders approve the amendment and restatement of the Stock Plan, to be thereafter known as the PCTEL, Inc. Stock Plan, it will replace the current version of the Stock Plan. If the stockholders do not approve the Stock Plan, the current 1997 Stock Plan will remain in effect through the remainder of its term or until such earlier time as the remaining shares available for grants have been granted. Approval of the Stock Plan requires the affirmative vote of the holders of a majority of the shares of the company s common stock that are present in person or by proxy and entitled to vote at this 2015 annual meeting.

The Board of Directors believes that long-term incentive compensation programs align the interests of management, employees and the stockholders to create long-term stockholder value. The Board of Directors believes that plans such as the Stock Plan increase the company s ability to achieve this objective, especially, in the case of the Stock Plan, by allowing for several different forms of long-term incentive awards, which the Board of Directors believes will help the company to recruit, reward, motivate and retain talented personnel. Substantially all shares remaining available for grants under the Stock Plan have been committed to awards under various incentive programs, and without additional shares, the company would not be able to provide incentives to its key personnel in 2015 and subsequent years.

The Stock Plan is also designed to allow the company to deduct in full for federal income tax purposes the compensation recognized by its executive officers in connection with certain awards granted under the Stock Plan, provided, however that the Compensation Committee retains the authority to make nondeductible awards to the extent it finds them necessary and appropriate. Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally denies a corporate tax deduction for annual compensation exceeding $1 million paid to the chief executive officer and other covered employees as determined under Section 162(m) of the Code and applicable guidance. However, certain types of compensation, including performance-based compensation, are generally excluded from this deductibility limit. By approving the Stock Plan, the stockholders will be approving, among other things, eligibility requirements for participation in the Stock Plan, performance measures upon which specific performance goals applicable to certain awards would be based, limits on the numbers of shares or compensation that could be made to participants, and the other material terms of the awards described below.

Changes Being Made to the Plan

The following is a summary of the material changes being made to the Stock Plan:

Stockholders are being asked to approve an increase of 3,573,981 shares of common stock to be authorized for issuance under the Stock Plan. The Stock Plan as amended provides that the maximum number of shares that may be issued under the Stock Plan after the effective date of the amendment is equal to the sum of (i) 3,573,981 shares, plus (ii) any shares returned to the Stock Plan on or after the date of approval of the amendment and restatement of the 1997 Stock Plan as a result of the lapsed awards, plus (iii) any remaining shares available for grant under the 1997 Stock Plan as of the effective date of the amendment. As of March 31, 2015, the maximum aggregate number of shares available under the 1997 Stock Plan for future grants was 2,044,432. In addition, under the 1997 Stock Plan there were an aggregate of 317,928 unvested restricted shares outstanding and outstanding options to purchase 1,463,840 shares. The weighted average exercise price of these options is $7.84 and the weighted average remaining term is 4.07 years. Substantially all of the shares that remain available for grants under the

1997 Stock Plan have already been committed to awards under various incentive programs. Additional shares being requested are necessary to enable the company to continue making planned awards in 2015 and subsequent years.

The Stock Plan provides that to the extent options or stock appreciation rights granted under the Plan terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, and to the extent that any shares of restricted stock, restricted stock units, performance shares/units or dividend equivalents payable in shares are forfeited or terminated, or otherwise are not paid in full, the shares reserved for such awards shall again be available for purposes of the Plan. Shares surrendered in payment of the exercise price of an option and shares withheld or surrendered for payment of taxes shall not be available for re-issuance under the Stock Plan. If stock appreciation rights are exercised and settled in shares, the full number of shares subject to the stock appreciation rights will be considered issued under the Stock Plan, without regard to the number of shares issued upon settlement of the stock appreciation rights. Awards that are settled in cash in accordance with an award agreement will not count against the share reserve under the Stock Plan. The lapsed share provisions apply to determine the aggregate number of shares available for grants and not for purposes of determining the maximum number of shares that may be granted to any participant under the Stock Plan. Shares repurchased by the company on the open market with the proceeds of the exercise of options may not again be made available for issuance under the Plan.

The Stock Plan will require all awards granted under this plan to be subject to a minimum one year vesting from the date of grant. The Committee may, however, accelerate vesting without regard to the minimum period to the extent it deems appropriate. Further, up to 5% of the Shares reserved for grants under the Stock Plan would be available for grants without regard to the minimum vesting requirement.

The Board of Directors believes strongly that the approval of the amended and restated PCTEL Stock Plan is essential to the company s continued success. In particular, the Board of Directors believes that the company s employees are its most valuable assets and that the awards permitted under the Stock Plan are vital to the company s ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which the company competes. Such awards also are crucial to the company s ability to motivate employees to achieve its goals.

Vote Required and Recommendation

The affirmative vote of the holders of a majority of the shares of PCTEL common stock present or represented by proxy and entitled to vote at the annual meeting will be required to approve this proposal.

The Board of Directors recommends that stockholders vote FOR the adoption of the Stock Plan, as amended and restated.

Summary of the Stock Plan, as Amended and Restated

The following is a summary of the principal features of the amended and restated Stock Plan and its operation. The summary is qualified in its entirety by reference to the Stock Plan itself set forth in Appendix A.

The Stock Plan provides for the grant of the following types of incentive awards: (i) stock options, (ii) stock appreciation rights, (iii) restricted stock, (iv) restricted stock units, (v) performance shares, (vi) performance units, (vii) dividend equivalents, and (viii) other stock or cash awards. Each of these is referred to individually as an Award. Those who will be eligible for Awards under the Stock Plan include employees, directors and consultants who provide services to PCTEL and its affiliates. As of April 15, 2015, approximately 200 employees, directors and consultants were eligible to participate in the Stock Plan.

Number of Shares of Common Stock Available Under the Stock Plan. The maximum aggregate number of shares that may be awarded and sold under the Stock Plan after the effective date of the amendment and restatement is equal to the sum of (i) 3,573,981 shares, plus (ii) any shares returned to the Stock Plan on or after the date of approval of the amendment and restatement of the Stock Plan as a result of the Stock Plan s lapsed share Awards, plus (iii) any remaining shares that would have been available for grant under the Stock Plan as of the effective date of the amendment. The shares may be authorized, but unissued, or reacquired common stock.

Shares subject to Awards other than options or stock appreciation rights will count against the Stock Plan s share reserve as 1.78 shares for each share subject to such award. If shares acquired pursuant to Awards other than options or stock appreciation rights are forfeited or would otherwise return to the share reserve as described above, then 1.78 times the number of shares forfeited will return to the share reserve.

If PCTEL declares a stock dividend or engages in a reorganization or other change in its capital structure, including a merger, the Board of Directors will proportionately adjust (i) the shares covered by an outstanding Award, (ii) the number of shares available for issuance under the Stock Plan, (iii) the number and price of shares subject to outstanding Awards, and (iv) the number of shares specified as per-person limits on Awards, as appropriate, to reflect the change.

Minimum Vesting of Awards. All Awards granted under the Stock Plan will vest over a period that is no less than one year from the date of grant. The Committee may, however, accelerate vesting without regard to the minimum period in the event of a Participant s death, disability, change in control or a change in capitalization of the company. Further, up to 5% of the Shares reserved for grants under the Stock Plan would be available for grants without regard to the minimum vesting requirement.

Administration of the Stock Plan. The Board of Directors or a committee of directors or of other individuals satisfying applicable laws and appointed by the Board of Directors will administer the Stock Plan. To make grants to certain of the officers and key employees, the members of the committee must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934. The committee members must also qualify as outside directors under Section 162(m) (so that PCTEL can receive a federal tax deduction for certain compensation paid under the Stock Plan). Subject to the terms of the Stock Plan, the Board of Directors or its committee has the sole discretion to select the employees, consultants, and directors who will receive Awards, determine the terms and conditions of Awards, and to interpret the provisions of the Stock Plan and outstanding Awards. The Board of Directors or other committee administering the Stock Plan is referred to below as the Administrator.

Notwithstanding the foregoing, the Administrator may not modify or amend an option or stock appreciation right to reduce the exercise price of such option or stock appreciation right after it has been granted (except pursuant to the Stock Plan s adjustment provisions described above) nor may the Administrator cancel any outstanding option or stock appreciation right and replace it with any other Award with a lower exercise price, unless, in either case, such action is approved by the PCTEL stockholders. Also, if approved in advance by PCTEL s stockholders, the Administrator may offer to buy out an option or a stock appreciation right.

Notwithstanding anything in the Stock Plan to the contrary, the Administrator may allow a program where participants may voluntarily surrender existing options without consideration and such participants will remain eligible to receive their respective ordinary course equity grants in the next grant cycle. Any shares subject to such a voluntary surrender program will not become available for future grant or sale under the Stock Plan.

Options. The Administrator is able to grant nonstatutory stock options and incentive stock options under the Stock Plan. The Administrator determines the number of shares subject to each option, although the Stock Plan provides that a participant may not receive options for more than 300,000 shares in any fiscal year, except in connection with his or her initial service as an employee, in which case he or she may be granted an option to purchase up to an additional

150,000 shares.

The Administrator determines the exercise price of options granted under the Stock Plan, provided the exercise price must be at least equal to the fair market value of the common stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of outstanding PCTEL stock must be at least 110% of the fair market value of the common stock on the grant date.

For grants occurring on or following the approval of the amendment and restatement of the Stock Plan, the term of an option may not exceed 7 years, except that, with respect to any participant who owns 10% of the voting power of all classes of the company s outstanding capital stock, the term of an incentive stock option may not exceed 5 years.

After a termination of service with PCTEL, a participant will be able to exercise the vested portion of his/her option for the period of time stated in the Award agreement. If no such period of time is stated in the participant s Award agreement, the participant will generally be able to exercise his/her option for (i) three months following his or her termination for reasons other than death or disability, and (ii) twelve months following his or her termination due to death or disability.

Stock Appreciation Rights. The Administrator will be able to grant stock appreciation rights, which are the rights to receive the appreciation in fair market value of common stock between the exercise date and the date of grant. PCTEL can pay the appreciation in either cash or shares of common stock. Stock appreciation rights will become exercisable at the times and on the terms established by the Administrator, subject to the terms of the Stock Plan. The Administrator, subject to the terms of the Stock Plan, will have complete discretion to determine the terms and conditions of stock appreciation rights granted under the Stock Plan, provided, however, that the exercise price will not be less than 100% of the fair market value of a share on the date of grant. The term of a stock appreciation right may not exceed 7 years. No participant will be granted stock appreciation rights covering more than 300,000 shares during any fiscal year, except that a participant may be granted stock appreciation rights covering up to an additional 150,000 shares in connection with his or her initial service as an employee with PCTEL or its affiliates.

After termination of service with PCTEL, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time stated in the Award agreement. If no such period of time is stated in a participant s Award agreement, a participant will generally be able to exercise his or her stock appreciation right for (i) three months following his or her termination for reasons other than cause, death, or disability, and (ii) twelve months following his or her termination due to death or disability. In no event will a stock appreciation right be exercised later than the expiration of its term.

Restricted Stock. Restricted stock is shares of PCTEL common stock which vest in accordance with the terms and conditions established by the Administrator in its sole discretion. For example, the Administrator may set restrictions based on the achievement of specific performance goals, or on the passage of time subject to the participant s continued service as an employee with PCTEL. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed. On the date set forth in the Award agreement, the restricted stock for which restrictions have not lapsed will revert to PCTEL and again will become available for grant under the Stock Plan.

The Award agreement will generally grant PCTEL a right to repurchase or reacquire unvested shares upon the termination of the participant s service with PCTEL for any reason (including death or disability). The Administrator will determine the number of shares granted pursuant to an Award of restricted stock, but no participant will be granted a right to purchase or acquire more than 150,000 shares of restricted stock during any fiscal year, except that a participant may be granted up to an additional 75,000 shares of restricted stock in connection with his or her initial service as an employee with PCTEL or its affiliates.

Restricted Stock Units. Awards of restricted stock units result in a payment to a participant only if the vesting criteria the Administrator establishes are satisfied. For example, the Administrator may set restrictions

based on the achievement of specific performance goals. Upon satisfying the applicable vesting criteria, the participant will be entitled to the payout specified in the Award agreement. Notwithstanding the foregoing, at any time after the grant of restricted stock units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout. The Administrator, in its sole discretion, may pay earned restricted stock units in cash, shares, or a combination thereof. Restricted stock units that are fully paid in cash will not reduce the number of shares available for grant under the Stock Plan. On the date set forth in the Award agreement, all unearned restricted stock units will be forfeited to PCTEL.

The Administrator determines the number of restricted stock units granted to any participant, but during any fiscal year of PCTEL, no participant may be granted more than 150,000 restricted stock units, except that the participant may be granted up to an additional 75,000 restricted stock units in connection with his or her initial employment with PCTEL or its affiliates.

Performance Units and Performance Shares. The Administrator will be able to grant performance units and performance shares, which are Awards that will result in a payment to a participant only if the performance goals or other vesting criteria the Administrator may establish are achieved or the Awards otherwise vest. The Administrator will establish performance or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Notwithstanding the foregoing, after the grant of performance units or shares, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such performance units or shares.

During any fiscal year, no participant will receive performance units having an initial value greater than $500,000. In addition, no participant will receive more than 150,000 performance shares during any fiscal year, except that a participant may be granted up to an additional 75,000 performance shares in connection with his or her initial employment with PCTEL. Performance units and performance shares will have an initial value equal to the fair market value of a share of the company s common stock on the date of grant.

Dividend Equivalents. The Administrator may, in its discretion, include in any award agreement a dividend equivalent right entitling the participant to receive amounts equal to the dividends that would be paid, during the time any such Award is outstanding, on the shares of common stock covered by such Award as if such shares were then outstanding. Dividend equivalents on a share of common stock will not be paid to a participant before the vesting date for the share. The recipient of a dividend equivalent right will have only the rights of a general unsecured creditor until payment of such amount is made as specified in the applicable Award agreement.

Performance Goals. At the time of grant, the Committee may designate Awards of restricted stock, restricted stock units, performance shares, performance units and other incentives under the Stock Plan as performance-based compensation intended to satisfy the requirements of Section 162(m) with respect to certain officers and key employees of the company. Within the maximum period after the beginning of a performance period, the Committee will specify in writing the length of the performance period (not shorter than one calendar quarter), the types of Awards to be issued, the performance goals and their targeted level of achievement and any other terms of Awards applicable for the Performance Period. The extent to which any Awards will be paid out will be based solely on the degree of achievement of the objective performance goals. The performance goals will be based on one or more performance measures, including: cash flow; cash position; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings per share; economic profit; economic value added; equity or stockholder s equity; market share; net income; net profit; net sales; operating earnings; operating income; profit before tax; ratio of debt to debt plus equity; ratio of operating earnings to capital spending; return on equity; return on net assets; return on sales, revenue, sales growth; or total return to stockholders. The performance goals may be used to measure the performance of PCTEL as a whole or any of its affiliates or business units; may be measured in absolute terms or in incremental increases or relative to a peer

group or index; and may be assigned different weights for different business segments or groups of participants. At the time the performance goals are established, the Committee will specify the manner in which the performance measures will be calculated and, in doing so, may include or exclude the impact of certain specified events from the calculation (e.g., asset acquisitions, asset write-downs, litigation or claim judgments or settlements). The performance goals may differ from participant to participant and from Award to Award. Before any payment of an award is made, the Committee will certify in writing the level of achievement of the performance goals and satisfaction of any other material terms of the award.

Awards to Outside Directors. Generally, on the date one first becomes a non-employee director (Outside Director), such Outside Director will automatically receive restricted stock with an aggregate fair market value determined by the Board in its discretion, unless applicable law requires shareholder approval. Subsequently, on the date of each annual meeting, each Outside Director receives a grant of restricted stock with an aggregate fair market value determined by the Board in its discretion, unless applicable law requires shareholder approval, subject to either re-election to the board at such meeting or continued service as a director. Outside directors who serve as members or chairs of committees receive additional service awards of restricted stock with aggregate fair market value determined by the Board in its discretion, unless applicable law requires shareholder approval. The terms of automatic awards to Outside Directors are as follows: (a) first awards vest annually over 3 years, subject to continued service as a director and (b) subsequent awards and additional service awards are not subject to any time-based or other similar restrictions.

Transferability of Awards. Awards granted under the Stock Plan are generally not transferable, and all rights with respect to an Award granted to a participant generally will be available during a participant s lifetime only to the participant. The Stock Plan prohibits the implementation of an award transfer program without the consent of the stockholders.

Change in Control. In the event of a change in control of PCTEL, absent any contractual agreement to the contrary, each outstanding Award, other than Awards that vest or are paid-out based upon the satisfaction of performance goals, will be assumed or an equivalent Award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation, or the parent or subsidiary of the successor corporation, refuses to assume or substitute for the Awards, the participant will fully vest in and have the right to exercise all of his/her outstanding non-performance based Awards, including shares as to which such Awards would not otherwise be vested or exercisable, and all non-performance based restrictions on restricted stock will lapse. With respect to any restricted stock, restricted stock unit, performance share, performance unit or other performance-based Award which is not assumed or substituted for, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. If the change in control occurs during a performance period, the participant will receive a pro-rated amount of the performance-based Award based on the amount of time he/she was a service provider during the performance period before the change in control. If an Award becomes fully vested and exercisable in lieu of assumption or substitution in the event of a change in control, the Administrator will notify the participant in writing or electronically that the Award will be fully vested and exercisable for 15 days from the date of such notice, and the Award will terminate upon the expiration of such period.

With respect to Awards granted to Outside Directors, in the event of a change in control of PCTEL, the Outside Director will fully vest in and have the right to exercise all of his or her Awards, including shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on restricted stock will lapse, and, with respect to restricted stock units, performance shares and performance units, all performance goals or other vesting criteria will be deemed achieved at target levels and all other terms and conditions met. Each Outside Director will receive payment of a pro-rated amount of the performance shares, performance units, or other performance-based Award that would have actually been earned had the Outside Director remained a service provider through the end of the performance period based on the amount of time the Outside Director was a service provider during the performance period before the change in control. The prorated amount will be paid out within 30 days after the consummation of the change in control.

Amendment and Termination of the Stock Plan. The Administrator will have the authority to amend, alter, suspend or terminate the Stock Plan, except that stockholder approval will be required for any amendment to the Stock Plan to the extent required by any applicable laws. No amendment or termination of the Stock Plan will impair the rights of any participant under the Awards that were made before and are outstanding as of the date of the amendment or termination, unless mutually agreed otherwise between the participant and the Administrator in writing signed by the participant and PCTEL. The Stock Plan will terminate in 2025, unless the Administrator or the Board of Directors terminates it earlier. No Awards will be issued after the Stock Plan s suspension or termination, but previous Awards may extend beyond such date in accordance with their terms.

Number of Awards Granted to Employees, Consultants and Directors

The number of Awards that an employee, director or consultant may receive under the Stock Plan is in the discretion of the Administrator and therefore cannot be determined in advance. The following table sets forth (a) the aggregate number of shares of common stock subject to Awards granted under the Stock Plan during the last fiscal year, and (b) the average per share exercise price or value of such Awards. As of April 16, 2015, the closing price of PCTEL s common stock on the NASDAQ Global Market was $7.32 per share.

Awards Granted for the Fiscal Year Ended December 31, 2014

Name of Individual or Group	Number of Options Granted	Average Per Share Exercise Price ($)	Number of Shares of Restricted Stock	Grant Date Value of Shares of Restricted Stock ($)
Martin H. Singer, Chairman of the Board and Chief Executive Officer			28,000	237,160
John W. Schoen, Senior Vice President, Chief Financial Officer and Corporate Secretary			14,000	118,580
Jeffrey A. Miller, Senior Vice President and General Manager, Site Solutions			18,000	152,460
David A. Neumann, Vice President and General Manager, RF Solutions			23,000	194,810
Anthony Kobrinetz, Vice President, Site Solutions Operations and CTO			15,000	127,500
All Named Executive Officers as a group			98,000	830,060
All Directors that are not Named Executive Officers			44,960	354,931
All Employees that are not Named Executive Officers	25,800	8.19	420,450	3,535,682

Certain Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and PCTEL of Awards granted under the Stock Plan. Tax consequences for any particular individual may be different.

Incentive Stock Options. A participant recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Participants who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option normally will recognize a capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If a participant satisfies such holding periods upon a sale of the shares, PCTEL will not be entitled to any deduction for federal income tax purposes. If a participant disposes of shares within two years after the date of grant or within one year after the date of exercise (a disqualifying disposition), the difference between the fair market value of the shares on the exercise date and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the participant upon the disqualifying disposition of the shares generally should be deductible by PCTEL for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the exercise date is treated as an adjustment in computing the participant s alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to participants subject to the alternative minimum tax.

Nonstatutory Stock Options. Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special tax status. A participant generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the participant normally recognizes ordinary income equal to the amount by which the fair market value of the shares on such date exceeds the exercise price. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. No tax deduction is available to PCTEL with respect to the grant of a nonstatutory stock option or the sale of the stock acquired pursuant to such grant.

Stock Appreciation Rights. In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the fair market value of any shares of PCTEL common stock received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock. A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the vesting date. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The participant may elect, pursuant to Section 83(b) of the Code, to accelerate the ordinary income tax event to the date of acquisition by filing an election with the Internal Revenue Service no later than 30 days after the date the shares are acquired. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Restricted Stock Unit Awards. There are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the Administrator or a participant. Any additional gain or loss recognized upon any later disposition of any shares received would be capital gain or loss.

Performance Shares and Performance Unit Awards. A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or non-restricted shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Dividend Equivalent Awards. A participant generally will recognize ordinary compensation income each time a dividend is paid pursuant to the dividend equivalent rights Award equal to the fair market value of the dividend received. If the dividends are deferred, additional requirements must be met to ensure that the dividend is taxable upon actual delivery of the shares, instead of the grant of the dividend.

Tax Effect for PCTEL. PCTEL generally will be entitled to a tax deduction in connection with an award under the Stock Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to the chief executive officer and other covered employees as determined under Section 162(m) and applicable guidance.

Section 409A. Section 409A of the Code provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual s deferral and distribution elections and permissible distribution events. Awards granted under the Stock Plan with a deferral feature will be subject to the requirements of Section 409A of the Code. If an award is subject to and fails to satisfy the requirements of Section 409A of the Code, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be prior to when the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A s provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON PARTICIPANTS AND PCTEL WITH RESPECT TO THE GRANT AND EXERCISE OF AWARDS UNDER THE STOCK PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF A PARTICIPANT S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE PARTICIPANT MAY RESIDE.

PROPOSAL #4

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Grant Thornton LLP, an independent registered public accounting firm, to audit the Company s financial statements for the fiscal year ending December 31, 2015. This appointment is being presented to the stockholders for ratification at the 2015 annual meeting of stockholders.

Before selecting Grant Thornton LLP as the independent registered public accounting firm for the Company for fiscal year 2015, the Audit Committee carefully considered the firm s qualifications as independent auditors. This included a review of the qualifications of the engagement team, the quality control procedures the firm has established and its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee s review also included matters required to be considered under the SEC s rules on auditor independence, including the nature and extent of non-audit services, to ensure that Grant Thornton LLP s independence will not be impaired.

Grant Thornton LLP has been conducting independent audits of the Company s financial statements since May 2006. Representatives of Grant Thornton LLP are expected to be present at the 2015 annual meeting of stockholders. They will have the opportunity to address the audience at the meeting, and will be available to answer appropriate questions from stockholders.

Summary of Fees

The following table summarizes the aggregate fees billed to the Company by Grant Thornton LLP for the Company s 2014 and 2013 fiscal years:

Type of Fees	**Fiscal Year 2014 ($)**	**Fiscal Year 2013 ($)**
Audit Fees (1)	687,218	699,200
Audit-Related Fees (2)	10,700	10,593
All Other Fees (3)	206,118	
Total Fees	904,436	709,793

(1) *Audit Fees* These are fees for professional services for fiscal years 2014 and 2013. The professional services provided included auditing the Company s annual financial statements, reviewing the Company s quarterly financial statements and other services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) *Audit-Related Fees* These are fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements that are not reported as Audit Fees above. For fiscal years 2014 and 2013, these fees related to auditing the Company s 401(k) and profit sharing plan.

(3) *All Other Fees* These are fees for permissible services that do not fall within the above categories. For fiscal year 2014, $179,868 of these fees related to due diligence services associated with the Company s acquisition activities.

Pre-Approval of Independent Auditor Services and Fees

The Audit Committee reviewed and pre-approved all audit and non-audit fees for services provided to the Company by Grant Thornton LLP and has determined that the firm s provision of such services to the Company during fiscal year 2014 is compatible with and did not impair Grant Thornton LLP s independence. It is the practice of the Audit Committee to consider and approve in advance all auditing and non-auditing services provided to the Company by the independent registered public accounting firm in accordance with the applicable requirements of the SEC.

Vote Required and Recommendation

Stockholder ratification of the selection of Grant Thornton LLP as the independent registered public accounting firm for the Company is not required by the Company s bylaws or other applicable legal requirement. However, the Board of Directors is submitting the selection of Grant Thornton LLP to the stockholders for ratification as a matter of good corporate practice. The affirmative vote of the holders of a majority of the shares of common stock present, represented and entitled to vote at the annual meeting, will constitute ratification of the appointment of Grant Thornton LLP as the Company s independent registered public accounting firm under Proposal #4. Abstentions will be counted as present and entitled to vote for purposes of Proposal #4 and, therefore, will have the same effect as a vote against Proposal #4. Notwithstanding the selection by the Audit Committee of Grant Thornton LLP or stockholder ratification of that selection, the Audit Committee may direct the appointment of a new independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interest of the Company and the stockholders. If the selection of Grant Thornton LLP is not approved at the annual meeting, the Audit Committee will investigate the reason for the rejection and reconsider the appointment.

The Board of Directors recommends that stockholders vote FOR the ratification of Grant Thornton LLP as the Company s independent registered public accounting firm.

CORPORATE GOVERNANCE

Board and Committee Meetings

The Board of Directors held a total of 5 meetings during fiscal 2014.

The Board of Directors currently has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. The members of each of the committees are listed in the table below. Each member of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee meets the applicable SEC and NASDAQ independence requirements. The Board of Directors has determined that Mr. Thomsen qualifies as an audit committee financial expert as defined under the rules and regulations of the SEC, and that all members of the Audit Committee meet the NASDAQ financial literacy requirements. During 2014, each of the directors, other than Mr. Sinder, who became a director in December 2014, attended at least 75% of the total number of meetings of the Board of Directors and any committee on which such director served.

Committee	Members During Fiscal 2014	Committee Functions	Date Current Written Charter Adopted	Meetings Held in Fiscal 2014
Audit	Carl A. Thomsen (Chair) Steven D. Levy Giacomo Marini	Selects the independent auditors Oversees the internal financial reporting and accounting controls Consults with and reviews the services provided by independent auditors Identifies high-risk behaviors that potentially imperil the underlying value of the Company	Originally adopted August 1999; last amended September 2010	9
Compensation	Brian J. Jackman (Interim Chair) Cindy K. Andreotti Carolyn Dolezal[1]	Reviews and makes recommendations to the Board of Directors regarding the compensation and benefits of the Chief Executive Officer	Originally adopted August 1999; last amended March 2013	8

		Reviews and approves compensation and benefits of the named executive officers other than the Chief Executive Officer and reviews compensation and benefits of the other executive officers and key managers Establishes and reviews general policies relating to the compensation and benefits of the employees Balances the portion of executive compensation tied to achievement of performance goals with managing overall enterprise risk		
Nominating and Governance	Steven D. Levy (Chair) Cindy K. Andreotti Brian J. Jackman	Assists the Board of Directors in identifying and selecting prospective director nominees for the annual meeting of stockholders Reviews and makes recommendations on matters regarding corporate governance, composition of the Board of Directors, evaluation and nominations, committees of the Board of Directors and conflicts of interest Oversees and coordinates the risk management activities of the Company	Originally adopted February 2004; last amended September 2010	4

	Establishes, maintains and improves corporate governance guidelines	

(1) Ms. Dolezal served as a director and as Chair of the Compensation Committee through September 26, 2014, when she resigned from the Board of Directors in order to accept her current position as the Company s Vice President, Strategy and Chief Marketing Officer.

A copy of each charter for the committees of the Board of Directors is available on the website located at www.pctel.com under the About Us menu in the Corporate Governance section under the caption Essential Governance Documents.

Board Leadership Structure

The members of the Board of Directors believe that their familiarity with the Company, their insight into the industries in which the Company is engaged, and their knowledge of the challenges and opportunities arising in this evolving economy place the Board of Directors in the best position to determine the optimal leadership structure for the Company. The Board of Directors has determined that combining the roles of Chairman of the Board and Chief Executive Officer is the optimal structure for the Company at this time. Mr. Singer, who currently fills both roles, commenced his involvement with the Company as a Director on the Company s Board in 1999, became the non-executive Chairman of the Board in February 2001, and subsequently became the Chief Executive Officer in October 2001. The Board of Directors believes that the stockholders are best served by Mr. Singer fulfilling both roles, thereby unifying the leadership and direction of the Board with the management of the Company, and enabling the Company to move decisively to meet challenges and maximize opportunities for growth. The Board of Directors maintains independent and effective oversight of the Company s business through the strong leadership provided by the Lead Independent Director (as defined in the immediately succeeding paragraph) and the Board committees, and through the composition of the Board, with all directors other than the Chairman being independent directors.

Mr. Jackman is currently the lead independent director of the Board of Directors (Lead Independent Director). As Lead Independent Director, his principal responsibilities are (i) working with the Chairman and Chief Executive Officer and the other members of the Board of Directors to set the agenda for each meeting of the Board of Directors, (ii) serving as a liaison for communications between the Board of Directors and the Chief Executive Officer, (iii) acting as the chair for executive sessions held at regularly scheduled meetings of the Board of Directors, and (iv) consulting with the General Counsel regarding communications received from the stockholders.

Independence

Currently the Board of Directors has seven members. The Board of Directors has determined that the six non-employee directors are independent directors based on the NASDAQ and SEC standards for independence. Only independent directors may serve on the Audit, Compensation and Nominating and Governance Committees.

In determining the independence of the directors, the Board of Directors affirmatively determines whether a non-employee director has a relationship that would interfere with that director s exercise of independent judgment in carrying out the responsibilities of being a director. In coming to that decision, the Board of Directors is informed of the NASDAQ and SEC rules that disqualify a person from being considered as independent, considers the responses to an annual questionnaire from each director, and reviews the applicable standards with each member of the Board of Directors.

Risk Management

While the executive officers of the Company are responsible for the day-to-day management of the material risks facing the Company, the Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its oversight role, the Board of Directors has the responsibility to determine whether the risk management processes designed and implemented by management are adequate and functioning as designed. The involvement of the full Board of Directors in setting the Company s business strategy at least annually is a key part of its oversight of risk management, its assessment of management s appetite for risk, and its determination of what constitutes an appropriate level of risk for the Company. The Board of Directors has

assigned to the Nominating and Governance Committee the responsibility of working with Company management to identify, assess, and quantify risks facing the Company in order to create meaningful but cost-effective strategies to manage the Company s most significant risks. The Nominating and Governance Committee updates the full Board of Directors at the quarterly Board meetings regarding its efforts to manage enterprise risks and reports extensively on these efforts at the joint annual meeting of the Audit and Compensation Committees. The Board also regularly receives updates from management regarding certain of the significant risks facing the Company, including litigation and various operating risks.

In addition to the Nominating and Governance Committee s overall enterprise risk management efforts, each committee of the Board of Directors oversees certain aspects of enterprise risk management. For example, the Audit Committee is responsible for overseeing risk management of financial matters, financial reporting, the audit process, the adequacy of internal controls over financial reporting, and disclosure controls and procedures. The Compensation Committee oversees risks related to the compensation policies and practices. In its oversight, the Compensation Committee examines whether the compensation practice is consistent with the Compensation Committee s responsibilities (as set forth in Compensation Discussion and Analysis Responsibilities of the Compensation Committee) and its philosophy (as set forth in Compensation Discussion and Analysis Compensation Philosophy) and is aligned with the Company s goals and risk tolerance. In evaluating the compensation policies and practices, the Compensation Committee seeks advice and data regarding the Company s peer group from its independent compensation consultant. In addition to its role in working with management in the overall enterprise risk mitigation efforts, the Nominating and Governance Committee oversees governance related risks, such as board independence and conflicts of interest, as well as management and director succession planning. The committees report their findings to the full Board of Directors.

At its most recent joint meeting of the Audit and Compensation Committees, the members of both Committees reviewed risks applicable to the Company, focusing on vendor risk, human resources risk and cyber risk, and discussed ways to mitigate those risks. The NEOs (as identified in Compensation Discussion and Analysis Named Executive Officers) and certain other executive officers attend Board of Directors and committee meetings as needed, and are available to address any questions or concerns raised by the Board on risk management-related matters.

Director Nomination Process

Stockholder Recommendation and Nominations. It is the policy of the Nominating and Governance Committee to consider director candidates recommended by the stockholders holding on the date of submission of such recommendation at least 1% of the then-outstanding shares of PCTEL common stock continuously for at least 12 months prior to such date.

Stockholders desiring to recommend a candidate for election to the Board of Directors should send their recommendation in writing to the attention of the Corporate Secretary, at the Company s office located at 471 Brighton Drive, Bloomingdale, Illinois 60108. This written recommendation must include the information and materials required by the bylaws as well as the candidate s name, home and business contact information, detailed biographical data, relevant qualifications, a signed letter from the candidate confirming willingness to serve, information regarding any relationships between the candidate and the Company within the last three years and evidence of the required ownership of PCTEL common stock by the recommending stockholder. A copy of the Company s bylaws is available upon written request to the Corporate Secretary at the address provided above. For a description of the advance notice provision of the Company s bylaws, see Deadline for Receipt of Stockholder Proposals and Nominations for 2016 Annual Meeting of Stockholders immediately following the Questions and Answers section above. Additional information regarding stockholder recommendations for director candidates is set forth in the document entitled Policies and Procedures for Director Candidates available at www.pctel.com under the About Us menu in the Corporate Governance section under the caption Essential Governance Documents.

Identifying and Evaluating Nominees for Director. The Nominating and Governance Committee uses the following procedures for identifying and evaluating any individual recommended or offered for nomination to the Board of Directors:

The Committee considers candidates recommended by stockholders in the same manner as candidates recommended by other sources; and

The Committee considers the following factors in its evaluation of candidates:

- The current size and composition of the Board of Directors;
- The needs of the Board of Directors and its committees;
- The candidate s judgment, independence, character, integrity, age, education, area of expertise, knowledge of the telecommunications industry, experience with businesses and other organizations of comparable size, diversity, length of service and potential conflicts of interests;
- Skills which are complementary to those of the existing members of the Board of Directors; and
- Other factors that the Committee considers appropriate.

The Nominating and Governance Committee requires the following minimum qualifications to be satisfied by any candidate recommended or offered for nomination to the Board of Directors:

The highest personal and professional ethics and integrity;

Proven achievement and competence in the candidate s field and the ability to exercise sound business judgment;

The ability to assist and support management and make significant contributions to the Company s success; and

An understanding of the fiduciary responsibilities that are required of a member of the Board of Directors and the commitment of time and energy necessary to diligently carry out those responsibilities.

Diversity

In addition to the qualifications set forth above, in evaluating the suitability of candidates for the Board of Directors, the Nominating and Governance Committee considers the diversity of the candidates, and of the Board of Directors as a whole, based on factors such as business background, experience and potential contributions to the Board of

Directors. The Nominating and Governance Committee seeks to ensure that the Board of Directors is comprised of individuals with experience in industries that are complementary to the Company s business and individuals with financial and accounting experience in order to bring diverse business experience, knowledge and perspectives to the Board of Directors.

Compensation of Directors

Cash and Stock Compensation. The non-employee directors received an annual cash retainer of $25,000 and shares of common stock with value equivalent to $35,000 covering the period from the 2014 annual meeting until this 2015 annual meeting. The non-employee directors also received $1,500 per Board meeting attended (unless the Board meeting was conducted by teleconference, in which case directors received $1,000 for each telephonic meeting in which they participated) and $1,000 per committee meeting attended. In addition, the non-employee directors received the following additional shares of common stock:

the chair of the Audit Committee received shares of common stock with value equivalent to $10,000;

the chair of the Compensation Committee received shares of common stock with value equivalent to $10,000;

the chair of the Nominating and Governance Committee received shares of common stock with value equivalent to $7,000;

each other non-employee member of any of the foregoing committees received shares of common stock with value equivalent to $5,000; and

the Lead Independent Director received shares of common stock with value equivalent to $10,000.

All the grants of common stock to the non-employee directors, as described above, were awarded on the date of the annual meeting (*i.e.*, June 11, 2014) and have no vesting period. The number of shares granted was based on the total dollar value divided by the closing price of PCTEL common stock as presented by NASDAQ on the date of grant.

In addition to the above-referenced grants, new non-employee directors receive a one-time grant of restricted shares equivalent to $50,000 based upon the closing price of PCTEL common stock as represented by NASDAQ as of the first date of service, which vests in equal annual installments over three years.

Reimbursements. Each of the non-employee directors is reimbursed for all reasonable out of pocket expenses incurred in connection with his or her service on the Board of Directors.

Non-Employee Directors Compensation for the Fiscal Year Ended December 31, 2014

Name	**Fees Earned or Paid in Cash ($)**	**Stock Awards(1) ($)**	**Stock Options Awards ($)**	**All Other Compensation(2) ($)**	**Total ($)**
Cindy K. Andreotti	42,000	44,995		818	87,813
Carolyn Dolezal (3)	35,500	44,995		683	81,178
Brian J. Jackman	42,000	54,997		3,900	100,897
Steven D. Levy	39,500	46,997			86,497
Giacomo Marini	39,000	39,994		2,603	81,597
M. Jay Sinder (4)	12,500	70,000			82,500
Carl A. Thomsen	39,000	44,995			83,995

(1) The values shown reflect the fair market value of the award on the grant date. For a discussion of the valuation assumptions, see note 10 to the Company s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014. The stock award for Mr. Sinder reflects the one-time grant of restricted shares equivalent to $50,000 received by new non-employee directors and partial grants for board and committee membership for the current year.

(2) Ms. Andreotti and Ms. Dolezal received dividends on unvested common stock awards. Mr. Jackman and Mr. Marini exercised stock options with gain in the amounts reflected in the table.

(3) Ms. Dolezal resigned as a director on September 26, 2014 and on October 1, 2014 joined the Company as VP, Strategy and Chief Marketing Officer.

(4) Mr. Sinder was appointed to the Board on December 5, 2014.

Director Stock Ownership Guidelines

The Board of Directors believes that ownership of PCTEL common stock by directors demonstrates to the stockholders their commitment to the Company and optimism for its future. Accordingly, in September 2011, the Board of Directors adopted a policy that requires each director to achieve ownership of PCTEL common stock with a value equal to three times the annual cash retainer paid by the Company to the Directors for their service on the Board. The directors serving on the Board of Directors at the time of the adoption of the Director Stock

Ownership Guidelines (Guidelines) had three years (i.e., until September 2014) to achieve compliance with the Guidelines, and directors joining the Board of Directors after adoption of the Guidelines have five years from their inception to achieve compliance. All of the Directors to whom the September 2014 deadline for compliance applies achieved compliance with the Guidelines.

Stockholder Communications with the Board of Directors

Stockholders who wish to communicate directly with the independent directors may do so by sending an e-mail message to the General Counsel at general.counsel@pctel.com. The General Counsel monitors these communications, consults with the Lead Independent Director, and provides a summary of messages received to the Board of Directors at its regularly scheduled meetings. Where the nature of the communication warrants, the General Counsel may obtain more immediate attention of the matter from the appropriate committee, Lead Independent Director, independent advisors, or management. The General Counsel, in consultation with the Lead Independent Director, may decide whether a response to any stockholder communication is necessary.

Attendance at the Annual Meeting of Stockholders

All directors are welcome to attend the 2015 annual meeting of stockholders. At the 2014 annual meeting of stockholders, Ms. Andreotti, Ms. Dolezal, and Mr. Jackman were in attendance.

Code of Ethics

The Company s Code of Ethics and Business Conduct (the Code of Ethics) applies to all employees and directors of the Company and its subsidiaries. The Code of Ethics, which provides guidance and standards for maintaining ethical behavior, requires that employees and directors comply with applicable laws and regulations, and prohibits conflicts of interests. The Company also has made available an ethics hotline for anonymously reporting violations of the Company s policies and procedures. The Code of Ethics is posted on the Company s website at www.pctel.com under the About Us menu in the Corporate Governance section under the caption Essential Governance Documents. Any approved revisions to the Code of Ethics will be posted on the Company s website.

Compensation Committee Interlocks and Insider Participation

During 2014, none of Ms. Andreotti, Ms. Dolezal or Mr. Jackman was an officer or employee of the Company while serving as a member of the Compensation Committee. In addition, no executive officer of the Company served as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company s Board of Directors or Compensation Committee. Ms. Dolezal served as a director and as Chair of the Compensation Committee through September 26, 2014, when she resigned from the Board of Directors in order to accept her current position as the Company s Vice President, Strategy and Chief Marketing Officer.

Under the Company s insider trading policy insiders are prohibited from trading in PCTEL common stock while in possession of material non-public information. To obviate the possibility of hedging the economic risk of ownership, this prohibition extends to trading in derivative securities of the Company, including any put or call options.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of PCTEL common stock as of April 16, 2015 by:

Each stockholder known by PCTEL to beneficially own more than 5% of PCTEL common stock;

Each PCTEL director, including director nominees;

Each Section 16 reporting officer; and

All of PCTEL s directors and Section 16 reporting officers as a group, including director nominees. Beneficial ownership is determined based on the rules of the SEC. Percent of beneficial ownership is based upon 18,715,677 shares of common stock outstanding as of April 16, 2015. In addition, options for shares of common stock that are exercisable as of April 16, 2015 or will become exercisable on or before June 15, 2015 (60 days subsequent to April 16) are treated as outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of such person and are listed below under the Number of Shares Underlying Options column, but those option shares are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the Company believes that the stockholders listed below have sole voting or investment power with respect to all shares listed beside each stockholder s name, subject to applicable community property laws.

Shares Outstanding as of 4/16/15	**18,715,677**			
Beneficial Owners	**Number of Shares Beneficially Owned**	**Number of Shares Underlying Options**	**Total Shares Beneficially Owned**	**Percent of Shares Beneficially Owned (%)**
5% Stockholders				
Ariel Investments, LLC, 200 E. Randolph Dr., Suite 2900, Chicago, IL 60601(1)	2,986,847		2,986,847	15.96%
The Killen Group, 1189 Lancaster Ave., Berwyn, PA 19312(2)	2,363,512		2,363,512	12.63%
Dimensional Fund Advisors LP, Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746(3)	1,570,089		1,570,089	8.39%
Renaissance Technologies LLC, 800 Third Ave., New York, NY 10022(4)	944,600		944,600	5.05%
Directors and Section 16 Officers				
Martin H. Singer(5)	215,645	352,844	568,489	2.98%
John W. Schoen(6)	135,034	21,356	156,390	*
Jeffrey A. Miller	94,375	26,694	212,069	*
Kevin McGowan	86,005	15,000	101,005	*

Jigar Thakkar	100,000		100,000	*
Brian J. Jackman	69,203	30,000	99,203	*
Rishi Bharadwaj	79,502	17,500	97,002	*
David A. Neumann	74,014	20,021	94,035	*
Steven D. Levy	45,049	35,000	80,049	*
Giacomo Marini(7)	49,092	30,000	79,092	*
Anthony Kobrinetz	50,382	20,021	70,403	*
Atsushi Satoh	21,447	27,500	48,947	*
Carolyn J. Dolezal	40,692		40,692	*
Robert T. Joslin	24,866	7,000	31,866	*
Shelley Bacastow	20,587	7,250	27,837	*
Carl A. Thomsen(8)	11,734	13,500	25,234	*
Cindy K. Andreotti	14,704		14,704	*
M. Jay Sinder	8,402		8,402	*
All directors, director nominees and current executive officers as a group (18 persons)	1,140,733	623,685	1,764,418	9.12%

(1) Information with respect to the number of shares of PCTEL common stock beneficially owned is based solely on the Schedule 13G/A filed with the SEC by Ariel Investments, LLC (Ariel) on February 13, 2015. Ariel, a registered investment adviser, possesses sole dispositive control over all such shares and sole

voting power over 2,067,999 of such shares. The Schedule 13G/A filed by Ariel contained information as of December 31, 2014 and may not reflect current holdings of PCTEL common stock.

(2) Information with respect to the number of shares of PCTEL common stock beneficially owned is based solely on the Schedule 13G/A filed with the SEC by The Killen Group, Inc. (Killen) on February 13, 2015. Killen possesses sole dispositive control and voting power over such shares. The Schedule 13G/A filed by Killen contained information as of December 31, 2014 and may not reflect current holdings of PCTEL common stock.

(3) Information with respect to the number of shares of PCTEL common stock beneficially owned is solely based on the Schedule 13G/A filed with the SEC by Dimensional Fund Advisors LP (Dimensional) on February 5, 2015. According to such Schedule 13G/A, Dimensional, in its capacity as an investment adviser, possesses sole dispositive control over all such shares and sole voting power over 1,551,666 of such shares, which are held of record by its clients. Dimensional disclaims beneficial ownership of all such shares. The Schedule 13G/A filed by Dimensional contained information as of December 31, 2014 and may not reflect current holdings of PCTEL common stock.

(4) Information with respect to the number of shares of PCTEL common stock beneficially owned is solely based on the Schedule 13G filed with the SEC by Renaissance Technologies LLC (RTC) and Renaissance Technologies Holdings Corporation (RTHC) (together, Renaissance) on February 12, 2015. According to such Schedule 13G, Renaissance, in its capacity as an investment adviser, possesses sole dispositive control and sole voting power over all such shares. The Schedule 13G filed by Renaissance contained information as of December 31, 2014 and may not reflect current holdings of PCTEL common stock.

(5) Includes 127,305 shares of PCTEL common stock held by the Martin H. Singer Revocable Trust and 19,200 shares of PCTEL common stock held by the Andrea F. Singer Revocable Trust.

(6) Includes 85,000 shares of PCTEL common stock held by the Denise F. Schoen Family Trust and 15,127 shares of PCTEL common stock held by the John W. Schoen III Living Trust.

(7) Includes 49,092 shares of PCTEL common stock held by the Giacomo Marini Trust.

(8) Includes 11,734 shares of PCTEL common stock held by the Thomsen Family Trust.

COMPENSATION DISCUSSION AND ANALYSIS

Named Executive Officers

The purpose of this Compensation Discussion and Analysis is to discuss material information relating to compensation awarded to the following individuals, who have been identified by the Compensation Committee as the Company s Named Executive Officers or NEOs for the fiscal year ended December 31, 2014:

Name	Title as of December 31, 2014
Martin H. Singer	Chairman of the Board and Chief Executive Officer
John W. Schoen	Senior Vice President, Chief Financial Officer and Corporate Secretary
Jeffrey A. Miller(1)	Senior Vice President and General Manager, Site Solutions
David A. Neumann(2)	Vice President and General Manager, RF Solutions
Anthony Kobrinetz(3)	Vice President, Site Solutions Operations and Chief Technology Officer

(1) Mr. Miller became Senior Vice President, Global Sales, and General Manager, Site Solutions, in March 2015.

(2) Mr. Neumann became Senior Vice President and General Manager, RF Solutions, in March 2015.

(3) Mr. Kobrinetz became Vice President, Site Operations, Chief Technology Officer and Export Compliance Officer in March 2015.

Because Mr. Singer is the Chairman of the Board in addition to Chief Executive Officer (CEO), his biographical information is included under Proposal #1 Election of Directors Directors and Nominees.

Mr. John W. Schoen, 59, has been the Company s Chief Financial Officer, Vice President and Corporate Secretary since November 2001. In September 2013, Mr. Schoen was promoted to Senior Vice President, Chief Financial Officer and Corporate Secretary. Mr. Schoen served as a Business Development Manager at Agilent Technologies, Inc. from July 2000 to November 2001. From May 1999 to July 2000, Mr. Schoen served as Chief Operating Officer and Chief Financial Officer of SAFCO Technologies, Inc. before its acquisition by Agilent Technologies Inc. Prior to this period, Mr. Schoen held various financial positions for over 19 years in Motorola, Inc., including Controller of its Wireless Access and Business Development within Motorola s Cellular Infrastructure Group. Mr. Schoen received a Bachelor of Science in Accounting from DePaul University and is a Certified Public Accountant.

Mr. Jeffrey A. Miller, 59, has served as Senior Vice President of Global Sales, Connected Solutions and General Manager, Site Solutions, since March 2015. Previously he served as Senior Vice President and General Manager, Site Solutions, from November 2014 through March 2015, as President, Connected Solutions from December 2012 through November 2014, and prior to that as the Senior Vice President, Sales and Marketing of the Company since April 2010. From October 2006 until April 2010, Mr. Miller was Vice President and General Manager of the

Company s Antenna Products Group. From November 2001, when he joined PCTEL, until October of 2006, Mr. Miller served in a number of roles, from Vice President of Engineering through leadership roles in product management, new technology and global sales. Prior to joining PCTEL, Mr. Miller was Functional Manager of Wireless Optimization Products, Wireless Network Test Division of Agilent Technologies Inc. from July 2000 to November 2001. From January 1998 to July 2000, Mr. Miller served as Vice President of Engineering of SAFCO Technologies, Inc. and led its Test and Measurement Group before its acquisition by Agilent Technologies Inc. From September 1992 to January 1998, Mr. Miller was a Principal

Consultant with Malcolm, Miller & Associates providing consulting services to wireless network operators and infrastructure suppliers. From 1978 through September of 1992, Mr. Miller held various technical and management positions at Motorola, Inc. s Cellular Infrastructure Group. Mr. Miller received a Bachelor of Science in Computer Science from the University of Illinois.

Mr. David A. Neumann, 49, was promoted to Senior Vice President and General Manager of the RF Solutions segment of the Company in March 2015. Prior to his promotion, Mr. Neumann served as Vice President and General Manager, RF Solutions from January 2013 through March 2015, and previously as Global Vice President of Sales for RF Solutions since April 2010. From February 2009, when he joined PCTEL, until April 2010, Mr. Neumann served as Senior Director of Sales within RF Solutions. Prior to joining PCTEL, Mr. Neumann was the Managing Director of E-magine Communications, LLC, from January 2006 to February 2009. From January 2002 to January 2006, Mr. Neumann served as the Vice President of Sales and Marketing for X-TEL Communications, Inc. From July 1999 to January 2002, Mr. Neumann was the Market Development Director for Acterna, which was later purchased by JDSU. From May 1997, to July 1999, Mr. Neumann was a Principal at Intelinet, Inc. From January 1991 to May 1997, Mr. Neumann served in a number of roles from Vice President of Sales, Marketing and Support through leadership roles in engineering services, product management and sales at SAFCO Technologies, Inc. From June 1987 to January 1991, Mr. Neumann served as a Systems Engineer at Westinghouse Electric Corporation. Mr. Neumann holds a Bachelor of Science in Electrical Engineering from The Pennsylvania State University and a Master of Business Administration from the University of Chicago Booth School of Business.

Mr. Anthony Kobrinetz, 63, joined the Company in April 2010 and assumed his current positions of Vice President, Site Solutions Operations, Chief Technology Officer and Export Compliance Officer in March 2015. Prior to that, Mr. Kobrinetz served as Vice President, Site Operations and Chief Technology Officer from November 2014 through March 2015. Mr. Kobrinetz has also held various other positions with the Company, including Senior Vice President, Chief Information Officer, and Vice President, Technology and Operations. Before joining PCTEL, Mr. Kobrinetz was responsible for leading Motorola s entrée into broadband wireless access with particular focus on the development of WiMAX products and services. Previously, as the General Manager (and Business Founder) of the Canopy business for Motorola, he successfully transitioned the wireless broadband technology incubator into a commercial business with product development, operations, sales and marketing. Mr. Kobrinetz also served as general manager for the Advanced Products Division that designed and manufactured the first digital infrastructure platform that Motorola produced for the Japanese cellular infrastructure market. As a seasoned technology and business professional, Mr. Kobrinetz has devoted over 35 years to the shaping of mobile telephony, wireless local area networks, cellular telecommunications and telematics. He has held executive-level positions in product development, supply chain and system implementation of innovative communications equipment. Other key accomplishments include the development of a private wireless data network in the United States as well as the pioneering of a wireless local area network at 18 GHz. Mr. Kobrinetz holds numerous patents in communication components and systems. He earned a Bachelor of Science from the University of Illinois at Chicago and a Master of Business Administration from Loyola University in Chicago.

Overview of the Compensation Committee

The Compensation Committee of the Board of Directors was formed in March 2000 and currently consists of Mr. Jackman, Mr. Levy and Ms. Andreotti, each of whom is an independent, non-employee director of the Company. The Compensation Committee reviews its charter on an annual basis and has modified it from time to time, most recently in March 2013. The charter of the Compensation Committee is located on the Company s website (www.pctel.com) under the About Us menu in the Corporate Governance section under the caption Essential Governance Documents.

The Compensation Committee meets at regularly-scheduled quarterly meetings and from time-to-time between quarterly meetings in order to address matters that fall within the Compensation Committee s

responsibilities as set forth in Responsibilities of the Compensation Committee below. Minutes are recorded of all Compensation Committee meetings. The Compensation Committee reports to the Board of Directors regarding recommendations of the Compensation Committee and actions taken by the Compensation Committee pursuant to delegated authority. The Compensation Committee met a total of 8 times in 2014, including a joint session with the Audit Committee.

Compensation Philosophy

The Compensation Committee s philosophy in setting compensation policies for the CEO, the other NEOs and certain Vice Presidents (collectively referred to as executive officers) and the employees designated as key managers by the CEO based upon their responsibilities and performance (hereinafter referred to as key managers) is the following:

- To closely align the interests of the executive officers and key managers with those of the Company s stockholders with the objective of enhancing stockholder value and promoting long-term, sustainable growth;
- To attract and retain the best available personnel for positions of substantial responsibility with the Company;
- To provide incentives to motivate the executive officers and key managers to perform to the best of their abilities for the Company through increased rewards for superior individual and corporate performance;
- To promote the success of the Company s business while minimizing the opportunity for high-risk behaviors that potentially imperil the underlying value of the Company; and
- To embrace an appropriate balance of work and family life.

It is the Compensation Committee s practice to review at least annually all components of compensation for the executive officers and key managers to ensure that the amount and structure of total compensation for each is consistent with its compensation philosophies and objectives. Internal pay equity among the executive officers and key managers is also a factor in the Committee s assessment of total compensation. With these considerations in mind, the general strategy of the Compensation Committee has been to (i) target executive compensation between the median and the 75^{th} percentile of total direct compensation in reference to a peer group of publicly-traded companies and in accordance with other competitive market information in order to attract high-performing executives and key managers who also have opportunities with larger multinational companies, (ii) establish a strong correlation between the level of compensation and the financial performance of the Company compared against its peer group and other companies, and (iii) create incentives that closely align executive compensation with long-term interests of the Company s stockholders.

Responsibilities of the Compensation Committee

The Compensation Committee s responsibilities assigned to it by the Board of Directors are outlined in its charter and include the following:

1.

Providing guidance with respect to general compensation goals and philosophies for the Company s employees at all levels, including general performance and measurement guidelines for the determination of bonuses and other forms of incentive compensation;

2. Balancing the portion of executive compensation at risk and tied to achievement of corporate and business segment financial performance goals established by the Board of Directors with overall enterprise risk;

3. Reviewing and making recommendations to the Board of Directors with respect to the compensation of the CEO, including relevant corporate goals and objectives, following (i) a performance evaluation of the CEO designed and coordinated among the members of the Board by the

Nominating and Governance Committee, and (ii) directional guidance from the members of the Board on the different elements of CEO compensation based on such evaluation;

4. Reviewing the compensation criteria and proposed total compensation (including salary, bonus, benefits, and incentive compensation) recommended by the CEO for each of the executive officers and key managers of the Company, and approving an appropriate compensation package for each named executive officer structured to be consistent with the compensation philosophy (as described in Compensation Philosophy above);

5. Reviewing the internal pay equity among the CEO, the officers and the key managers;

6. Reviewing and making recommendations from time to time to the Board of Directors regarding general equity and cash compensation for the outside directors on the Board of Directors;

7. Acting as administrator of the Company s equity incentive plans; and

8. After considering the factors listed below, retaining, as the members of the Compensation Committee consider appropriate or necessary, outside consulting, legal or other advisors (Advisors) to advise or assist the Compensation Committee in the execution of its responsibilities:

   (i) the provision of other services to the Company by the proposed Advisor;

   (ii) the amount of fees received from the Company by the proposed Advisor as a percentage of the total revenue of such proposed Advisor;

   (iii) the policies and procedures of the proposed Advisor that are designed to prevent conflicts of interest;

   (iv) any business or personal relationship of the proposed Advisor with a member of the Compensation Committee;

   (v) any stock of the Company owned by the proposed Advisor; and

   (vi) any business or personal relationship of the proposed Advisor with an executive officer of the Company.

Independent Compensation Consultant. The Compensation Committee relies upon the services of an independent compensation consultant in applying its judgment as to appropriate levels and components of compensation for the executive officers and key managers. Towers Watson, a global professional services company (the Independent Compensation Consultant), provides executive compensation consulting services to the Committee, including (i) assistance with establishing the Company s compensation goals and objectives, (ii) providing relevant peer group and survey data on the compensation practices of the participating companies, and (iii) advising on industry trends in executive compensation. The Compensation Committee s practice is to invite a representative of the Independent Compensation Consultant to attend substantially all Compensation Committee meetings.

The Independent Compensation Consultant has conducted an internal review and has certified that it is an independent adviser to the Compensation Committee and that no conflict of interest exists. Although the fees of the Independent Compensation Consultant are paid by the Company, the Independent Compensation Consultant is accountable and has direct reporting responsibility to the Compensation Committee. The Independent Compensation Consultant provides no services to the Company other than the services it provides to the Compensation Committee.

Survey Data, Peer Groups and Use of Industry Benchmarking Data. The Compensation Committee uses benchmarking information to evaluate total compensation of the Company s Named Executive Officers (*i.e.*, principally annual salary and short-term and long-term incentive awards). The benchmarking information is comprised of survey data, which is derived from two independent executive compensation surveys compiled by recognized compensation firms, as well as publicly-available data from a peer group of publicly-traded companies that are comparable to the Company. The survey data used by the Independent Compensation Consultant is derived from different databases of companies that compare to the Company only in general terms, including broad industry sectors and size of company.

The peer group information is designed to be more specific. The Compensation Committee, with assistance from the Company s management and guidance from the Independent Compensation Consultant, is responsible for selecting the companies that are included within this peer group and for compiling relevant executive compensation and corporate performance data. Due in part to the lack of small public companies involved in the same combination of industries as the Company, it is not possible to construct a group of companies with characteristics entirely similar to the Company. The Independent Compensation Consultant therefore compiles data from public companies that, based upon its expertise, are the most similar in terms of industry sector, revenue level, market capitalization, operating and financial characteristics and other relevant factors, and provide a meaningful comparison for the Compensation Committee.

The peer group of companies that was in effect for the Company at the time when the Compensation Committee set the 2014 executive compensation consists of the 20 companies listed below (the 2014 Peer Group) with revenues for the most recent publicly available financial information ranging from approximately $40 million to $211 million and median revenues of approximately $98 million:

8 x 8, Inc.	Lantronix, Inc.
Ambient Corporation	Meru Networks, Inc.
Anaren, Inc.	Numerex Corp.
CalAmp Corp.	Oplink Communications, Inc.
ClearOne, Inc.	Orbcomm Inc.
Cobra Electronics Corporation	Procera Networks, Inc.
Communications Systems, Inc.	Symmetricom, Inc.
Digi International Inc.	Westell Technologies, Inc.
Frequency Electronics, Inc.	XRS Corporation
KVH Industries, Inc.	Zhone Technologies, Inc.

In September 2014, the Committee revised the group to eliminate Ambient Corporation, Anaren, Inc. and Symmetricom, Inc., each of which either was acquired or entered into bankruptcy since the establishment of the 2014 Peer Group. Accordingly, the members of the Company s peer group in effect at the time the Compensation Committee set the 2015 executive compensation (the 2015 Peer Group) are set forth below:

8 x 8, Inc.	Meru Networks, Inc.
CalAmp Corp.	Numerex Corp.
ClearOne, Inc.	Oplink Communications, Inc.
Cobra Electronics Corporation	Orbcomm Inc.
Communications Systems, Inc.	Procera Networks, Inc.
Digi International Inc.	Westell Technologies, Inc.
Frequency Electronics, Inc.	XRS Corporation
KVH Industries, Inc.	Zhone Technologies, Inc.
Lantronix, Inc.	

The compensation data derived from the 2014 Peer Group and the 2015 Peer Group consisted of the then-most recent publicly available annual and long-term compensation amounts representing yearly averages over a three-year period. The financial performance data derived from the 2014 Peer Group and 2015 Peer Group included (i) one-year and three-year revenue change, (ii) net profit margin, (iii) return on invested capital, and (iv) one-year, three-year and five-year total stockholder return. The Independent Compensation Consultant provided a comprehensive pay-for-performance analysis in connection with the Compensation Committee s evaluation of executive compensation, comparing levels of compensation, expressed in dollars and percentages, against both compensation and performance data contained in the survey and peer group information.

Annual Compensation Process

The Company considered the results of the Say-on-Pay proposal presented to the shareholders for approval in 2014. In light of the support the proposal received, the Company s compensation policies and decisions, explained in detail in this Compensation Discussion and Analysis, continue to be focused on long-term financial performance to drive stockholder value. The Company intends to hold an advisory vote on executive compensation (Say-on-Pay) on an annual basis.

The compensation of the CEO, the other executive officers and the key managers is established prior to the end of the first quarter of the fiscal year. The Compensation Committee has full authority to determine the compensation of the executive officers (other than the CEO) and key managers of the Company. The CEO s compensation must be approved each year by the non-employee directors of the Board of Directors based on the recommendation of the Compensation Committee. In making its recommendation with respect to the CEO s compensation, the Compensation Committee takes into consideration the results of a performance evaluation of the CEO for the preceding year. The annual evaluation of the CEO s performance is based upon evaluation forms circulated by the Nominating and Governance Committee and completed by all non-employee directors with respect to the CEO s performance, as measured by the ability to meet financial performance objectives of the Company, conduct succession planning, execute strategic plans, exhibit leadership, and maintain good relationships with the stockholders, Board of Directors and other stakeholders of the Company. At the time of this performance evaluation, the Compensation Committee solicits guidance from the Board of Directors as to the general elements that should be addressed in the CEO s total compensation package for the upcoming year. In addition, the Chair of the Compensation Committee, as well as the Lead Independent Director, will solicit input from the CEO in the course of the Compensation Committee s formulation of its recommendation.

In formulating its recommendation to the Board of Directors with respect to the CEO s compensation, the Compensation Committee exercises its judgment, taking into account the advice of the Committee s Independent Compensation Consultant (as described in Responsibilities of the Compensation Committee *Independent Compensation Consultant* above). The Compensation Committee s discussions of the elements of compensation for the CEO are conducted in closed session, typically with its Independent Compensation Consultant in attendance, but with no Company employees present. The CEO is not permitted to participate in the deliberations by the Board of Directors in its evaluation of the Compensation Committee s recommendation for CEO compensation.

In establishing compensation for the executive officers (other than the CEO), the Compensation Committee relies on (i) insights provided by the CEO as to their respective individual performance, (ii) the compensation data compiled by the Independent Compensation Consultant, and (iii) the Company s compensation philosophy, as described in Compensation Philosophy above. The CEO attended 7 of the 8 Compensation Committee meetings in 2014 in order to provide his insight on the contributions made by various executive officers and key managers. After consulting with its Independent Compensation Consultant and the CEO, the Compensation Committee, in its discretion, sets the annual compensation for the executive officers and key managers, including salary, short-term equity incentives and long-term equity incentives.

Summary of Principal Elements of Executive Compensation

The principal elements included in executive compensation for the executive officers and key managers are the following, each of which is briefly described below:

1. Annual salary;

2. Annual incentive awards administered under the Short-Term Incentive Plan;

3. Service-based equity awards (see Proposal #3);

4. Equity awards administered under the Long-Term Incentive Plan (see Proposal #3);

5. Change of Control and severance benefits; and

6. Medical and other standard benefits.

1. *Annual Salary*. The Compensation Committee uses salary as the principal element of cash compensation which is not at risk. In determining the level of annual salary, the Compensation Committee considers the performance, experience and responsibilities of the executive officer or key manager, and seeks to establish an annual salary that is competitive with those paid to comparable executive officers and key managers at its benchmark companies. A competitive annual salary is essential to the Company s ability to hire and retain executive officers and key managers.

2. *Short-Term Incentive Plan.* The Short-Term Incentive Plan is an annual performance-based incentive plan designed to incentivize achievement of specifically-identified, short-term corporate objectives. In establishing the corporate objectives and setting the targets under the Short-Term Incentive Plan, the Compensation Committee takes into consideration the following factors:

Areas of desired improvement in financial and/or operating performance of the Company and specific business segments;

The anticipated payout of awards under the Short-Term Incentive Plan measured against the likelihood that the Company will be able to achieve the performance goals without taking undue risk; and

The maximum payout of awards under the Short-Term Incentive Plan, as reviewed by the Independent Compensation Consultant.

The Short-Term Incentive Plan allows for the incentive awards to be paid in cash, restricted stock or a combination of both.

3. *Service-Based Equity Awards*. The Company grants long-term, service-based equity awards on an annual basis through the grant of restricted stock and/or stock options under its 1997 Stock Plan (Service-Based Equity Awards), which is being amended and restated subject to the approval of the Company s stockholders at the Company s 2015 annual meeting. See Proposal #3 Approval of the Stock Plan as Amended and Restated. The nature and terms of the Service-Based Equity Awards are determined annually by the Committee, but generally these awards are time-based without a performance element and encourage retention of participants by vesting in four equal annual installments.

4. *2015 Long-Term Incentive Plan*. The Company also grants long-term, performance-based equity awards on an annual basis through the grant of restricted stock and/or stock options under its 1997 Stock Plan, which is being amended and restated subject to the approval of the Company s stockholders at the Company s 2015 annual meeting (see Proposal #3). Although the name and structure of the long term incentive plan changes over the years, in general the awards under this plan are made to encourage (i) long-term growth, (ii) consistent earnings, and (iii) management retention through consistency in long-term incentives.

5. *Change of Control and Severance Benefits*. The Company offers retention benefits to the executive officers in order to induce the executive officers to continue to contribute to the success of the Company following an event resulting in the majority of the voting control of the Company being transferred (whether by way of merger, reorganization, acquisition, or sale of all or substantially all of the Company s assets). These benefits are contractually available to certain executive officers if such an event occurs and within twelve months after such occurrence, the executive officer is involuntarily terminated (*i.e.*, a double trigger). Although the benefits vary among the executive officers participating, the benefits generally include lump sum payment of a specified percentage of annual salary, acceleration of 100% of any then unvested equity incentives, and Company-paid healthcare benefits for a specified period of time.

Certain executive officers are also entitled to severance benefits in connection with the involuntary termination of their employment unassociated with a Change of Control. The severance benefits include salary continuation and Company-paid healthcare benefits for a specified period of time, and vesting of certain restricted shares previously awarded under short-term and long-term incentive programs.

6. *Medical and Other Standard Benefits*. The Company offers standard benefits to its executives and key managers, including medical, dental, and vision benefits, and term life and long-term disability insurance, a substantial portion of which are paid by the Company. The Company s Employee Stock Purchase Plan allows employees of the Company to participate electively in a plan under which, through individual payroll deductions, they are permitted twice a year to buy shares at prices discounted from the trading price of the stock. In addition, the Company maintains a 401(k) plan for PCTEL employees, administered by an independent plan administrator, which provides a selection of investment alternatives from which plan participants may choose. The Company matches up to the first 4% of compensation contributed by a plan participant, which vests immediately.

Summary of 2014 Company Financial Performance and Compensation

2014 Company Financial Performance. Revenues were approximately $107.2 million for the year ended December 31, 2014, an increase of 2.8% from the prior year. The RF Solutions segment revenue increased $4.8 million (15.8%) due to the rapid growth of in-building wireless network expansion. The Connected Solutions segment revenue decreased $1.9 million, or 2.5%. Within the Connected Solutions segment, revenue declined for antenna products, but increased for cellular kitting products.

Non-GAAP earnings per share of PCTEL common stock were $0.48 for the year ended December 31, 2014, an increase of $0.06 per share, or 14.3%, from the prior year. The increase reflects higher gross profit on higher revenue, leveraged over stable operating costs compared to the prior year.

PCTEL s financial performance in 2014 as compared with its peer group was at the 75th percentile for one-year net income margin, return on equity and return on assets, between the median and the 75th percentile for three-year total stockholder return; at the median for one-year and three-year revenue growth and one-year total stockholder return; and at the 25th percentile for five-year total stockholder return, all based upon the most recent publicly-available data collected by the Independent Compensation Consultant**.**

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Awards Under the 2014 Short-Term Incentive Plan. For the purposes of determining the annual incentive award under the 2014 Short-Term Incentive Plan (2014 STIP), the Company s performance was measured by (i) revenue growth in 2014 over 2013 revenue, and (ii) the increase of non-GAAP earnings per share of PCTEL common stock in 2014 over 2013 non-GAAP earnings per share. The difference between non-GAAP earnings per share and GAAP earnings per share is the exclusion from non-GAAP earnings of stock-based compensation expense, amortization of intangible assets, restructuring charges, impairment charges, gain/loss on the sale of product lines, non-cash income tax expense, legal settlement income beyond the related costs, and non-cash other income. As has been the case over the past several years, the Board of Directors adopted a sliding scale on an S curve rather than a linear basis for determining the incentive award under the 2014 STIP in order to produce no incentive award for low revenue and earnings growth, a small incentive award for average or slightly above-average revenue and earnings growth, and a sharply increasing incentive award for superior revenue and earnings growth. The payout factor (also referred to as the target award percentage) for 2014 if the Company achieved both metrics of the 2014 financial plan at target was 30%. Due to the Company s revenue performance, the target award percentages actually achieved by the Company in 2014 were below target as indicated in the following charts:

Corporate Results Mr. Singer and Mr. Schoen

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RF Solutions Business Segment Mr. Neumann

Connected Solutions Business Segment Mr. Miller and Mr. Kobrinetz

The participation in the 2014 STIP by the NEOs is summarized in the table below. The weighting of performance measures for all NEOs is 60% revenue and 40% non-GAAP earnings per share.

Results of 2014 Short-Term Incentive Plan

Name	Maximum 2014 Potential Award as a % of Annual Salary (%)	Maximum 2014 Potential Award ($)	2014 Target Award(1) ($)	Award Paid ($)	Award Paid as a % of Annual Salary (%)
Martin H. Singer	130	643,500	193,050	28,958	6
John W. Schoen	95	275,500	82,650	12,397	4
Jeffrey A. Miller	110	330,000	99,000	5,940	2
David A. Neumann	95	238,450	71,535	49,359	20
Anthony Kobrinetz	90	223,200	66,960	4,018	2

(1) The 2014 target award under the 2014 STIP for each NEO is calculated by multiplying such NEO s Maximum 2014 Potential Award by 30% (i.e., the payout upon achievement of the target financial performance).

2014 Service-Based Equity Awards. The Compensation Committee, in consultation with the Independent Compensation Consultant, has determined that the service-based equity awards (which have no performance element) are best suited for employees who are strong performers but whose job responsibilities do not directly impact the strategic direction or financial performance of the Company. Therefore, no NEOs, executive officers or key managers participated in Service-Based Equity Awards in 2014.

However, certain NEOs received restricted stock from Service-Based Equity Awards granted in prior years which vested in 2014. These restricted shares from prior grants are included in the table entitled Option Exercises and Stock Vested at Fiscal Year End December 31, 2014 under the column entitled Stock Awards in the Executive Compensation and Other Matters section.

Awards under the 2014 Long-Term Incentive Plan. The 2014 Long-Term Incentive Plan (the 2014 LTIP) has a four year revenue goal to encourage long-term growth and imposes a penalty for failure to maintain consistent Adjusted EBITDA (as hereinafter defined). The 2014 LTIP is designed so that at the end of the initial two-year interim measuring period, the participants will receive an equity award if the Company s actual revenue at the conclusion of the interim period exceeds the revenue threshold for such period. Because the first interim period for the 2014 LTIP will not end until December 31, 2015, no equity awards have yet been made under the 2014 LTIP.

2015 Implementation of the Principal Elements of Executive Compensation

1. *Annual Salaries in 2015*. The Compensation Committee awarded increases in annual salaries an average of 3% for NEOs, executive officers and key managers considered as a group, although Mr. Neumann, who received a promotion to Senior Vice President and General Manager, RF Solutions in March 2014, was awarded a larger salary increase in connection with his promotion.

CEO Salary. Mr. Singer s 2014 salary of $495,000 is unchanged for 2015. Mr. Singer s salary was $481,000 for 2013.

Salaries for Other Named Executive Officers. The salaries of the other NEOs for 2015, 2014, and 2013 are designated below:

Salaries for Other Named Executive Officers

Name	2015 $	2014 $	2013 $
John W. Schoen (1)	290,000	290,000	268,000
Jeffrey A. Miller	300,000	300,000	270,000
David A. Neumann	265,000	251,000	235,000
Anthony Kobrinetz (2)	215,000	248,000	248,000

(1) Mr. Schoen s salary was increased to $268,000 in February 2013 and then to $290,000 in September 2013 in connection with his promotion to Senior Vice President and Chief Financial Officer. The actual salary paid to Mr. Schoen for 2013 was $273,500.

(2) Mr. Kobrinetz s salary declined from $248,000 to $215,000; however he received the opportunity to earn an equity award of up to 7,000 shares of PCTEL common stock based upon achievement of two performance measures in 2015. Mr. Kobrinetz will earn seventy-five percent (75%) of the award if he establishes a company-wide Export Compliance Program which defines and implements an appropriate process to assure compliance with all relevant United States export laws and regulations, utilizes necessary software and other tools to provide the current Entity List and other export-related information, trains appropriate personnel, monitors compliance with the Company s export procedures, and resolves all export-related issues in a timely manner.

Mr. Kobrinetz will earn twenty-five percent (25%) of the equity award if the Company achieves its target 2015 revenue of $127 million (the Target Amount). If the Company achieves 2015 revenue of $114 million (the Threshold Amount), Mr. Kobrinetz will receive 875 shares. The equity award will be interpolated if the Company s 2015 revenue is between the Threshold Amount and the Target Amount. For the purpose of calculating the Company s 2015 revenue, there is a limit of $5 million of revenue contributed by acquired entities during the year, and the award is subject to the Adjusted EBITDA penalty described under 2015 Long-Term Incentive Plan below.

2. *2015 Short-Term Incentive Plan*. The metrics used by the Company to measure its financial performance will be: (1) revenue growth in 2015 over actual 2014 revenue, and; (2) the increase of non-GAAP earnings per share of PCTEL common stock in 2015 over actual 2014 non-GAAP earnings per share, which is consistent with the 2014 STIP.

In order to drive and reward higher growth in revenue and earnings per share, for several years the Compensation Committee has used a sliding scale on an S curve rather than a linear basis for determining the incentive award under Short-Term Incentive Plan. The S curve nature of the payout factors assures that there will be no incentive award for low revenue and earnings growth, a small incentive award for average or slightly above-average revenue and earnings growth and a sharply increasing incentive award for superior revenue and earnings growth. Based upon feedback from investors, the Independent Compensation Consultant and management, the Compensation Committee has fine-tuned the slope of the curve to alleviate a situation where a modest increase in revenue or earnings at certain steeper points of the curve results in a disproportionate increase in the payout factor. The difference between the slope of the 2014 STIP and the 2015 STIP is reflected in the graphs set forth below:

The Compensation Committee also sought to fine-tune the 2015 STIP to create differentiation among the NEOs based upon achievement of specific business segment goals. Accordingly, the Compensation Committee made two changes for the 2015 STIP: (i) those NEOs with business segment responsibilities have achievement of business segment goals weighted more heavily than achievement of corporate goals, and (ii) the weighting of revenue versus Non-GAAP operating profit is adjusted for each NEO in order to emphasize achievement of segment-based goals. Non-GAAP earnings per share differs from GAAP earnings per share by the exclusion of stock-based compensation expense, amortization of intangible assets, restructuring charges, impairment charges, gain/loss on the sale of product lines, non-cash income tax expense, legal settlement income beyond the recovery of related costs, and non-cash other income. The difference between non-GAAP earnings per share at the corporate level and non-GAAP operating profit at the business segment level is (i) corporate expenses, (ii) other income and expenses, and (iii) income taxes.

The chart below depicts the resulting payout factors at various achievement levels of revenue and non-GAAP earnings per share for the corporate goals of Mr. Singer and Mr. Schoen. For 2015, these corporate goals continue to be weighted at 100% for Mr. Singer and Mr. Schoen; however, the weighting of Non-GAAP earnings per share (as compared to revenue) has increased to 80% in 2015 from 60% in 2014.

Corporate Mr. Singer & Mr. Schoen

The chart below depicts the resulting payout factors which are applicable to Mr. Neumann at various achievement levels of (i) revenue and non-GAAP earnings per share at the corporate level and (ii) revenue and non-GAAP operating profit for the Company s RF Solutions business segment. The weighting of business segment goals (as compared to corporate goals) has increased to 70% in 2015 from 60% in 2014, and the weighting of revenue (as compared to non-GAAP operating profit) has increased to 48% in 2015 from 40% in 2014.

RF Solutions Business Segment Mr. Neumann

The chart below depicts the resulting payout factors which are applicable to Mr. Miller at various achievement levels of (i) revenue and non-GAAP earnings per share at the corporate level and (ii) revenue and non-GAAP operating profit for the Company s Connected Solutions business segment. The weighting of business segment goals (as compared to corporate goals) has increased to 70% in 2015 from 60% in 2014, and the weighting of revenue (as compared to non-GAAP operating profit) has increased to 48% in 2015 from 40% in 2014.

Connected Solutions Business Segment Mr. Miller

The chart below depicts the resulting payout factors which are applicable to Mr. Kobrinetz at various achievement levels of (i) revenue and non-GAAP earnings per share at the corporate level and (ii) revenue and non-GAAP operating profit for the Company s Connected Solutions business segment. The combined weights of the goals related to non-GAAP earnings per share (as compared to revenue) at the corporate level and non-GAAP operating profits (as compared to revenue) at the business segment level have increased to 80% in 2015 from 60% in 2014.

Connected Solutions Segment Mr. Kobrinetz

The 2015 financial plan results in a 20% payout factor at the targeted 27.8% revenue growth and $0.12 non-GAAP earnings per share growth over 2014 revenue and non-GAAP earnings per share. This compares to the 2014 STIP that provided for a payout factor of 30% for achieving targeted 9.3% revenue growth and $0.12 non-GAAP earnings per share growth over 2013. The change in the payout factor was made to accommodate inorganic growth in the Company s 2015 financial plan from the acquisition of the assets of Nexgen Wireless, Inc. (Nexgen) on February 27, 2015. The Compensation Committee believes that the financial plan targets are challenging but achievable with significant effort. The financial plan is determined by management and the Compensation Committee based upon recent performance levels, sales expectations, technology and industry factors, and overall economic conditions. It is approved by the Board of Directors.

In order to determine the actual incentive award amount received by any participant in the 2015 Short-Term Incentive Plan (2015 STIP), the payout factor determined by the tables above are weighted as applicable and multiplied by the participant s maximum percentage of salary that can be earned as an incentive award (as determined by the Compensation Committee on an individual basis based upon performance and job responsibilities) and then multiplied by such participant s annual salary. The Compensation Committee increased the maximum percentage of salary that can be earned as an incentive award in 2015 by 5% for Mr. Schoen and Mr. Neumann and decreased the maximum percentage of salary that can be earned by (10)% for Mr. Miller and Mr. Kobrinetz. Mr. Neumann was promoted to Senior Vice President in 2015. Mr. Miller and Mr. Kobrinetz moved to different positions within the Company in 2015.

The participation in the 2015 STIP by the NEOs is summarized in the table below:

		2015 Maximum Potential Award		**2015 Target Award Upon Full Achievement of Financial Plan(1)**	
Name	**2015 Salary ($)**	**As a % of Salary**	**In ($)**	**As a % of Salary**	**In ($)**
Martin H. Singer	495,000	130	643,500	26	128,700
John W. Schoen	290,000	100	290,000	20	58,000
Jeffrey A. Miller	300,000	100	300,000	20	60,000
David A. Neumann	265,000	100	265,000	20	53,000
Anthony Kobrinetz	215,000	80	172,000	16	34,400

(1) The 2015 target award for each NEO under the 2015 STIP is calculated by multiplying such NEO s maximum potential incentive award by 20% (*i.e.,* the payout factor at target).

The weighting of performance measures for all NEOs is described in the third paragraph of this section 2015 Short-Term Incentive Plan. The incentive award amount under the 2015 STIP will be paid to the participants in cash.

3. *Service-Based Equity Awards*. The Compensation Committee, in consultation with the Independent Compensation Consultant, has determined that the service-based equity awards (which have no performance element) are best suited for employees who are strong performers but whose job responsibilities do not directly impact the strategic direction or financial performance of the Company. Therefore, no NEOs, executive officers or key managers will participate in Service-Based Equity Awards in 2015.

4. *2015 Long-Term Incentive Plan*. The Compensation Committee adopted a new plan for long-term equity incentives in 2015 (the 2015 LTIP). Grants of equity awards under the 2015 LTIP will only be made under the Stock Plan if and when the amendment and restatement of the 1997 Stock Plan is approved by the Company s stockholders at the Company s 2015 annual meeting. If and when the amendment and restatement of the 1997 Stock Plan is so approved, incentive awards paid under the Stock Plan will qualify as performance-based compensation under

Section 162(m) of the Internal Revenue Code. If the amendment and restatement of the 1997 Stock Plan is not so approved, no grants will be made pursuant to the 2015 LTIP. The Compensation Committee s goals for the 2015 LTIP are to encourage (i) long-term growth over a four-year period, (ii) consistent earnings throughout such period, and (iii) management retention through consistency in long-term incentives. The 2015 LTIP has a four-year revenue goal to encourage long-term growth and imposes a penalty for failure to maintain consistent Adjusted EBITDA (as hereinafter defined). Under the 2015 LTIP, the target revenue is a stretch goal beyond the Company s expected revenue growth and will require substantial growth, including by acquisition.

The 2015 LTIP is designed so that at the end of the initial two-year interim measuring period (the Interim Period), the participants will receive an equity award if the Company s actual revenue at the conclusion of the Interim Period exceeds the interim revenue threshold. The equity award received by the participants increases in a linear progression as the Company s revenue for the Interim Period increases above the threshold up to the target revenue goal. At the end of the second Interim Period, the participants will receive an equity award if the Company s actual revenue for the entire four-year period exceeds the revenue threshold for such period.

The equity awards earned at the conclusion of the first or second Interim Period will be reduced by 25% if the Company s Adjusted EBITDA as a percentage of the Company s revenue (Adjusted EBITDA Percentage) is 8% or less, and the equity award will be reduced by 10% if the Adjusted EBITDA Percentage is less than 11% but greater than 8% (the EBITDA Penalty). The term Adjusted EBITDA means GAAP operating profit excluding stock compensation expenses, amortization of intangible assets, depreciation, restructuring charges, impairment charges, gain/loss on sale of product lines, and expenses included in GAAP operating profit to the extent their recovery is recorded below operating profit.

For the first Interim Period ending on December 31, 2016, the Company s revenue target is $143 million (representing 13.3% growth over the two-year period) and the revenue threshold is $134 million (representing 6.2% growth over the two-year period). If the Company s actual revenue at the conclusion of the first Interim Period is less than $134 million, then no equity award will be earned. The revenue target for the second Interim Period ending on December 31, 2018 is $170 million (representing 34.7% growth over the four-year period) and the revenue threshold is $153 million (representing 21.2% growth over the four-year period). All growth percentages have been adjusted to include the Nexgen acquisition. The determination of whether an EBITDA Penalty applies will be made at the conclusion of both the first and second Interim Periods.

If the Company s actual revenue for the first Interim Period is less than the $134 million threshold revenue, but the revenue over the entire four-year period exceeds the $153 million threshold revenue (or even the $170 million target revenue), nevertheless the participants cannot recapture the foregone equity awards that would have been granted to the participants for the first Interim Period. In other words, there is no catch up in the second Interim Period to compensate for lack of achievement of the revenue threshold in the first Interim Period.

If the target revenue goal is exceeded in either the first or second Interim Period, the participants will not receive more equity than received at the target revenue. By designing the 2015 LTIP with a downside for not achieving the revenue threshold but no upside for over-achieving the revenue target, the Company can better manage the level of its equity awards.

The Board of Directors has set a goal of encouraging both organic growth and expansion through acquisition. Accordingly, the Compensation Committee has designed the 2015 LTIP to allow for entities acquired in the second year of an Interim Period to contribute to achievement of the revenue goal, but the revenue contribution is limited to $5 million regardless of any greater actual revenue generation by the acquired entities in such year. Acquisitions in the first year of an Interim Period will become integrated into the Company s revenue by the end of the Interim Period and will not be separately tracked or limited.

	Equity Award For Each Interim Period						
		Award At Threshold			Award At Target		
Name	**Below Threshold**	**At Threshold**	**EBITDA Penalty Between 8% And 11%**	**EBITDA Penalty Below 8%**	**At Target # of Shares**	**EBITDA Penalty Between 8% And 11%**	**EBITDA Penalty Below 8%**

	# of Shares	**# of Shares**	**# of Shares**	**# of Shares**		**# of Shares**	**# of Shares**
Martin H. Singer		6,250	5,625	4,688	12,500	11,250	9,375
John W. Schoen		3,750	3,375	2,813	7,500	6,750	5,625
Jeffrey A. Miller		3,750	3,375	2,813	7,500	6,750	5,625
David A. Neumann		5,000	4,500	3,750	10,000	9,000	7,500

Overall, the total long-term equity to be granted by the Company to NEOs under the 2015 LTIP (subject to stockholder approval of the amendment and restatement of the 1997 Stock Plan, as described above) is between the 25th percentile and the median for long-term incentives based on survey data provided by the Compensation Committee s Independent Compensation Consultant. See Responsibilities of the Compensation Committee *Survey Data, Peer Groups and the Use of Industry Benchmarking Data.*

5. *Change of Control and Severance Arrangements*. The Company offers retention benefits to its NEOs and certain of its other executive officers upon the occurrence of certain events surrounding a Change of Control in order to induce the executives to continue to contribute to the success of the Company in the transition period and the post-acquisition period to the extent permitted by the successor or acquirer. A Change of Control is any merger, reorganization or acquisition of the Company (including by way of sale of all or substantially all of the Company s assets) in which a majority of the voting control of the Company is transferred. The retention benefits offered by the Company to certain executive officers in connection with a Change of Control are based on a double trigger structure requiring both (i) a completed Change of Control event, and (ii) either (x) an involuntary termination of such executive officer s employment within 12 months following such Change of Control event other than as a result of Cause, Disability or death (an Involuntary Termination), or (y) a termination by the executive officer of his or her employment pursuant to a Voluntary Termination for Good Reason (as such capitalized terms are defined in the applicable Management Retention Agreement). The principal retention benefits available to the participating executive officers upon satisfaction of both triggers are a lump sum payment of a specified percentage of annual salary, acceleration of 100% of any then unvested equity incentives, and Company-paid healthcare benefits for a specified period of time, all as indicated in the table below. The Compensation Committee believes that the level of these benefits would not, in the aggregate, represent a financial deterrent to a buyer or successor entity in considering a combination transaction with the Company.

Under their employment and/or severance agreements with the Company, the NEOs and certain other executive officers are also entitled to severance and related benefits in connection with (i) the Involuntary Termination of their employment unassociated with a Change of Control, and (ii) a termination by the NEO of his or her employment pursuant to a Voluntary Termination for Good Reason (as defined in the applicable Management Retention Agreement). The principal severance benefits include salary continuation, acceleration of the vesting of certain equity awards, and Company-paid healthcare benefits for a specified period of time. In addition, upon the occurrence of an involuntary termination (or, with respect to the CEO, death or disability), severance benefits include vesting of any equity awards which are scheduled to vest within the following 12 months.

In the case of the CEO, severance benefits resulting from involuntary termination also include payment of the maximum potential incentive award under the Short-Term Incentive Plan; in the event of death or disability, the amount of the incentive award that would be paid under the Short-Term Incentive Plan would be based on the actual amount of the incentive award determined for the year in which death or disability occurred, pro-rated for such year based on the date of death or disability. The Company s current employment agreement with Mr. Singer also imposes a non-competition and non-solicitation covenant for a period of 12 months from his termination date in connection with his separation from the Company, including in the event of a Change of Control that is followed by the involuntary termination of his employment.

The table below and the summary of retention arrangements related to benefits associated with a Change of Control of the Company should be read in conjunction with the tables entitled Potential Payments Upon Termination as of December 31, 2014 in the Executive Compensation and Other Matters section on page 58.

	Severance Benefits (i.e., Involuntary Termination Not Related to a Change of Control)				Change of Control Benefits (i.e., Involuntary Termination Wi 12 Months of a Change of Control)			
Name	**Salary Continuation**	**Healthcare (in months)**	**Acceleration of Unvested Options (in months)**	**Acceleration of Unvested Restricted Shares (in months)(2)**	**Multiple of Annual Salary (Paid in Lump Sum)**	**Healthcare (in months)**	**Acceleration of Unvested Options**	**Acceleration of Unvested Restricted Shares(3)**
Martin H. Singer	12 months(1)	Up to 18 months	12 months	12 months	2.75x	Up to 12 months	100%	100%
John W. Schoen	12 months	Up to 12 months	12 months	12 months	2x	Up to 12 months	100%	100%
Jeffrey A. Miller	12 months	Up to 12 months	12 months	12 months	2x	Up to 12 months	100%	100%
David A. Neumann	12 months	Up to 12 months	12 months	12 months	2x	Up to 12 months	100%	100%
Anthony Kobrinetz	12 months	Up to 12 months	12 months	12 months	2x	Up to 12 months	100%	100%

(1) Includes both annual salary and 100% of the maximum potential incentive award payable under the Short-Term Incentive Plan in the year of termination.

(2) The occurrence of an involuntary termination (other than for cause) during an annual performance period will result in an immediate vesting of all unvested service-based equity awards. With respect to performance-based equity awards, an involuntary termination of the CEO will result in the immediate vesting of his performance-based equity awards established for the period in which the termination occurred (including the then-current Interim Period under the 2014 LTIP and 2015 LTIP), but he loses the right to earn any performance-based equity for any future performance periods.

(3) Upon the occurrence of a Change of Control, performance-based equity awards will automatically convert into service-based equity awards with no performance contingencies, but the vesting requirements (as stated in the applicable management retention agreement) will continue to pertain to the equity award; however, in the event of the involuntary termination of any NEO within 12 months following a Change of Control, such NEO s equity award will immediately vest.

6. *Other Benefits*. No material changes have been made to the medical benefits or other standard benefits received by NEOs to date in 2015. See Summary of Principal Elements of Executive Compensation *Medical and Other Standard Benefits* for additional information.

CEO Total Direct Compensation

Mr. Singer s total target compensation for 2015 (consisting of salary, target award under the 2015 STIP and target award under the 2015 LTIP) equates to $843,700, representing a decrease from target total compensation of $925,210 and an increase from actual total compensation of $744,284 in 2014. Mr. Singer s total target compensation for 2015 includes the value of 25,000 shares of restricted stock that will be granted to Mr. Singer pursuant to the 2015 LTIP if the Company s stockholders approve the amendment and restatement of the 1997 Stock Plan (see Proposal #3) and the performance conditions for the 2015 LTIP are met. These shares have been valued at $220,000 based upon the Company s stock price of $8.80 per share as of March 19, 2015, the date on which the 2015 LTIP was approved by the Board of Directors. The CEO s total target compensation if the Company achieves the financial plan targets for revenue and non-GAAP earnings per share is between the 25th percentile and median of comparable companies based on the market consensus data gathered by the Independent Compensation Consultant from survey and peer group executive compensation information. If the Company exceeds the target growth in revenue and non-GAAP earnings per share, then as a result of the sliding scale of the 2015 STIP and the increased reward at the LTIP Target (as described in 2015 Implementation of the Principal Elements of Executive Compensation *2015 Short-Term Incentive Plan* and 2015 Implementation of the Principal Elements of Executive Compensation *2015 Long-Term Incentive Plan*), the CEO could achieve total compensation above the median. The Committee believes that Mr. Singer s total direct target compensation for 2015 is appropriate.

General Terms of Equity Grants

1997 Stock Plan. All equity issued by the Company (whether as restricted stock or stock options, and whether granted under the Short-Term Incentive Plan, the Service-Based Equity Awards, or the Long-Term Incentive Plan) is issued under the 1997 Stock Plan. The 1997 Stock Plan was approved by the stockholders at the time it was originally adopted in 1997 and has been amended from time to time with the approval of the stockholders, most recently in June 2010, to increase the reserve of shares under the Plan. Pursuant to Proposal #3, we are asking the Company s stockholders to amend and restate the 1997 Stock Plan to increase the reserve of shares under the Plan.

Material Terms of Stock Option Grants. Stock options are granted to non-executive new hires from time to time. The Compensation Committee has never re-priced previously granted stock options where the trading price of the Company s stock is less than the exercise price of the stock options, and the Stock Plan expressly prohibits such re-pricing of previously granted stock options.

Administrative Protocols in Stock Option and Restricted Stock Grants. The Company adopted a Statement of Administrative Policy in November 2006, codifying approved procedures in respect of award grants under the 1997 Stock Plan. This policy is administered by the Compensation Committee and will also be applicable to the Stock Plan. The key elements of the policy are as follows:

The meeting date of the Compensation Committee or the Board of Directors, as the case may be, is the grant date of any approved award, unless the Compensation Committee or Board of Directors expressly identifies a future date as the grant date of the award (discussed below).

Where a written consent of the Compensation Committee or the Committee Chair is used to approve an equity award, the date of the last signature required on the consent, or the date of the signature of the Committee Chair, as applicable, constitutes the grant date of the award.

Award grant documentation is dated as of the grant date.

Where a stock option or restricted stock award is required to be priced at the fair market value of the underlying Company stock, the closing price of the stock as reported by NASDAQ on the grant date is selected to represent that value.

Neither the Compensation Committee nor the Board of Directors will authorize a grant of stock options or other equity incentive awards (with the exception noted in the paragraph below) to executive officers or key managers during a quarterly quiet period. A quiet period is the time during which the executive officers and key managers of the Company may be presumed to be in possession of non-public information concerning the financial performance of the Company, beginning with the close of the market on the last trading day of the first full week of the last month of each fiscal quarter (but no later than the close of the tenth calendar day of such month), and continuing until the opening of the market on the third trading day following the date of the Company s public release of earnings and other financial information for a particular fiscal quarter or year end. If stock options or other equity incentive awards (with the exception noted in the paragraph below) for individuals in this group are authorized by the Compensation Committee or the Board of Directors during such a quiet period , the Compensation Committee or Board of Directors will identify a future date as the grant date of the award, and will identify the reported closing price of PCTEL common stock on the future grant date as the fair market value of the award. This future grant date typically falls on the third day following the Company s earnings release for the financial period.

Where performance shares or restricted stock awards that are not dollar-denominated are approved, a grant date during a quarterly quiet period is permitted, since these awards are not price-sensitive on the date of grant. When the Company pays incentive awards to executive officers and key managers under the Short-Term Incentive Plan in shares of stock rather than cash, these grants are dollar-denominated, and, therefore, have been awarded subject to a future grant date corresponding with the third day following the Company s quarterly earnings release.

Stock Ownership Guidelines

In order to align further the interests of the Company s NEOs with the interests of the stockholders, the Board of Directors adopted a policy that prescribes ownership levels of PCTEL common stock. The CEO is required to maintain PCTEL common stock with a value equal to twice his annual salary and each other NEO is required to maintain PCTEL common stock with a value equal to his annual salary. All of the NEOs are in compliance with the Stock Ownership Guidelines.

Section 162(m) of the Internal Revenue Code

Under Section 162(m) of the Code, the Company is able for federal tax purposes to deduct compensation paid to the NEOs only if the compensation for each such executive officer is less than $1 million during the fiscal year or is performance-based as defined under Section 162(m). Although it is the objective of the Compensation Committee to seek to qualify all executive compensation as deductible, in order to provide flexibility and to ensure that the executive compensation programs remain competitive, the Compensation Committee has not adopted a policy with this objective. In June 2010, the Board of Directors adopted and the stockholders approved an Amended and Restated 1997 Stock Plan governing the equity awards granted thereunder for purposes of Section 162(m) of the Code. The 1997 Stock Plan is being amended and restated subject to the approval of the Company s stockholders at the Company s 2015 annual meeting (see Proposal #3), and will continue to govern the equity awards granted thereunder for purposes of Section 162(m) of the Code. In 2014, all compensation paid to the NEOs of the Company was below $1 million threshold under Section 162(m) for purposes of corporate tax deductibility.

Section 409A of the Internal Revenue Code

Section 409A of the Code, the final Treasury Regulations and the administrative guidance promulgated thereunder (collectively, Section 409A) regulate the tax treatment of non-qualified deferred compensation arrangements. Section 409A governs an individual s election to defer compensation and the timing and form of distribution of the deferred compensation. For example, Section 409A generally provides that distributions must be made on or following the occurrence of certain events (*e.g.*, the individual s separation from service, a predetermined date, or the individual s death). Section 409A imposes restrictions on an individual s ability to change his or her distribution timing or form after the compensation has been deferred. As to certain individuals who are officers, Section 409A requires that distribution to such an individual commences no earlier than six months after separation from service.

The Committee evaluated the various benefit plans and compensation arrangements that the Company has in place for the executive officers and certain key managers, and approved modifications of these plans and arrangements as necessary to comply with Section 409A.

Adjustment of Awards

The Company s financial statements and the related financial performance goals and measures used by the Compensation Committee as the basis for executive compensation have not been subject to subsequent revision or restatement. As a result, the Compensation Committee has never been required to consider an adjustment of an award. However, if such a circumstance were to occur, the Compensation Committee and the Board of Directors would consider all appropriate remedial measures, which may include the recovery of amounts that were inappropriately awarded to an individual executive officer or key manager.

COMPENSATION COMMITTEE REPORT

The following report shall not be deemed incorporated by reference in any filing under the federal securities laws by virtue of any general incorporation of this proxy statement by reference and shall not otherwise be treated as filed under the federal securities laws.

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K under the Securities Exchange Act of 1934, as amended, and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company s 2014 Annual Report on Form 10-K.

THE COMPENSATION COMMITTEE

BRIAN J. JACKMAN (INTERIM CHAIR)

STEVEN D. LEVY

CINDY K. ANDREOTTI

EXECUTIVE COMPENSATION AND OTHER MATTERS

The following table presents the compensation of the NEOs for the fiscal years ended December 31, 2014, 2013 and 2012:

Summary Compensation Table

Name	Year	Salary(1) ($)	Bonus ($)	Stock Awards(2) ($)	Option Awards(3) ($)	Non-Equity Incentive Plan Compensation(4) ($)	All Other Compensation(5) ($)	Total ($)
Martin H. Singer	2014	491,500		223,826		28,958	27,924	772,208
	2013	478,250			252,737	368,428	36,704	1,136,119
	2012	470,000		140,800			39,022	649,822
John W. Schoen	2014	290,000		111,913		12,398	27,205	441,516
	2013	273,750		43,300	122,689	159,933	27,236	626,908
	2012	260,000		70,400			23,695	354,095
Jeffrey A. Miller	2014	300,000		143,886		5,940	31,276	481,102
	2013	300,000			153,360	193,023	31,605	677,988
	2012	270,000		140,800			31,846	442,646
David A. Neumann(6)	2014	247,000		183,852		49,359	29,063	509,274
	2013	235,000		23,520	115,019	115,201	27,252	515,992
Anthony Kobrinetz	2014	248,000		119,906		4,018	18,068	389,992
	2013	248,000			115,019	136,770	16,885	516,674
	2012	240,000		121,440			18,817	380,257

(1) The amounts shown reflect the actual amounts paid as salary during fiscal years 2014, 2013 and 2012.

(2) Amounts shown do not reflect compensation actually received by the NEO in the year indicated. Instead, the amounts shown represent the aggregate fair value (determined on the grant date) of the restricted stock granted in the year indicated, calculated pursuant to the Statement of Financial Account Standards Codification Topic 718. For a discussion of the valuation assumptions, see Note 10 to the Company s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014. The actual value that may be realized from a restricted stock award is contingent upon the satisfaction of the conditions to vesting in that award. The amounts shown include the value of performance-based, service-vesting restricted shares granted in 2012 and performance-based restricted shares granted under the 2014 LTIP in 2014, which is in each case the value at the grant date based upon the probable outcome of the performance conditions. The table below summarizes various values of performance shares at different payout levels using the price on the grant date and is not indicative of the compensation actually received in such years:

Name	Year	Target In	Value @	Additional

		Shares #	Target ($)	Value @ Maximum Payout ($)
Martin H. Singer	2014	28,000	237,160	
	2012	20,000	140,800	70,400
John W. Schoen	2014	14,000	118,580	
	2012	10,000	70,400	35,200
Jeffrey A. Miller	2014	18,000	152,460	
	2012	20,000	140,800	70,400
David A. Neumann(6)	2014	23,000	194,810	
Anthony Kobrinetz	2014	15,000	127,050	
	2012	17,250	121,440	60,720

(3) Amounts shown do not reflect compensation actually received by the NEO in the year indicated. Instead, the amounts shown represent the aggregate fair value (determined on the grant date) of the options granted in the year indicated, calculated pursuant to the Statement of Financial Account Standards Codification Topic 718. For a discussion of the valuation assumptions, see Note 10 to the Company s consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2014. The actual value that may be realized from an option award is contingent upon the satisfaction of the conditions to vesting in that award. The amounts shown include the value of performance-based, service-vesting options granted in fiscal year 2014 at the grant date based upon the probable outcome of the performance conditions. The table below summarizes various values of performance options at different payout levels using the Black Sholes Model on the grant date and are not indicative of the compensation actually received in such year:

Name	**Year**	**Service Based Options #**	**Value $**	**Target In Options #**	**Value @ Target ($)**	**Additional Value @ Maximum Payout ($)**
Martin H. Singer	2013			80,000	222,568	55,642
John W. Schoen	2013	20,000	57,451	20,000	57,451	14,363
Jeffrey A. Miller	2013	25,000	71,814	25,000	71,814	17,953
David A. Neumann	2013	18,750	53,860	18,750	53,860	13,467
Anthony Kobrinetz	2013	18,750	53,860	18,750	53,860	13,467

(4) The values shown for 2014 and 2013 reflect that the incentive awards were paid in cash under the 2014 and 2013 STIP. No award was earned under the 2012 STIP. The details of the 2014 STIP are discussed under Compensation Discussion and Analysis Summary of 2014 Company Financial Performance and Compensation *2014 Short-Term Incentive Plan* above.

(5) The values shown represent payments by the Company for each NEO of matching contributions under 401(k) plan, group life insurance premiums, healthcare premiums, and dividends on unvested restricted shares of PCTEL common stock. The contributions exceeding $10,000 are (i) healthcare premiums of $15,819, $14,191 and $12,351 for Mr. Singer in 2014, 2013 and 2012 respectively; $11,071 for Mr. Schoen in 2014, $15,819 $14,191 and $12,351 for Mr. Miller in 2014, 2013 and 2012, respectively; and $15,819 and $13,403 for Mr. Neumann in 2014 and 2013; (ii) total dividends on unvested restricted shares of PCTEL common stock of $11,408, and $15,119 for Mr. Singer in 2013 and 2012 respectively. Except as noted above, none of the benefits included in the column entitled All Other Compensation exceeded $10,000 individually for a NEO in 2013.

(6) Mr. Neumann became an NEO in 2013.

The following table provides information on equity awards granted in fiscal 2014 to each of the NEOs:

Grants of Plan-Based Awards for the Fiscal Year Ended December 31, 2014

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)		
Name	**Grant Date(3)**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold ($)**	**Target ($)**	**Maximum ($)**
Martin H. Singer	3/5/2014	14,479	193,050	643,500			
	3/5/2014				29,645	237,160	237,160
John W. Schoen	3/5/2014	6,199	82,650	275,500			
	3/5/2014				14,823	118,580	118,580
Jeffrey A. Miller	3/5/2014	2,970	99,000	330,000			
	3/5/2014				19,058	152,460	152,460
David A. Neumann	3/5/2014	2,146	238,450	71,535			
	3/5/2014				24,351	194,810	194,810
Anthony Kobrinetz	3/5/2014	2,009	66,960	223,200			
	3/5/2014				15,881	127,050	127,050

(1) The amounts shown represented potential payments under the 2014 Short-Term Incentive Plan. The principal terms of the 2014 Short-Term Incentive Plan are discussed under Compensation Discussion and Analysis Summary of 2014 Company Financial Performance and Compensation 2014 *Short-Term Incentive Plan.*

(2) The amounts shown represented potential payments under the 2014 LTIP. The principal terms of the 2014 LTIP are discussed under Compensation Discussion and Analysis Summary of 2014 Company Financial Performance and Compensation *Awards under the 2014 Long-Term Incentive Plan.* The values shown reflect the fair market value of the shares on the grant date calculated pursuant to Statement of Financial Accounting Codification Topic 718. The assumptions the Company uses in calculating these amounts are discussed in Note 10 to the financial statements for the fiscal year ended December 31, 2014 which were filed with the Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

(3) In the case of all grant dates, the Board of Directors action date is both the Compensation Committee approval date and the grant date.

Outstanding Equity Awards at Fiscal Year End December 31, 2014

	Option Awards						Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Grant Date	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options #	Option Exercise Price ($)	Option Expiration Date	Number Of Shares or Units of Stock That Have Not Vested(1) (#)	Market Value of Shares or Units of Stock That Have Not Vested(2) ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(3) (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Martin H. Singer		90,844			7.16	4/9/2020				
	30,000		5/1/2006		10.56	5/1/2016				
	132,000		8/1/2006		9.16	8/1/2016				
	100,000		8/1/2005		9.09	8/1/2015				
									28,000	242,480
John W. Schoen	10,678	32,033	4/9/2013		7.16	4/9/2020	25,641	222,051	14,000	121,240
Jeffrey A. Miller	13,347	40,041	4/9/2013		7.16	4/9/2020	21,891	189,576	18,000	155,880
David A. Neumann	10,011	30,030	4/9/2013		7.16	4/9/2020	9,597	83,110	23,000	199,180
Anthony Kobrinetz	10,011	30,030	4/9/2013		7.16	4/9/2020	4,734	40,966	15,000	129,900

(1) For each of Mr. Miller and Mr. Schoen, 17,157 of such shares vest on January 2, 2017, and one-fourth of the remaining shares vest each year commencing one year after the grant date. For each individual other than Mr. Miller or Mr. Schoen, one-fourth of the aggregate shares held by such individual vest each year commencing one year after the grant date.

(2) The market value is calculated by multiplying the number of shares that have not vested by $8.66, the closing price of PCTEL common stock price as of December 31, 2014.

(3) Shares granted under the 2014 LTIP in which shares vest in two interim periods. The 2014 LTIP is designed so that at the end of the initial two-year interim measuring period, the participants will receive an equity award if the Company s actual revenue at the conclusion of the interim period exceeds the interim revenue threshold. The equity award received by participants increases in a linear progression as the Company s revenue for the interim period increases above the threshold up to the target revenue goal. At the end of the second interim period, the participants will receive an equity award if the Company s actual revenue for the entire four-year period exceeds the revenue threshold for such period.

The table below shows the number of shares of PCTEL common stock acquired during fiscal 2014 by the NEOs upon the exercise of stock options or the vesting of stock awards:

Option Exercises and Stock Vested at Fiscal Year End December 31, 2014

	Options Awards		Stock Awards	
Name	**Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Shares Acquired on Vesting (#)**	**Value Realized on Vesting(1) ($)**
Martin H. Singer			71,419	656,480
John W. Schoen			15,985	131,359
Jeffrey A. Miller			16,235	133,452
David A. Neumann			9,348	76,308
Anthony Kobrinetz			31,812	288,414

(1) The value represents the closing price of PCTEL common stock as represented by the NASDAQ as of the vesting date multiplied by the number of shares that vested on such date.

Nonqualified Deferred Compensation for the Fiscal Year Ended December 31, 2014

Name	**Executive Contributions in 2014 ($)**	**Company Contributions in 2014 ($)**	**Aggregate Earnings in 2014 ($)**	**Aggregate Withdrawals/ Distributions in 2014 ($)**	**Aggregate Balance as of December 31, 2014 ($)**
Martin H. Singer			60,011		772,683
John W. Schoen					31,896
Anthony Kobrinetz					
Jeffrey A. Miller			2,051		41,917
David A. Neumann			4,553		128,696

Under the Executive Deferred Compensation Plan, participants could defer up to 50% of salary and 100% of cash bonus subject to a minimum of $1,500. The Company provided a matching contribution equal to 4% of the amount deferred by the participant, which vests over three years from the date of the investment. The participant had a choice of investment alternatives from a menu of notional funds that mirror actual mutual fund performance. Upon the participant s death, disability, retirement or termination of employment, the participant would have received the value of his/her account in accordance with the provisions of the plan. The participant could have elected in advance to receive, at retirement, either a lump sum payment, or payments in annual installments over 15 years or over the lifetime of the participant with 20 annual payments guaranteed. The participant had to make his/her choice no sooner than one year before the date of retirement. The Executive Deferred Compensation Plan terminated in December 2013 and was liquidated in January 2015. There were no payments made to any NEO under the Executive Deferred Compensation Plan in 2014.

Name

			Amounts Included in Both Nonqualified Deferred Compensation Table and Summary Compensation Table for 2014 ($)			Amounts Included in Nonqualified Deferred Compensation Table previously Reported in Prior Years Summary Compensation Table ($)	
Martin H. Singer						772,683	
John W. Schoen						31,896	
Anthony Kobrinetz							
Jeffrey A. Miller	%		0.1	%			
Interest expense		(5.5	)%	(7.6	)%		(8.7)%
Debt extinguishment loss		(0.2	)%	(2.3	)%		(0.3)%
Other income (expense), net		0.9	%	(0.4	)%		(0.2)%
Income before income taxes		14.6	%	6.6	%		1.9 %
Provision for income taxes		3.0	%	1.7	%		1.2 %
Net income		11.6	%	4.9	%		0.7 %

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Fiscal Year Ended September 24, 2016 Compared to Fiscal Year Ended September 26, 2015
Product Revenues.

	Years Ended					
	September 24, 2016		September 26, 2015		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Product Revenues						
Diagnostics	$1,204.7	42.5 %	$1,184.1	43.8 %	$20.6	1.7 %
Breast Health	719.7	25.4 %	685.1	25.3 %	34.6	5.1 %
GYN Surgical	392.0	13.9 %	334.6	12.4 %	57.4	17.2 %
Skeletal Health	62.6	2.2 %	66.6	2.5 %	(4.0)	(6.0)%
	$2,379.0	84.0 %	$2,270.4	83.9 %	$108.6	4.8 %

We generated an increase in product revenues in fiscal 2016 compared to fiscal 2015. The growth was across our three primary business segments on both a domestic and worldwide basis, while Skeletal Health experienced a decline domestically and internationally. Product revenues increased 4.8% in the current fiscal year compared to the prior fiscal year, 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, Australian dollar and UK Pound.
Diagnostics product revenues increased 1.7% in fiscal 2016 compared to fiscal 2015 primarily due to increases in Molecular Diagnostics of $28.6 million and Cytology & PeriNatal of $8.1 million. These increases were partially offset by a decrease of $16.2 million in our Blood Screening business.
The increase in Molecular Diagnostics products, and in particular our Aptima family of assays, was primarily due to our increased installed base of Panther instruments, which is driving higher volumes of assay testing. These increases were partially offset by a slight decline in average selling prices, a reduction in Cervista HPV revenues as our larger customers transition to our Panther system, a reduction in Cystic Fibrosis revenues as we discontinued the product at the end of the second quarter of fiscal 2016, and a slight negative foreign currency exchange impact from the strengthening U.S. dollar on our sales denominated in foreign currencies. Overall, we experienced revenue growth both domestically and internationally in our Molecular Diagnostics business. The increase in our Cytology & PeriNatal products was primarily related to increases in instrument sales and Perinatal volumes partially offset by a decrease in our ThinPrep products, where ThinPrep volumes increased slightly domestically and increased more modestly internationally, but international sales were negatively impacted by the strengthening U.S. dollar on our sales denominated in foreign currencies. As a result, this business experienced an increase in domestic revenues but a decline in international revenues. Blood Screening revenues decreased in fiscal 2016 compared to fiscal 2015 primarily due to a reduction in volumes related to the agreement between Grifols, our blood screening partner, and the Japanese Red Cross and lower instrument and ancillary volumes as well as the trend of lower blood donations in the U.S. The revenue decrease was partially offset by fluctuations in Grifols' domestic inventory levels, including increased fulfillment of the West Nile Virus assay. As a result, this business experienced an increase in domestic revenues but a decline in international revenues.
Breast Health product revenues increased 5.1% in fiscal 2016 compared to fiscal 2015. Our digital mammography systems and related products revenue increased $56.8 million in fiscal 2016 compared to fiscal 2015 primarily due to higher sales volume of our 3D Dimensions systems on a worldwide basis, principally driven by domestic sales. This resulted in our domestic 3D Dimension systems sales, which have higher average selling prices than international sales, increasing as a percentage of our total 3D Dimension system sales. In addition, we also had higher software sales primarily driven by our C-View product. These increases were partially offset by negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies and decreases in the sales volume of our 2D Selenia product. In addition, we had lower sales of our interventional breast solutions products of $4.7 million and had no sales from our MRI breast coils product line in fiscal 2016, which was fully disposed during fiscal 2015 and contributed $8.4 million in fiscal 2015. Overall, we experienced growth domestically in this business segment but had a decline internationally in our primary product lines.

GYN Surgical product revenues increased 17.2% in fiscal 2016 compared to fiscal 2015 primarily due to increases in MyoSure system sales of $38.8 million and NovaSure system sales of $19.1 million compared to fiscal 2015 as volumes increased both domestically and internationally for each product. We believe the increase in domestic NovaSure volumes is partially attributable to a competitor's recent withdrawal from the market. The MyoSure system continued to gain strong market acceptance as unit sales increased globally. 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.

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Skeletal Health product revenues decreased 6.0% in fiscal 2016 compared to fiscal 2015 primarily due to decreases in the sales volume of our older Discovery products, lower sales of our mini C-arm product and the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. These decreases were partially offset by an increase in our Horizon osteoporosis assessment product sales volume.

In fiscal 2016, 77.8% of product revenues were generated in the United States, 10.6% in Europe, 8.3% in Asia-Pacific, and 3.3% in other international markets. In fiscal 2015, 74.6% of product revenues were generated in the United States, 12.4% in Europe, 9.3% in Asia-Pacific, and 3.7% in other international markets. The increase in the percentage of U.S. revenues was primarily due to higher total product revenue in the U.S. in our Surgical, Breast Health and Molecular Diagnostic product lines. The impact of the U.S. revenue increases, lower overall international revenues, and the negative impact of the strengthening U.S. dollar, primarily against the Euro, Australian dollar and the UK Pound, resulted in a reduction in the European and Asia-Pacific revenues as a percentage of consolidated revenues.

Service and Other Revenues.

	Years Ended September 24, 2016		September 26, 2015		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Service and Other Revenues	$453.7	16.0 %	$434.6	16.1 %	$19.1	4.4%

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 4.4% in fiscal 2016 compared to fiscal 2015 primarily due to higher service contract conversion and renewal rates and higher installation and training revenues related to increased sales of our 3D Dimensions systems. In addition, other revenue in our Diagnostics segment increased in fiscal 2016 primarily due to $9 million of payments received under an agreement to license certain technology.

Cost of Product Revenues.

	Years Ended September 24, 2016		September 26, 2015		Change	
	Amount	% of Product Sales	Amount	% of Product Sales	Amount	%
Cost of Product Revenues	$756.8	31.8 %	$755.5	33.3 %	$1.3	0.2 %
Amortization of Intangible Assets	293.4	12.3 %	299.7	13.2 %	(6.3)	(2.1)%
	$1,050.2	44.1 %	$1,055.2	46.5 %	$(5.0)	(0.5)%

Product gross margin increased to 55.9% in fiscal 2016 compared to 53.5% in fiscal 2015.

Cost of Product Revenues. Cost of product revenues as a percentage of product revenues in the current fiscal year decreased in our Breast Health and GYN Surgical business segments and increased in Diagnostics and Skeletal Health compared to the prior fiscal year, resulting in the overall improvement in gross margins.

Diagnostics’ product costs as a percentage of revenue increased slightly in fiscal 2016 compared to fiscal 2015 primarily due to unfavorable absorption variances, a mix shift in international sales to a higher percentage of lower margin molecular diagnostic products, inventory related charges for discontinuing the Cystic Fibrosis product, and the negative impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. These increases were partially offset by an increase in product revenue related to the increase in Aptima assay sales and related volumes resulting in favorable manufacturing variances, and lower production costs at our manufacturing facilities as we improve our operational efficiency and renegotiate pricing with certain of our vendors. In addition, we generated an increase in domestic sales, which have higher average selling prices, while international sales declined in the current year compared to fiscal 2015.

Breast Health's product costs as a percentage of revenue decreased in fiscal 2016 compared to fiscal 2015 primarily due to the favorable product mix shift to our higher margin 3D Dimensions system. Our 3D Dimensions systems have higher average sales prices than our 2D systems. In addition, we had higher software sales primarily due to our C-View product, which have higher gross margins than capital equipment sales, and we experienced favorable manufacturing variances. Further, we generated an increase in domestic sales, which have higher average selling prices, while international sales declined in fiscal

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2016 compared to fiscal 2015 resulting in an improved gross margin. We also had lower sales of our interventional breast solutions disposables and no sales from our MRI breast coils product line, which was fully disposed during fiscal 2015. Both of these product lines have lower gross margins than our digital mammography systems.

GYN Surgical's product costs as a percentage of revenue decreased in fiscal 2016 compared to fiscal 2015 primarily due to an increase in sales volumes for both our MyoSure and NovaSure products resulting in favorable manufacturing variances, partially offset by product mix shift to our lower margin MyoSure products. In addition, the prior fiscal year included a $4.0 million charge to write-off certain inventory that would not be utilized.

Skeletal Health's product costs as a percentage of revenue increased in fiscal 2016 compared to fiscal 2015 primarily due to an overall decrease in revenues, partially offset by favorable manufacturing variances as we built additional inventory in anticipation of outsourcing the manufacturing of a majority of the division's products to a third party.
Amortization of Intangible Assets. Amortization of intangible assets relates to acquired developed technology. These intangible assets are generally amortized over their estimated useful lives 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. The economic pattern is based on undiscounted future cash flows. The decrease in amortization expense in fiscal 2016 compared to fiscal 2015 was primarily due to lower amortization expense from intangible assets from the Cytyc Corporation acquisition, which are being amortized based on the pattern of economic use, and the full amortization of assets acquired in our Suros acquisition. These decreases were partially offset due to the acceleration of amortization of the Cystic Fibrosis developed technology asset of $6.2 million in fiscal 2016 as a result of discontinuing this product.
Cost of Service and Other Revenues.

	Years Ended							
	September 24, 2016			September 26, 2015			Change	
	Amount	% of Service and Other Revenues		Amount	% of Service and Other Revenues		Amount	%
Cost of Service and Other Revenues	$219.2	48.3	%	$217.1	50.0	%	$2.1	1.0%

Service and other revenues gross margin was 51.7% in fiscal 2016 compared to 50.0% in fiscal 2015. Within our Breast Health segment, the increase in gross margin is related to higher service contract conversion and renewal rates and higher installation and training revenues related to our increased sales of 3D Dimensions systems. In addition, we had an increase in other revenue in our Diagnostics segment primarily due to $9 million of royalty payments from licensing certain technology, which had no corresponding service costs.
Operating Expenses.

	Years Ended								
	September 24, 2016			September 26, 2015			Change		
	Amount	% of Total Revenue		Amount	% of Total Revenue		Amount	%	
Operating Expenses									
Research and development	$232.1	8.2	%	$214.9	7.9	%	$17.2	8.0	%
Selling and marketing	415.1	14.7	%	363.0	13.4	%	52.1	14.4	%
General and administrative	267.3	9.4	%	261.0	9.7	%	6.3	2.4	%
Amortization of intangible assets	89.7	3.2	%	110.2	4.1	%	(20.5)	(18.6)	%
Restructuring and divestiture charges	10.5	0.4	%	28.5	1.1	%	(18.0)	(63.2)	%
	$1,014.7	35.9	%	$977.6	36.2	%	$37.1	3.8	%

Research and Development Expenses. Research and development expenses increased 8.0% in fiscal 2016 compared to fiscal 2015 primarily due to higher compensation, primarily in our Breast Health segment from additional headcount.

There was also an increase in new product development spend in Breast Health, GYN Surgical and Skeletal Health for prototype materials and consulting. 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.

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Selling and Marketing Expenses. Selling and marketing expenses increased 14.4% in fiscal 2016 compared to fiscal 2015 primarily due to higher compensation from an increase in headcount in Diagnostics, GYN Surgical and Breast Health, increased commissions as a result of higher sales, an increase in spending on a number of marketing initiatives primarily in our Breast Health and Diagnostics businesses, higher medical education spend in GYN Surgical and higher travel, trade show and meeting expenses.

General and Administrative Expenses. General and administrative expenses increased 2.4% in fiscal 2016 compared to fiscal 2015 primarily due to a $6.0 million charge for settling a legal fee dispute in the first quarter of fiscal 2016, and to a lesser extent, due to higher salary and compensation from increased headcount, increased consulting and legal expenses for a number of corporate initiatives including organizational structure changes and finance operational improvements, an increase in information systems infrastructure and project costs, and an increase in stock-based compensation from implementing a retirement plan provision in our equity compensation plan in the fourth quarter. Partially offsetting these increases was a decrease in the medical device excise tax of $16.9 million as a result of the Protecting Americans from Tax Hikes Act of 2015 ("PATH"), which went into effect December 15, 2015, and provides for a two-year moratorium on the 2.3% excise tax imposed on the sale of medical devices in the United States on or after January 1, 2016 through December 31, 2017, and lower tax fees.

Amortization of Intangible Assets. Amortization of intangible assets results from customer relationships, trade names, and business licenses from 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 18.6% in fiscal 2016 compared to fiscal 2015 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.

Restructuring and Divestiture Charges. In fiscal 2014, we implemented cost containment measures that primarily resulted in headcount reductions and also started the process of reorganizing our senior management team and international structure, which led to additional headcount actions in fiscal 2015. In addition, 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 throughout fiscal 2016 which resulted in additional charges. 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 fiscal 2016 and 2015, we recorded aggregate charges of $10.5 million and $28.5 million, respectively, from these actions, primarily for severance and benefits and to a lesser extent facility closure costs. Included in the fiscal 2015 charges was a $9.6 million charge to write-off the cumulative translation adjustment related to the divestiture of our MRI breast coils product line. This subsidiary was deemed to be substantially liquidated in the third quarter of fiscal 2015 as operations fully ceased. For additional information, please refer to Note 3 to our consolidated financial statements contained in Item 15 of this Annual Report.

In connection with shutting down the Bedford location, we expect to record lease obligation charges ranging from approximately $8.0 million to $12.0 million in fiscal 2017 as we meet the cease-use date requirements for a portion of the facility. In order to estimate the lease obligation charges, we have made certain assumptions including the time period it will take to obtain a subtenant and certain sub-lease rates. These estimates may vary from the sub-lease agreements ultimately executed, if at all, resulting in an adjustment to the charges.

Interest Expense.

	Years Ended		Change	
	September 24, 2016	September 26, 2015		
	Amount	Amount	Amount	%
Interest Expense	$(155.3)	$(205.5)	$50.2	(24.4)%

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, Senior Notes, and amounts borrowed under our Credit Agreement, Prior Credit Agreement and Accounts Receivable Securitization Program. The decrease in interest expense in fiscal 2016 compared to fiscal 2015 was primarily due to lower outstanding balances as a result of scheduled principal payments, a term loan prepayment and extinguishments in fiscal 2015 and, to a lesser extent, Convertible Note repurchases in fiscal 2016 of $274.2 million principal amount, and lower interest rates in fiscal 2016 as a result of debt refinancings in fiscal 2015.

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Debt Extinguishment Loss.

	Years Ended September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Debt Extinguishment Loss	$(5.3)	$ (62.7)	$57.4	(91.5)%

On various dates during the second and fourth quarters of fiscal 2016, we entered into privately negotiated repurchase transactions and extinguished $137.6 million and $136.6 million principal amount of our 2010 Notes and 2012 Notes, respectively, for an aggregate payment of $392.8 million, which includes a premium conversion resulting from our stock price on the date of the transactions being in excess of the conversion prices. In connection with these transactions, we recorded a debt extinguishment loss of $4.6 million and $0.7 million on the 2010 Notes and 2012 Notes, respectively, related to the difference between the fair value of their respective liability components and carrying values at the repurchase dates plus a pro-rata amount of deferred issuance costs. The remaining cash payments were allocated to the reacquisition of the equity component and recorded within additional paid-in capital, a component of stockholders' equity.

In the fourth quarter of fiscal 2015, we completed a private placement of $1.0 billion aggregate principal amount of our 2022 Senior Notes. We used the net proceeds of the 2022 Senior Notes, plus available cash to discharge the outstanding 6.25% Senior Notes due 2020 at an aggregate redemption price of $1.03 billion, reflecting a redemption premium payment of $31.25 million. As a result of this transaction, we recorded a debt extinguishment loss of $22.3 million for the write-off of the pro-rata share of the redemption premium and debt issuance costs for extinguished lenders.

Also in the fourth quarter of fiscal 2015, on various dates, we entered into privately negotiated transactions and repurchased $300 million principal amount of our 2010 Notes for a total payment of $543.7 million, which included the conversion premium resulting from our stock price on the date of transaction being in excess of the conversion price. In connection with these transactions, we recorded a debt extinguishment loss of $15.5 million related to the difference between the fair value of the liability component of the 2010 Notes and their respective carrying value at the redemption date. The remaining cash payments were allocated to the reacquisition of the equity component and recorded within additional paid-in-capital within stockholders' equity.

In the third quarter of fiscal 2015, we entered into a new Credit Agreement with Bank of America, N.A. The initial net proceeds under the new Credit Agreement were used to refinance our obligations under our Prior Credit Agreement with Goldman Sachs Bank USA. In connection with this transaction, we recorded a debt extinguishment loss of $18.2 million for the write-off of the pro-rata share of the debt discount and deferred issuance costs under the existing facility.

In the first quarter of fiscal 2015, we voluntarily pre-paid $300.0 million of our Term Loan B facility under the Prior Credit Agreement. In connection with this transaction, we recorded a debt extinguishment loss of $6.7 million to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to this voluntary pre-payment.

Other Income (expense), net.

	Years Ended September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Other Income (expense), net	$26.6	$ (11.0)	$37.6	**

** Percentage not meaningful

In fiscal 2016, this account was primarily comprised of a $25.1 million realized gain on the sale of a marketable security, and a gain of $3.3 million on the cash surrender value of life insurance contracts related to our deferred compensation plan. These gains were partially offset by an other-than-temporary impairment charge of $1.1 million on a marketable security and net foreign currency exchange losses of $1.0 million.

In fiscal 2015, this account was primarily comprised of an other-than-temporary impairment charge of $7.8 million on a marketable security, net foreign currency exchange losses of $2.9 million, and $1.0 million of losses on cash surrender value of life insurance contracts and mutual funds related to our deferred compensation plan.

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Provision for Income Taxes.

	Years Ended			
	September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Provision for Income Taxes	$84.5	$ 45.6	$38.9	85.3%

Our effective tax rate for fiscal 2016 was 20.3% compared to 25.8% in fiscal 2015. For fiscal 2016, the effective tax rate was lower than the statutory tax rate primarily due to earnings in jurisdictions subject to lower tax rates, the domestic production activities deduction benefit, and a change in the valuation allowance related to the sale of a marketable security with a higher tax than book basis. For fiscal 2015, the effective tax rate was lower than the statutory rate primarily due to the domestic production activities deduction benefit.

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 footnotes to the accompanying consolidated financial statements contained in Item 15 of this Annual Report. We measure segment performance based on total revenues and operating income. 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.

	Years Ended			
	September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$1,236.9	$1,211.8	$25.1	2.1 %
Operating Income	$126.0	$109.5	$16.5	15.1%
Operating Income as a % of Segment Revenue	10.2 %	9.0 %		

Diagnostics revenues increased in fiscal 2016 compared to fiscal 2015 primarily due to the increase in product revenues discussed above.

Operating income for this business segment increased in fiscal 2016 compared to fiscal 2015 primarily due to increased gross profit and lower operating expenses. Gross profit increased primarily due to increased Aptima and Cytology & Perinatal product sales, partially offset by lower blood screening revenues, as discussed above, and an increase in other revenue primarily due to $9.0 million in payments received in fiscal 2016 under an agreement to license certain technology for which there were no corresponding costs. In addition, we had favorable manufacturing variances and lower production costs at our manufacturing facilities as we improve our operational effectiveness and renegotiate pricing with certain of our vendors. Partially offsetting these improvements were unfavorable absorption variances, a mix shift in international sales to lower margin molecular diagnostic products, inventory related charges for discontinuing the Cystic Fibrosis product, the negative impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, and the acceleration of amortization of the Cystic Fibrosis developed technology asset of $6.2 million. Overall, the gross margin improved slightly to 49.5% in fiscal 2016 from 49.3% in fiscal 2015.

Operating expenses decreased in fiscal 2016 compared to fiscal 2015 primarily due to lower amortization expense of $16.9 million, lower medical device excise taxes of $7.5 million, and lower restructuring charges. These decreases were partially offset by higher sales and marketing expenses related to increased compensation for additional headcount and commissions, increased marketing initiatives and trade shows and an increase in legal fees related to the settlement of a fee dispute for $6.0 million.

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Breast Health.

	Years Ended			
	September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$1,112.8	$1,063.4	$49.4	4.6 %
Operating Income	$350.5	$296.3	$54.2	18.3%
Operating Income as a % of Segment Revenue	31.5 %	27.9 %		

Breast Health revenues increased in fiscal 2016 compared to fiscal 2015 primarily due to the $34.6 million increase in product revenues discussed above and a $14.7 million increase in service revenues.

Operating income for this business segment increased in fiscal 2016 compared to fiscal 2015 primarily due to an increase in gross profit from higher revenue, partially offset by an increase in operating expenses. Gross profit increased primarily due to the increase in 3D Dimensions sales, on both a unit basis and as a percentage of total digital mammography systems, compared to our 2D systems, and an increase in software related sales, each of which have higher gross margins. We also generated an increase in domestic sales, which have higher average selling prices, while international sales declined in fiscal 2016 compared to fiscal 2015 resulting in an improved gross margin. In addition, this business experienced favorable manufacturing variances. These increases were partially offset by the negative foreign currency impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. As a result, overall gross margin increased to 59.9% in fiscal 2016 compared to 56.4% in fiscal 2015.

Operating expenses increased in fiscal 2016 compared to fiscal 2015 primarily due to an increase in compensation and commissions from increased headcount and improved operating results, higher marketing expenditures for a number of marketing programs, and increased trade show and meeting expenses, higher clinical trial and prototype materials expenses, and increased information systems infrastructure costs. These expense increases were partially offset by lower medical device excise taxes of $5.8 million, lower intangible asset amortization expense of $2.5 million, and lower restructuring expenses in which the prior year included a $9.6 million charge to write-off the cumulative translation adjustment related to the divestiture of our MRI breast coils product line.

GYN Surgical.

	Years Ended			
	September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$393.1	$335.8	$57.3	17.1%
Operating Income	$69.1	$38.6	$30.5	79.0%
Operating Income as a % of Segment Revenue	17.6 %	11.5 %		

GYN Surgical revenues increased in fiscal 2016 compared to fiscal 2015 due to the increase in product revenues discussed above.

Operating income for this business segment increased in fiscal 2016 compared to fiscal 2015 primarily due to an increase in revenues and gross profit, partially offset by an increase in operating expenses. Gross margin increased to 62.0% in fiscal 2016 from 57.3% in fiscal 2015 primarily due to increased sales volumes for both our MyoSure and NovaSure products resulting in favorable manufacturing variances, partially offset by product mix shift to our lower margin MyoSure products. In addition, intangible asset amortization expense was lower in the current year. Gross margin was also higher in the current year as the prior year included a $4.0 million charge to write-off inventory that would not be utilized.

Operating expenses increased in fiscal 2016 primarily due to an increase in compensation from additional headcount, higher commissions due to increased sales, increased spend on marketing initiatives, trade shows and medical education, increased research and development expenses and higher legal expenses.

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Skeletal Health.

	Years Ended September 24, 2016	September 26, 2015	Change	
	Amount	Amount	Amount	%
Total Revenues	$89.9	$ 94.0	$(4.1)	(4.4)%
Operating Income	$3.0	$ 10.7	$(7.7)	(72.0)%
Operating Income as a % of Segment Revenue	3.3 %	11.4 %		

Skeletal Health revenues decreased in fiscal 2016 compared to fiscal 2015 primarily due to the decrease in product revenues of $4.0 million discussed above.

Operating income decreased in fiscal 2016 compared to the prior year primarily due to higher operating expenses for compensation and additional investment in research and development projects, while gross profit increased slightly as a result of higher sales of our higher margin Horizon product and favorable manufacturing variances as we built up inventory in advance of transitioning production of these products to a third-party manufacturer.

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Fiscal Year Ended September 26, 2015 Compared to Fiscal Year Ended September 27, 2014

Product Revenues.

	Years Ended								
	September 26, 2015			September 27, 2014			Change		
	Amount	% of Total Revenue		Amount	% of Total Revenue		Amount	%	
Product Revenues									
Diagnostics	$1,184.1	43.8	%	$1,136.9	44.9	%	$47.2	4.2	%
Breast Health	685.1	25.3	%	587.9	23.2	%	97.2	16.5	%
GYN Surgical	334.6	12.4	%	306.6	12.1	%	28.0	9.1	%
Skeletal Health	66.6	2.5	%	63.5	2.5	%	3.1	4.9	%
	$2,270.4	83.9	%	$2,094.9	82.7	%	$175.5	8.4	%

We generated an increase in product revenues in fiscal 2015 compared to fiscal 2014. The growth was across all four of our business segments on both a domestic and worldwide basis. Product revenues increased 8.4% in fiscal 2015 compared to fiscal 2014, 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, UK Pound and Renminbi.

Diagnostics product revenues increased 4.2% in fiscal 2015 compared to fiscal 2014 primarily due to increases in Molecular Diagnostics of $32.3 million and Blood Screening of $27.1 million. These increases were partially offset by a decrease of $12.1 million in our Cytology & PeriNatal business.

The increase in Molecular Diagnostics products, and in particular our Aptima family of assays was primarily due to increased volumes due to our increased installed base of Panther instruments, and increased sales volumes of our HPV screening assay, which was FDA approved for use on our Panther system in the fourth quarter of fiscal 2013. These increases were partially offset by a reduction in Cervista HPV revenues as customers transitioned to our Panther system and Aptima HPV assay and lower instrumentation sales due to the significant purchases made by Quest Diagnostics Incorporated, or Quest, in the first quarter of fiscal 2014. In addition, we experienced slightly lower average selling prices. Our Blood Screening revenues increased in fiscal 2015 compared to fiscal 2014 primarily due to volume increases related to the agreement between Grifols, our blood screening partner, and the Japanese Red Cross, and restocking of certain assays for Grifols to normalize its inventory levels. The decrease in our Cytology & PeriNatal revenues in fiscal 2015 compared to fiscal 2014 was primarily related to the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, lower instrument sales and slightly lower average selling prices in China. ThinPrep Pap Test volumes domestically increased slightly in fiscal 2015 compared to fiscal 2014, and increased more modestly internationally. In the U.S., we believe the negative impact on ThinPrep Pap test volumes resulting from interval expansion for cervical cancer screening was largely negated by our increased market share gains.

Breast Health product revenues increased 16.5% in fiscal 2015 compared to fiscal 2014. Our digital mammography systems and related products revenue increased $116.1 million in fiscal 2015 compared to fiscal 2014 primarily due to the increase in 3D Dimensions units sold on a worldwide basis, which was principally driven by domestic sales. This increase was partially offset by slightly lower average selling prices and a product mix shift within the 3D offerings to systems with less features. In addition, we also had higher sales of 3D upgrades and related products primarily driven by our C-View product. As expected, we continued to experience a decline in the number of 2D systems sold as customers transition to the 3D Dimensions systems, which occurred primarily in the United States. The increase in revenue was also partially offset by the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, lower MRI breast coils product line revenue of $6.9 million as a result of the divestiture of this product line in the fourth quarter of fiscal 2014, and a decline of $10.2 million related to our Hitec-Imaging business primarily as a result of the completed shutdown of its organic photoconductor production line in fiscal 2014.

GYN Surgical product revenues increased 9.1% in fiscal 2015 compared to fiscal 2014 primarily due to an increase in MyoSure system sales of $29.1 million partially offset by lower NovaSure device sales of $1.3 million. The MyoSure system continued to gain strong market acceptance as unit sales increased globally, partially offset by product mix and slightly lower average sales prices. NovaSure revenues were slightly lower in fiscal 2015 compared to fiscal 2014 primarily due to the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies and slightly lower domestic volume, partially offset by higher international volume. Skeletal Health product revenues increased 4.9% in fiscal 2015 compared to fiscal 2014 primarily due to volume increases in our Horizon osteoporosis assessment product sales on worldwide basis, which were partially offset by lower

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volumes of our older Discovery products, the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies, and lower average selling prices.
In fiscal 2015, 74.6% of product sales were generated in the United States, 12.4% in Europe, 9.3% in Asia-Pacific, and 3.7% in other international markets. In fiscal 2014, 73.6% of product sales were generated in the United States, 13.8% in Europe, 8.6% in Asia-Pacific, and 4.0% in other international markets. The increase in the percentage of U.S. revenues was primarily due to increased sales of our 3D Dimensions system and related products and the negative impact of the strengthening U.S. dollar against the Euro and UK Pound, which resulted in lower European revenues.
Service and Other Revenues.

	Years Ended September 26, 2015		September 27, 2014		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Service and Other Revenues	$434.6	16.1 %	$435.8	17.2 %	$(1.2)	(0.3)%

Service and other revenues decreased 0.3% in fiscal 2015 compared to fiscal 2014 as fiscal 2014 service and other revenues included $20.1 million of non-recurring revenue within our Diagnostics segment related to executing a license amendment with Roka Bioscience, Inc. in the fourth quarter of fiscal 2014. Excluding this impact, service and other revenues increased by $18.9 million or 4.5% in fiscal 2015 due to a favorable shift in service contract pricing and higher installation and training revenues related to increased sales of our 3D Dimensions systems. The increase was also driven to a lesser extent by an increase in the number of service contracts in our Breast Health business as our installed base of our digital mammography systems continued to grow.
Cost of Product Revenues.

	Years Ended September 26, 2015		September 27, 2014		Change	
	Amount	% of Product Revenue	Amount	% of Product Revenue	Amount	%
Cost of Product Revenues	$755.5	33.3 %	$731.3	34.9 %	$24.2	3.3 %
Amortization of Intangible Assets	299.7	13.2 %	314.6	15.0 %	(14.9)	(4.7)%
Impairment of Intangible Assets	—	— %	26.6	1.3 %	(26.6)	(100.0)%
	$1,055.2	46.5 %	$1,072.5	51.2 %	$(17.3)	(1.6)%

Product gross margin increased to 53.5% in fiscal 2015 compared to 48.8% in fiscal 2014.
Cost of Product Revenues. Cost of product revenues as a percentage of product revenues in fiscal 2015 decreased in Diagnostics and Breast Health, and increased in GYN Surgical and Skeletal Health compared to fiscal 2014, resulting in an overall improved gross margin.

Diagnostics' product costs as a percentage of revenue decreased in fiscal 2015 compared to fiscal 2014 primarily due to an increase in product revenue related to the increase in Aptima assay sales and related volumes resulting in favorable manufacturing variances, higher blood screening revenues, lower production costs at our manufacturing facilities, lower royalty expenses primarily for ThinPrep due to the expiration of a royalty obligation during fiscal 2014, lower Cervista HPV sales, and lower molecular diagnostics instrumentation sales, which have very low gross margins. Partially offsetting these improvements was the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies.

Breast Health's product costs as a percentage of revenue decreased in fiscal 2015 compared to fiscal 2014 primarily due to the favorable product mix shift to our higher margin 3D Dimensions system. Our 3D Dimensions systems have higher average sales prices than our 2D systems and sales in the U.S. have higher average sales prices than those sold internationally, resulting in higher gross margins. In addition, we had higher software sales for 3D upgrades and our C-View product, which have higher gross margins than capital equipment sales, while we had lower revenues from our Hitec-Imaging business, which has lower gross margins than the majority of our Breast Health products. Partially offsetting these improvements was the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies.

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GYN Surgical’s product costs as a percentage of revenue increased in fiscal 2015 compared to fiscal 2014 primarily due to an increase in sales volumes for our MyoSure system and product mix shift. The MyoSure system has slightly lower gross margins than our NovaSure system. In addition, in fiscal 2015 we recorded a $4.0 million charge to write-off certain inventory that would not be utilized.

Skeletal Health’s product costs as a percentage of revenue increased in fiscal 2015 compared to fiscal 2014 primarily due to decreases in the average selling prices for both our Horizon and legacy Discovery products principally due to the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies.

Amortization of Intangible Assets. The decrease in amortization expense in fiscal 2015 compared to fiscal 2014 was primarily due to lower amortization expense from intangible assets from the Cytyc Corporation acquisition, which are amortized based on the pattern of economic use, and the write-down in the second quarter of fiscal 2014 and the eventual write-off of the MRI breast coils developed technology asset as a result of the divestiture of this product line in the fourth quarter of fiscal 2014. Amortization expense in fiscal 2014 from the MRI breast coil product line was $9.1 million. Partially offsetting these decreases was an increase due to certain in-process R&D projects from our Gen-Probe acquisition being completed in 2014 and reclassified to developed technology. The value assigned to these projects is now being amortized.

Impairment of Intangible Assets. There was no impairment of intangible assets in fiscal 2015. In the second quarter of fiscal 2014, we evaluated our MRI breast coils product line asset group, which was within our Breast Health segment, for impairment due to our expectation that it would be sold or disposed of significantly before the end of its previously estimated useful life. The undiscounted cash flows expected to be generated by this asset group over its estimated remaining life were not sufficient to recover its carrying value. At that time, we estimated the fair value of the asset group resulting in an aggregate impairment charge of $28.6 million, comprised of $27.1 million of intangible assets and $1.5 million of property and equipment. The impairment charge was allocated to the long-lived assets, resulting in $26.6 million being allocated to developed technology. The MRI breast coils product line was sold in the fourth quarter of fiscal 2014.

Cost of Service and Other Revenues.

	Years Ended					
	September 26, 2015		September 27, 2014		Change	
	Amount	% of Service and Other Revenues	Amount	% of Service and Other Revenues	Amount	%
Cost of Service and Other Revenues	$217.1	50.0 %	$212.7	48.8 %	$4.4	2.1 %

Service and other revenues gross margin was 50.0% in fiscal 2015 compared to 51.2% in fiscal 2014. Gross margin in fiscal 2015 was lower than fiscal 2014 as fiscal 2014 service and other revenues included $20.1 million of revenue from the Roka Bioscience, Inc. license amendment transaction, which did not have any corresponding costs. Excluding this transaction, gross margin would have improved by 1.2% in fiscal 2015. Within our Breast Health segment, gross margin improved primarily due to a favorable shift in service contract pricing and higher installation and training revenues related to our increased sales of 3D Dimensions systems. The increase was also driven to a lesser extent by the continued conversion of a high percentage of our domestic installed base of digital mammography systems to service contracts upon expiration of the warranty period improving leverage of our service infrastructure.

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Operating Expenses.

	Years Ended September 26, 2015		September 27, 2014		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Operating Expenses						
Research and development	$214.9	7.9 %	$203.2	8.0 %	$11.7	5.8 %
Selling and marketing	363.0	13.4 %	331.7	13.1 %	31.3	9.4 %
General and administrative	261.0	9.7 %	259.8	10.3 %	1.2	0.5 %
Amortization of intangible assets	110.2	4.1 %	113.8	4.5 %	(3.6)	(3.2)%
Impairment of intangible assets	—	— %	5.6	0.2 %	(5.6)	(100.0)%
Restructuring and divestiture charges	28.5	1.1 %	51.7	2.0 %	(23.2)	(44.9)%
	$977.6	36.2 %	$965.8	38.1 %	$11.8	1.2 %

Research and Development Expenses. Research and development expenses increased 5.8% in fiscal 2015 compared to fiscal 2014 primarily due to increased compensation from higher headcount and variable compensation due to improved operating results, primarily in our Diagnostics and GYN Surgical segments, and additional program spend for our virology product line within our molecular diagnostics business, including increased clinical spending and higher spend for prototype materials. Partially offsetting these increases was lower spend of $3.5 million from our MRI breast coils product line as a result of the divestiture of this business in the fourth quarter of fiscal 2014. 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.

Selling and Marketing Expenses. Selling and marketing expenses increased 9.4% in fiscal 2015 compared to fiscal 2014 primarily due to increased commissions as a result of higher sales, an increase in spending on marketing initiatives primarily for our breast cancer awareness, Genius 3D mammography and cervical cancer awareness campaigns and higher training costs. These increases were partially offset by lower spend of $4.4 million from our MRI breast coils product line as a result of the divestiture of this business in the fourth quarter of fiscal 2014, lower international headcount from restructuring actions, and lower travel expenses.

General and Administrative Expenses. General and administrative expenses increased 0.5% in fiscal 2015 compared to fiscal 2014 primarily due to higher variable compensation due to improved operating results and higher stock-based compensation, increased consulting expenses for a number of corporate initiatives and higher medical device excise taxes from increased U.S. product sales. These increases were partially offset by decreases in credit card fees related to customer sales, lower spend related to our MRI breast coils product line as a result of its divestiture in the fourth quarter of fiscal 2014, decreases in certain non-income tax expenses, a reduction of bad debt expense, reduced legal and consulting fees related to shareholder activism, and lower headcount primarily internationally from restructuring actions.

Amortization of Intangible Assets. The decrease in amortization expense in fiscal 2015 compared to fiscal 2014 was primarily due lower amortization from intangibles acquired in the Cytyc Corporation acquisition in fiscal 2008 as the pattern of economic benefits decreased, partially offset by the shortening of the remaining life of certain corporate trade names as we decided to phase out their use during the second quarter of fiscal 2014.

Impairment of Intangible Assets. There was no impairment of intangible assets in fiscal 2015. In the fourth quarter of fiscal 2014, we recorded a $5.1 million impairment charge for our existing in-process research and development projects from our Gen-Probe acquisition primarily due to a reduction in estimated future revenues from these products. Additionally, in the second quarter of fiscal 2014, we recorded an impairment charge for a trade name intangible asset related to our MRI breast coils product line as previously discussed.

Restructuring and Divestiture Charges. In the fourth quarter of fiscal 2012, in connection with our acquisition of Gen-Probe, we implemented a restructuring action to consolidate our Diagnostics operations by decreasing headcount and transferring our legacy molecular diagnostics operations in Madison, Wisconsin. We also finalized our decision to transfer production of our interventional breast solutions products from our Indianapolis facility to our Costa Rica facility. In fiscal 2013 and in the first quarter of fiscal 2014, we implemented cost containment measures that primarily resulted in headcount reductions. In the second, third and fourth quarters of fiscal 2014, we terminated certain personnel at our Hitec Imaging

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operation in Germany, and as part of ongoing management changes and structural refinement, we terminated certain executives and employees on a worldwide basis. Certain of these actions and related charges continued into fiscal 2015 and additional actions were taken in fiscal 2015 for executive management changes and to further consolidate operations. Pursuant to U.S. generally accepted accounting principles, the related severance and benefit charges are being recognized either ratably over the respective required employee service periods or when benefits become probable for contractual and statutory benefits, and other charges are being recognized as incurred. In fiscal 2015 and 2014, we recorded aggregate charges of $28.5 million and $51.7 million, respectively, from these actions, primarily for severance and benefits and to a lesser extent facility closure costs. Included in the fiscal 2015 charges was a $9.6 million charge to write-off the cumulative translation adjustment related to the divestiture of our MRI breast coils product line. This subsidiary was deemed to be substantially liquidated in the third quarter of fiscal 2015 as operations fully ceased. The charges recorded in fiscal 2014 primarily related to severance and benefits and included a $3.1 million impairment charge to record certain buildings at our Warstein, Germany location to their estimated fair value. In addition, the fiscal 2014 charges included a loss on divestiture of $5.3 million related to the sale of our MRI breast coils product line in the fourth quarter of fiscal 2014.

Interest Expense.

	Years Ended			
	September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Interest Expense	$(205.5)	$(220.6)	$15.1	(6.8)%

The decrease in interest expense in fiscal 2015 compared to fiscal 2014 was primarily due to lower outstanding balances as a result of principal payments, prepayments and extinguishments and lower interest rates as a result of debt restructurings, partially offset by the increase in interest expense for transaction fees that were expensed related to executing the new Credit Agreement and our 2022 Senior Notes.

Debt Extinguishment Loss.

	Years Ended			
	September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Debt Extinguishment Loss	$(62.7)	$(7.4)	$(55.3)	747.3%

In the fourth quarter of fiscal 2015, we completed a private placement of $1.0 billion aggregate principal amount of our 5.250% Senior Notes due 2022 (the "2022 Senior Notes"). We used the net proceeds of the 2022 Senior Notes, plus available cash to discharge the outstanding 6.25% Senior Notes due 2020 at an aggregate redemption price of $1.03 billion, reflecting a redemption premium payment of $31.25 million. As a result of this transaction, we recorded a debt extinguishment loss of $22.3 million for the write-off of the pro-rata share of the redemption premium and debt issuance costs for extinguished lenders.

Also in the fourth quarter of fiscal 2015, on various dates, we entered into privately negotiated transactions and repurchased $300 million principal amount of our 2010 Notes for a total payment of $543.7 million, which includes the conversion premium resulting from our stock price on the date of transaction being in excess of the conversion price of $23.03. In connection with these transactions, we recorded a debt extinguishment loss of $15.5 million related to the difference between the fair value of the liability component of the 2010 Notes and their respective carrying value at the redemption date. The remaining cash payments were allocated to the reacquisition of the equity component and recorded within additional paid-in-capital within stockholders' equity.

In the third quarter of fiscal 2015, we entered into a new Credit Agreement with Bank of America, N.A. The initial net proceeds under the new Credit Agreement were used to refinance our obligations under our Prior Credit Agreement with Goldman Sachs Bank USA. In connection with this transaction, we recorded a debt extinguishment loss of $18.2 million for the write-off of the pro-rata share of the debt discount and deferred issuance costs under the existing facility.

In the second quarter of fiscal 2014, we refinanced the Term Loan B facility of our Prior Credit Agreement and voluntarily prepaid $25.0 million of principal. In connection with this transaction, we recorded a debt extinguishment loss of $4.5 million for the write-off of the pro-rata share of the debt discount and deferred issuance costs. In the first quarter of fiscal 2014, we made a $100.0 million voluntary pre-payment on the Term Loan B facility of our Prior Credit Agreement. As a result, the pro-rata share of the debt discount and deferred issuance costs aggregating $2.9 million related to this prepayment was recorded as a debt extinguishment loss.

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Other Income (Expense), net.

	Years Ended September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Other Expense, net	$(11.0)	$ (4.9)	$(6.1)	124.5%

In fiscal 2015, this account was primarily comprised of an other-than-temporary impairment charge of $7.8 million on a marketable security, net foreign currency exchange losses of $2.9 million, and $1.0 million of losses on cash surrender value of life insurance contracts and mutual funds related to our deferred compensation plan.

In fiscal 2014, this account was primarily comprised of other-than-temporary impairment charges on cost-method equity investments of $6.9 million and net foreign currency exchange losses of $1.8 million, partially offset by gains of $3.8 million on the cash surrender value of life insurance contracts and mutual funds related to our deferred compensation plan.

Provision for Income Taxes.

	Years Ended September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Provision for Income Taxes	$45.6	$ 30.8	$14.8	48.1%

Our effective tax rate for fiscal 2015 was 25.8% compared to 63.9% in fiscal 2014. For fiscal 2015, the effective tax rate was lower than the statutory rate primarily due to the domestic production activities deduction benefit. For fiscal 2014, the effective tax rate was higher than the statutory rate primarily due to unbenefited foreign losses partially offset by the domestic production activities deduction benefit.

Segment Results of Operations

Diagnostics.

	Years Ended September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Total Revenues	$1,211.8	$1,186.8	$25.0	2.1 %
Operating Income	$109.5	$48.7	$60.8	124.8%
Operating Income as a % of Segment Revenue	9.0 %	4.1 %		

Diagnostics revenues increased in fiscal 2015 compared to fiscal 2014 primarily due to the increase in product revenues discussed above.

Operating income for this business segment increased in fiscal 2015 compared to fiscal 2014, primarily due to increased gross profit in absolute dollars and lower operating expenses. Gross profit increased primarily due to increased Aptima sales, higher blood screening revenues as a result of a full year of revenue from the agreement between Grifols and the Japanese Red Cross, favorable manufacturing variances and lower royalty expense, partially offset by a decrease in Cervista HPV volume, lower instrumentation sales and the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. In addition, also offsetting gross profit and margin in fiscal 2015, fiscal 2014 included $20.1 million of non-recurring revenue related to executing a license amendment with Roka Bioscience, Inc. with no corresponding costs. Overall, the gross margin improved to 49.3% in fiscal 2015 from 46.8% in fiscal 2014.

Operating expenses decreased in fiscal 2015 compared to fiscal 2014 primarily due to a reduction in headcount in general and administrative functions and sales and marketing, lower restructuring charges, and a decrease in the amortization of intangible assets. There were also lower bad debt expense and a decrease in non-income tax expense. These decreases were partially offset by an increase in spending on research and development for additional headcount and project spending, primarily for our virology product line, higher spend for various marketing initiatives and increased variable compensation from improved operating results.

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Breast Health.

	Years Ended			
	September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Total Revenues	$1,063.4	$944.7	$118.7	12.6%
Operating Income	$296.3	$187.6	$108.7	57.9%
Operating Income as a % of Segment Revenue	27.9 %	19.9 %		

Breast Health revenues increased in fiscal 2015 compared to fiscal 2014 primarily due to the $97.1 million increase in product revenues discussed above and a $21.6 million increase in service revenues.

Operating income for this business segment increased in fiscal 2015 compared to fiscal 2014 primarily due to an increase in gross profit from higher revenue, partially offset by an increase in operating expenses. Gross profit in absolute dollars increased primarily due to the increase in 3D Dimensions sales, on both a unit basis and as a percentage of total digital mammography systems, compared to our 2D systems, an increase in software related sales, which have higher gross margins, and lower amortization expense primarily due to the divestiture of our MRI breast coils product in fiscal 2014, partially offset by the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies. In addition, fiscal 2014 included a $26.6 million impairment charge for developed technology assets related to our MRI breast coils product line discussed above. Service revenues also improved in fiscal 2015 compared to fiscal 2014 primarily due to an increase in service contracts from our higher installed base. As a result, overall gross margin increased to 56.4% in fiscal 2015 compared to 50.1% in fiscal 2014.

Operating expenses increased in fiscal 2015 compared to fiscal 2014 primarily due to an increase in commissions from higher revenues, higher marketing expenditures primarily for our breast cancer awareness and Genius 3D campaigns, the $9.6 million charge to write-off the cumulative translation adjustment related to the divestiture of our MRI breast coils product line discussed above, and increased variable compensation from improved operating results. These expense increases were partially offset by lower intangible asset amortization expense, lower restructuring expenses, and lower MRI breast coils product line expenses (excluding restructuring) of $11.9 million as a result of its divestiture.

GYN Surgical.

	Years Ended			
	September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Total Revenues	$335.8	$307.9	$27.9	9.1 %
Operating Income	$38.6	$30.3	$8.3	27.4%
Operating Income as a % of Segment Revenue	11.5 %	9.9 %		

GYN Surgical revenues increased in fiscal 2015 compared to fiscal 2014 due to the increase in product revenues discussed above.

Operating income for this business segment increased in fiscal 2015 compared to fiscal 2014 primarily due to an increase in gross profit in absolute dollars, partially offset by an increase in operating expenses. Gross margin increased to 57.3% in fiscal 2015 from 56.9% in fiscal 2014 primarily due to the benefit of higher sales volume partially offset by a $4.0 million charge to write-off inventory that will not be utilized, a product mix shift to higher sales volume of MyoSure systems and the negative foreign currency exchange impact of the strengthening U.S. dollar on our sales denominated in foreign currencies.

Operating expenses increased in fiscal 2015 primarily due to an increase in sales force headcount, higher commissions, increased costs associated with international sales initiatives, and increased research and development expenses as we develop next generation devices. These increases were partially offset by lower litigation fees.

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Skeletal Health.

	Years Ended September 26, 2015	September 27, 2014	Change	
	Amount	Amount	Amount	%
Total Revenues	$94.0	$ 91.3	$2.7	3.0 %
Operating Income	$10.7	$ 13.1	$(2.4)	(18.3)%
Operating Income as a % of Segment Revenue	11.4 %	14.3 %		

Skeletal Health revenues increased in fiscal 2015 compared to fiscal 2014 primarily due to the increase in product revenues of $3.1 million discussed above which was partially offset by a slight decrease in service and other revenue. Operating income decreased in fiscal 2015 compared to fiscal 2014 primarily due to higher operating expenses. Operating expenses increased in fiscal 2015 primarily due to higher compensation from improved operating results and additional investment in research and development projects.

LIQUIDITY AND CAPITAL RESOURCES

At September 24, 2016, we had $424.7 million of working capital, and our cash and cash equivalents totaled $548.4 million. Our cash and cash equivalents balance increased by $57.1 million during fiscal 2016 principally due to cash generated through operating activities, partially offset by payments to extinguish certain of our Convertible Notes, repurchase common stock and make capital expenditures.

In fiscal 2016, our operating activities provided us with $787.2 million of cash, which included net income of $330.8 million, non-cash charges for depreciation and amortization aggregating $465.4 million, stock-based compensation expense of $65.4 million and non-cash interest expense of $52.1 million related to our outstanding debt. These adjustments to net income were partially offset by a decrease in net deferred tax liabilities of $155.8 million, primarily from the amortization of intangible assets, and a gain on the sale of a marketable security of $25.1 million. Cash provided by operations included a net cash inflow of $56.4 million from changes in our operating assets and liabilities. Changes in our operating assets and liabilities were driven primarily by an increase in accrued expenses of $45.6 million related to the timing of accruals for income and other taxes and an increase in accrued compensation, an increase in accounts payable of $40.1 million due to the timing of payments as we have extended the payment terms with our vendors to be more in-line with industry norms, and a decrease in inventory of $7.6 million primarily due to an increase in sales. These cash inflows were partially offset by an increase in accounts receivable of $31.8 million due to the increase in revenue and timing of cash receipts.

In fiscal 2016, we used $68.4 million of cash from investing activities, primarily related to $94.5 million for capital expenditures, which consisted of the placement of equipment under customer usage agreements and purchases of manufacturing equipment and computer hardware, partially offset by cash received from the sale of a marketable security for $31.1 million.

In fiscal 2016, our financing activities used cash of $659.7 million, primarily for payments to extinguish certain of our Convertible Notes of $392.8 million, repurchases of common stock of $250.0 million, net payments of $175.0 million under our revolving line of credit, payments related to our long term debt under our Credit Agreement of $75.0 million 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 $200.0 million borrowed under our accounts receivable securitization program and proceeds of $38.5 million from our equity compensation plans.

Debt

We had total recorded debt outstanding of $3.3 billion at September 24, 2016, which is comprised of amounts outstanding under our Credit Agreement of $1.39 billion (principal $1.41 billion), our 2022 Senior Notes of $1.0 billion and our convertible notes of $775.7 million (principal $745.7 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 $200.0 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 or the Term Loan, of which $1.4 billion was outstanding at September 24, 2016; and

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- A secured revolving credit facility under which the Borrowers (as defined below) may borrow up to $1 billion, subject to certain sublimits, with a final maturity date of May 29, 2020 or the Revolver, of which none was outstanding at September 24, 2016.

Borrowings are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of our U.S. subsidiaries, with certain exceptions. For example, borrowings under the Credit Agreement are not secured by those accounts receivable that we transfer to the special purpose entity under our Accounts Receivable Securitization Program. As of September 24, 2016, the interest rate under the Term Loan and Revolver was 2.05% on the outstanding amounts, which is reflective of the Eurocurrency Rate (i.e., Libor) plus the applicable margin of 1.50% per annum as set forth in the Credit Agreement. The applicable margin is subject to specified changes depending on the total net leverage ratio as defined in the Credit Agreement.

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. Any amounts outstanding under the Revolver are 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, third, to the Revolver, and fourth 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.

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 also contains customary representations and warranties and events of default, including payment defaults, breach of representations and warranties, covenant defaults, cross defaults and an event of default upon a change of control of the company.

The Credit Agreement contains total net leverage ratio and interest coverage ratio financial covenants measured as of the last day of each fiscal quarter and an excess cash flow prepayment requirement measured as of the end of each fiscal year. As of September 24, 2016, we were in compliance with these covenants, and no Mandatory Prepayments were required as of September 24, 2016.

Senior Notes

On July 2, 2015, we completed a private placement of $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 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. In addition, 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.
Convertible Notes
At September 24, 2016, our convertible notes, in the aggregate principal amount of $745.7 million, are recorded at $775.7 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 and deferred issuance costs. At September 24, 2016, these notes consisted of:

- $12.3 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

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- $370.0 million of our 2.00% Convertible Senior Notes due 2043 issued in February 2013 (2013 Notes).

The 2010 Notes, 2012 Notes and 2013 Notes are collectively referred to herein as the convertible notes. Interest on the 2013 Notes is currently being accreted to principal, from their date of issuance, at a rate of 4.00% per year until December 15, 2017, and 2.00% per year thereafter. All other notes bear interest at a rate of 2.00% per year on the original principal amount, payable semi-annually in arrears until their first put date and thereafter accrete principal at the rate of 2.00% per year. In addition, under certain circumstances contingent interest may be payable under the convertible notes after each of their first put date.

The 2010 Notes, 2012 Notes and 2013 Notes have conversion prices of approximately $23.03, $31.175 and $38.59, respectively, and are subject in each case to adjustment. Holders of the 2010 Notes, 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. On November 9, 2016, we announced that as provided in the indenture for the 2010 Notes, we had made an irrevocable election to settle any conversion of the 2010 Notes validly submitted on or after November 9, 2016 in cash.

During the fourth quarter of fiscal 2016, the closing price of our common stock exceeded 130% of the applicable conversion price of our 2010 Notes on at least 20 of the last 30 consecutive trading days of the quarter. Therefore holders of the 2010 Notes are able to convert their notes during the first quarter of fiscal 2017. As such, we classified the $12.2 million carrying value of our 2010 Notes (which had a principal value of $12.3 million at September 24, 2016) as a current debt obligation. As of September 24, 2016, the if-converted value of the 2010 Notes exceeded the aggregate principal amount by approximately $7.9 million.

Holders may require us to repurchase the 2010 Notes on each of December 15, 2016, 2020, 2025, on December 13, 2030 and on December 14, 2035, or upon a fundamental change as provided in the indenture for the 2010 Notes, at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest. On November 9, 2016, we announced that we would repurchase, on December 15, 2016, all of the outstanding 2010 Notes at a repurchase price payable in cash equal to 100% of the original principal amount of the 2010 Notes validly surrendered for repurchase and not withdrawn plus accrued and unpaid interest, if any, to, but not including, December 15, 2016, at the option of the holders of the 2010 Notes.

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 2010 Notes, 2012 Notes and 2013 Notes beginning December 19, 2016, March 6, 2018, and December 15, 2017, respectively. As discussed above, holders of the convertible notes may elect to convert their notes prior to redemption. We may redeem all or a portion of the 2010 Notes, 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. On November 9, 2016, we announced that we had elected to redeem, on December 19, 2016, all of the outstanding 2010 Notes (those 2010 Notes not put to us on December 15, 2016 or validly submitted for conversion prior to December 16, 2016) at a redemption price payable in cash equal to 100% of the accreted principal amount of the 2010 Notes to be redeemed plus accrued and unpaid interest (including contingent interest, if any) to, but not including, December 19, 2016. We also announced on November 9, 2016 that as provided in the indenture for the 2010 Notes, we had made an irrevocable

election to settle any conversion of the 2010 Notes validly submitted on or after November 9, 2016 in cash.
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.

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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. In addition, we also contributed a portion of our customer receivables to the special purpose entity in connection with its establishment. We retain servicing responsibility. 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. The entire amount available was borrowed in the third quarter of fiscal 2016. Borrowings outstanding under the Securitization Program bear interest at LIBOR plus the applicable margin of 0.7% and are included as a component of current liabilities in our consolidated balance sheet, while the accounts receivable securing these obligations remain as a component of net receivables in our consolidated balance sheet. As of September 24, 2016, the interest rate under the Securitization Program was 1.22% on the outstanding amounts. We and the special purpose entity are operated and maintained as separate legal entities. The assets of the special purpose entity secure the amounts borrowed and cannot be used to pay our other debts or liabilities. The special purpose entity is not a guarantor under our Credit Agreement and is not a guarantor of our 2022 Senior Notes.

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 September 24, 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 an additional $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 fiscal 2016.

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Contractual Obligations

The following table summarizes our contractual obligations and commitments as of September 24, 2016:

Contractual Obligations	Payments Due by Period Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-Term Debt Obligations (1)	$296.7	$1,062.3	$1,050.0	$ 1,000.0	$3,409.0
Interest on Long-Term Debt Obligations	91.0	157.5	119.1	43.4	411.0
Operating Leases	17.3	26.0	14.9	14.3	72.5
Financing Leases (2)	3.1	4.1	2.4	2.8	12.4
Purchase Obligations (3)	58.5	28.6	—	—	87.1
Royalty and Collaborative Commitments (4)	0.7	1.2	1.0	2.7	5.6
Pension Obligations (5)	0.3	0.7	0.8	9.2	11.0
Total Contractual Obligations	$467.6	$1,280.4	$1,188.2	$ 1,072.4	$4,008.6

(1) Included within long-term debt obligations are our 2010 Notes which are convertible by their respective holders and which we have elected to redeem in the first quarter of fiscal 2017 as further discussed above. In addition, we have two other issuances (2012 Notes and 2013 Notes) of convertible notes which can first be put to us on March 1, 2018 ($363.4 million principal), and December 15, 2017 ($370.0 million principal) and we have assumed for purposes of the above table that the principal amounts for each issuance will be paid off when they first can be put to us, which is in fiscal 2017 and fiscal 2018. The 2013 Notes also have principal accretion of 4.00% annually, which is included in the principal amount in the 1-3 years column above. The amounts in the table do not include deferred tax liabilities for the recapture of the original issuance discount.

(2) The financing leases represent two leases for an office building and a manufacturing facility, which were required to be recorded on our balance sheet under U.S. GAAP. See Note 10 to our consolidated financial statements contained in Item 15 of this Annual Report.

(3) Purchase obligations primarily represent minimum purchase commitments for inventory and instruments and, to a lesser extent, other operating expense commitments.

(4) Represents minimum royalties due on net sales of products incorporating licensed technology and subject to a minimum annual royalty payment, and payments under collaborative agreements. In addition to the minimum payments due under our collaborative agreements included above, we may be required to pay up to $5.3 million in milestone payments, plus royalties on net sales of any products using specified technology.

(5) Pension obligations do not include our obligation under our deferred compensation plans of $37.0 million, which is recorded as a current liability. Deferred compensation plan benefits are generally paid out at retirement or termination of employment.

The above table does not reflect our long-term liabilities associated with uncertain tax positions recorded under FIN 48 (codified primarily in ASC 740, Income Taxes) totaling $167.6 million. Due to the complexity associated with tax uncertainties, we cannot reasonably make a reliable estimate of the period in which we expect to settle these non-current liabilities. See Note 6 to our consolidated financial statements contained in Item 15 of this Annual Report for more information on our unrecognized tax benefits.

Future Liquidity Considerations

We expect to continue to review and evaluate potential strategic transactions and alliances that we believe will complement our current or future business. Subject to the Risk Factors set forth in Part I, Item 1A of this Annual Report and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of this Annual Report, we believe that cash flow from operations and the cash available under our Revolver and permitted accounts receivable securitization program will provide us with sufficient funds in order to fund our expected normal operations, and debt payments, including interest 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, acquisitions or other investments, or to repay our convertible notes and related deferred tax liabilities. As described above, we have significant indebtedness outstanding under our Credit Agreement, 2022 Senior Notes, convertible notes and accounts receivable securitization program. These capital requirements could be substantial. Our operating performance may also be affected by

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matters discussed under the above-referenced Risk Factors set forth elsewhere in this report. These risks, trends and uncertainties may also adversely affect our long-term liquidity.

Legal Contingencies

We are currently involved in certain 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 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 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our 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.

The following is a discussion of what we believe to be the more significant critical accounting policies and estimates used in the preparation of our consolidated financial statements.

Inventory

Our inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out) or market. As a developer and manufacturer of high technology medical equipment and diagnostic test kits, we may be exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage. These factors include, but are not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures on products and prices, and reliability and replacement of and the availability of key components from our suppliers. Our policy is to establish inventory reserves when conditions exist that suggest that our inventory may be in excess of anticipated demand or is obsolete based upon our assumptions about future demand for our products and market conditions. We regularly evaluate our ability to realize the value of our inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, product expiration or end of life dates, estimated current and future market values and new product introductions. Assumptions used in determining our estimates of future product demand may prove to be incorrect, in which case the provision required for excess and obsolete inventory would have to be adjusted in the future. If inventory is determined to be overvalued, excess or obsolete, we would be required to record impairment charges within cost of goods sold at the time of such determination. Although considerable effort is made to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or expected usage could have a significant negative impact on the value of our inventory and our operating results.

Accounts Receivable Reserves

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly evaluate the collectability of our trade receivables based on a combination of factors, including discussions with the customer to determine the cause of non-payment, and evaluation of the customer's current financial situation. In the event it is determined that the customer may not be able to meet its full obligation to us, we record a specific allowance to reduce the receivable to the amount that we expect to recover given all information present. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and our assessment of the customer's current credit worthiness. We continuously monitor collections from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified.

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While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates in the future. If the financial condition of our customers were to deteriorate, additional allowances may be required.

We also record a provision for estimated sales returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on the specific facts and circumstances of particular orders, analysis of credit memo data and other known factors. If the data we use to calculate these estimates do not properly reflect reserve requirements, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be adversely affected.

Business Combinations

We record tangible and intangible assets acquired and liabilities assumed in business combinations under the purchase method of accounting. Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the dates of acquisition. Contingent consideration, which is not deemed to be linked to continuing employment, is recorded at fair value as measured on the date of acquisition. The value recorded is based on estimates of future financial projections under various potential scenarios, which are generally probability weighted as to the outcome of each scenario. These cash flow projections are discounted with an appropriate risk adjusted rate. Quarterly until such contingent amounts are earned, the fair value of the liability is reassessed at each reporting period and adjusted as a component of operating expenses based on changes to the underlying assumptions. The estimates used to determine the fair value of the contingent consideration liability are subject to significant judgment and actual results are likely to differ from the amounts originally recorded.

The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management, which consider management's best estimate of inputs and assumptions that a market participant would use. We allocate any excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed to goodwill.

We generally use the income approach in which cash flow projections on an after-tax basis are discounted using a risk adjusted rate to determine the estimated fair value of certain other identifiable intangible assets including developed technology, customer relationships and contracts, and trade names. Developed technology represents patented and unpatented technology and know-how. Customer relationships represent established relationships with customers, which provide a ready channel for the sale of additional products and services. Trade names represent acquired company and product names.

With respect to property, plant and equipment, we estimate the fair value of these assets using a combination of the cost and market approaches, depending on the component. Generally, we apply the cost approach as the primary method in estimating the fair value of land and buildings as the market approach is less reliable based on potential significant differences between the property being valued and the potentially comparable sales of similar properties.

Intangible Assets and Goodwill

Intangible Assets

We amortize our intangible assets that have finite lives using either the straight-line method or, if reliably determinable, based on the pattern in which the economic benefit of the asset is expected to be consumed. The economic pattern is based on undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from 2 to 30 years. We review our intangible assets subject to amortization to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. In the event an indicator of impairment is identified, we perform an analysis comparing the undiscounted cash flow the asset group is expected to generate over its remaining economic life to its carrying value. The undiscounted cash flows are based on management's assumptions on the asset group's use in the future. If the carrying value of an asset exceeds its undiscounted cash flows, we will write-down the carrying value of the intangible asset to its fair value in the period identified. In assessing fair value, we must make assumptions regarding estimated future cash flows and discount rates. If these estimates or related assumptions change in the future, we may be required to record impairment charges. We generally determine fair value based on the present value of estimated future cash flows to be generated by the asset using a risk-adjusted discount rate. If the estimate of an intangible asset's remaining useful life has changed, we will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Goodwill

We test goodwill at the reporting unit level for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value. Events that

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could indicate impairment and trigger an interim impairment assessment include, but are not limited to current economic and market conditions, including a decline in market capitalization, a significant adverse change in legal factors, business climate, operational performance of the business or key personnel, and an adverse action or assessment by a regulator. Our annual impairment test date is the first day of our fiscal fourth quarter.

In performing the test, we utilize the two-step approach prescribed under ASC 350. The first step requires a comparison of the reporting unit's carrying value to its fair value. We consider a number of factors to determine the fair value of a reporting unit, including an independent valuation to conduct this test. The valuation is based upon expected future discounted operating cash flows of the reporting unit as well as analysis of recent sales and ratio comparisons of similar companies. We base the discount rate on the weighted average cost of capital, or WACC, of market participants. If the carrying value of a reporting unit exceeds its estimated fair value, we will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. The second step requires us to perform a hypothetical purchase price allocation as of the measurement date and estimate the fair value of net tangible and intangible assets. The fair value of intangible assets is determined as described above and is subject to significant judgment.

We conducted our fiscal 2016 annual impairment test on the first day of the fourth quarter. We utilized discounted cash flows, or DCF, and market approaches to estimate the fair value of our reporting units as of June 26, 2016 and ultimately used the fair value determined by the DCF in making our impairment test conclusions. We believe we used reasonable estimates and assumptions about future revenue, cost projections, cash flows, market multiples and discount rates as of the measurement date. As a result of completing Step 1, all of the reporting units had fair values exceeding their carrying values, and as such, Step 2 of the impairment test was not required for those reporting units. For illustrative purposes, had the fair value of each of our reporting units been lower by 10%, all of our reporting units would still have passed Step 1 of the goodwill impairment test.

Since the fair value of our reporting units was determined by use of the DCF, and the key assumptions that drive the fair value in this model are the WACC, terminal values, growth rates, and the amount and timing of expected future cash flows, significant judgment is applied in determining fair value. If the current economic environment were to deteriorate, this would likely result in a higher WACC because market participants would require a higher rate of return. In the DCF as the WACC increases, the fair value decreases. The other significant factor in the DCF is our projected financial information (i.e., amount and timing of expected future cash flows and growth rates) and if these assumptions were to be adversely impacted, this could result in a reduction of the fair value of a reporting unit.

At September 24, 2016, we believe that all reporting units with goodwill aggregating $2.8 billion were not at risk of failing Step 1 of the goodwill impairment test based on our current forecasts.

We conducted our fiscal 2015 and 2014 annual impairment tests on the first day of the respective year's fourth quarter. We used the fair value determined by the DCF in making our impairment test conclusions. We believe we used reasonable estimates and assumptions about future revenue, cost projections, cash flows, market multiples and discount rates as of the measurement dates. As a result of completing Step 1, all of the reporting units had fair values exceeding their carrying values, and as such, Step 2 of the impairment tests were not required.

Revenue Recognition

We generate revenue from the sale of products, primarily medical imaging systems and diagnostic and surgical disposable products, and related services, which are primarily support and maintenance services on our medical imaging systems.

We recognize product revenue upon shipment provided that there is persuasive evidence of an arrangement, there are no uncertainties regarding acceptance, the sales price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Generally, our product arrangements for capital equipment sales, primarily in our Breast Health and Skeletal Health reporting segments, are multiple-element arrangements, including services, such as installation and training, and multiple products. In accordance with ASC 605-25, based on the terms and conditions of the product arrangements, we believe that these services and undelivered products can be accounted for separately from the delivered product element as our delivered products have value to our customers on a stand-alone basis. Accordingly, revenue for services not yet performed at the time of product shipment are deferred and recognized as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. There is no customer right of return in our sales agreements.

Service revenues primarily consist of amounts recorded under service and maintenance contracts and repairs not covered under warranty, installation and training, and shipping and handling costs billed to customers. Service and maintenance contract

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revenues are recognized ratably over the term of the contract. Other service revenues are recognized as the services are performed.

For revenue arrangements with multiple deliverables, we record revenue as separate units of accounting if the delivered items have value to the customer on a stand-alone basis, and if the arrangement includes a general right of return relative to the delivered items, the delivery or performance of the undelivered items is considered probable and substantially within our control. Some of our products have both software and non-software components that function together to deliver the product's essential functionality. We determined that except for our CAD products and C-View product, the software element in our other products is incidental and not within the scope of the software revenue recognition rules, ASC 985-605, Software—Revenue Recognition. We determined that given the significance of the software component's functionality to our CAD and C-View systems, which are sold by our Breast Health segment, these products are within the scope of the software revenue recognition rules. We evaluated the appropriate revenue recognition treatment of our other hardware products, including our Dimensions digital mammography systems, which have both software and non-software components that function together to deliver the products' essential functionality (i.e., it is a tangible product), and determined they are not within the scope of ASC 985-605.

We are required to allocate revenue to multiple element arrangements based on the relative fair value of each element's selling price. We typically determine the selling price of our products based on our best estimate of selling price, referred to as ESP, and services based on vendor-specific objective evidence of selling price, referred to as VSOE. We determine VSOE based on our normal pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, our policy requires a substantial majority of selling prices for a product or service to be within a reasonably narrow range. We also consider the class of customer, method of distribution, and the geographies into which our products and services are sold when determining VSOE. If VSOE cannot be established, which may occur in instances when a product or service has not been sold separately, stand-alone sales are too infrequent, or product pricing is not within a narrow range, we will generally establish the selling price using ESP to allocate arrangement consideration. The objective of ESP is to determine the price at which we would typically transact a stand-alone sale of the product or service. ESP is determined by considering a number of factors including our pricing policies, internal costs and gross margin objectives, method of distribution, information gathered from experience in customer negotiations, market research and information, recent technological trends, competitive landscape and geographies.

For those arrangements accounted for under the software revenue recognition rules, ASC 985-605 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on their relative VSOE of fair value. If VSOE does not exist for a delivered element, the residual method is applied in which the arrangement consideration is allocated to the undelivered elements based on their VSOE with the remaining consideration recognized as revenue for the delivered elements. For multiple-element software arrangements where VSOE of fair value of Post-Contract Customer Support, referred to as PCS, has been established, we recognize revenue using the residual method at the time all other revenue recognition criteria have been met.

As part of our Diagnostics reporting segment, we manufacture blood screening products according to demand schedules provided by our collaboration partner, Grifols. Our agreement provides that we share a portion of Grifols's revenue from screening blood donations. Upon shipment to Grifols, we recognize blood screening product sales at an agreed upon fixed transfer price, which is not refundable, and record the related cost of products sold. Based on the terms of our collaboration agreement with Grifols, our ultimate share of the net revenue from sales to the end user in excess of the transfer price revenues recognized is not known until it is reported to us by Grifols. On a monthly basis, Grifols reports net revenue generated during the prior month and remits an additional corresponding net payment to us which we record as revenue at that time. This payment combined with the transfer price revenues previously recognized represents our ultimate share of net revenue under the agreement.

While the majority of our instruments are placed at customer sites, in certain instances, we sell instruments to our clinical diagnostics customers and record sales of these instruments upon shipment or delivery, depending on the terms of the arrangement.

Within our Diagnostics business and, to a lesser extent, our GYN Surgical business, we provide our instrumentation (for example, the ThinPrep Processor, ThinPrep Imaging System, Panther and Tigris) and certain other hardware to customers without requiring them to purchase the equipment or enter into a lease. Instead, we recover the cost of providing the instrumentation and equipment in the amount we charge for our diagnostic tests and assays and other disposables. Customers enter into a customer usage agreement, and we install the equipment at customer sites and customers commit to purchasing minimum quantities of disposable products at a stated price over a defined contract term, which is typically between three and five years. Revenue is recognized over the term of the customer usage agreement as tests, assays and other disposable products are shipped or delivered, depending on the customer arrangement.

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Stock-Based Compensation

We recognize stock-based compensation expense associated with the granting of stock options, restricted stock units and performance stock units issued to our employees. Determining the amount of stock-based compensation to be recorded requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We use a binomial lattice model to determine the fair value of our stock options. We consider a number of factors to determine the fair value of stock options including the advice of an outside valuation advisor and the advisor's model. The model requires us to make estimates of the following assumptions:

Expected volatility—We are responsible for estimating volatility and have considered a number of factors, including third-party estimates, when estimating volatility. We currently use a combination of historical and implied volatility, which is weighted based on a number of factors.

Expected term—We use historical employee exercise and option expiration data to estimate the expected term assumption. We believe that this historical data is currently the best estimate of the expected term of a new option, and that generally, all of our employees exhibit similar exercise behavior.

Risk-free interest rate—The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term assumption is used as the risk-free interest rate.

The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718, Stock Compensation, requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on an analysis of historical forfeitures, we have determined a specific forfeiture rate for certain employee groups and have applied forfeiture rates ranging from 0% to 7.0% as of September 24, 2016 depending on the specific employee group. This analysis is re-evaluated periodically and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest.

We granted performance stock units to members of our senior management team during fiscal 2014, 2015 and 2016. Each recipient of a performance stock unit is eligible to receive between zero and 200% of the target number of shares of our common stock at the end of three years provided our defined Return on Invested Capital, or ROIC, metrics are achieved. We recognize compensation expense ratably over the required service period based on an estimate of the probability that the measurement criteria will be achieved for a targeted number of shares. Our estimate of the number of shares that are probable of vesting is based on our estimate of ROIC over the respective time periods using our internal forecasts and projections. If there is a change in the estimate of the number of shares that are probable of vesting, we will cumulatively adjust compensation expense in the period that the change in estimate is made.

We recognized $65.4 million, $59.3 million and $50.0 million of stock-based compensation expense for employee equity awards in fiscal years 2016, 2015 and 2014, respectively. As of September 24, 2016, there was $21.2 million and $66.6 million of unrecognized compensation expense related to stock options and stock units, respectively, that we expect to recognize over a weighted-average period of 2.8 years and 2.0 years, respectively.

Income Taxes

We use the asset and liability method for accounting for income taxes. Under this method, we determine deferred tax assets and liabilities based on the difference between our assets and liabilities financial reporting and taxes bases. We measure deferred tax assets and liabilities using enacted tax rates and laws that will be in effect when we expect the differences to reverse.

We have recognized $973.3 million in net deferred tax liabilities at September 24, 2016 and $1.16 billion at September 26, 2015. The liabilities primarily relate to deferred taxes associated with our acquisitions and debt. The tax assets relate primarily to net operating loss carryforwards, accruals and reserves, stock-based compensation, and research credits. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and the character of such income in assessing the need for the valuation allowance, in the event we determine that we could realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination is made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination is made.

At September 24, 2016, we had $163.6 million in gross unrecognized tax benefits excluding interest, of which $80.1 million, if recognized, would reduce our effective tax rate. At September 26, 2015, we had $154.7 million in gross unrecognized tax benefits excluding interest, of which $74.9 million, if recognized, would have reduced our effective tax rate. I

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n the next twelve months, it is reasonably possible that we will reduce our unrecognized tax benefits by up to $1.0 million due to expiring statutes of limitations.
In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Judgment is required in determining our worldwide income tax provision. In our opinion, we have made adequate provisions for income taxes for all years subject to audit. While we consider our estimates reasonable, no assurance can be given that the final tax outcome will not be different than amounts reflected in our historical income tax provisions and accruals. If our assumptions are incorrect, the differences could have a material impact on our income tax provision and operating results in the period in which such determination is made.
Recent 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 us in fiscal 2019. Early adoption is permitted for all entities as of the beginning of an annual reporting period. We are currently evaluating the impact of the adoption of ASU 2016-16 on our 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 us in fiscal 2019. Early adoption is permitted. The adoption of ASU 2016-15 is not expected to have a material effect on our 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 us in fiscal 2021. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial position and results of operations.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). The guidance changes how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize income tax effects of awards in the income statement when the awards vest or are settled. The guidance also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes by providing for withholding at the employee's maximum rate as opposed to the minimum rate without triggering liability accounting and by allowing an entity-wide policy election to account for forfeitures as they occur. The updated guidance is effective for annual periods beginning after December 15, 2016, and is applicable to us in fiscal 2018. Early adoption is permitted. The adoption of ASU 2016-09 is not expected to have a material effect on our consolidated financial statements or disclosures.

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 us in fiscal 2020. Early adoption is permitted. The updated guidance requires a modified retrospective adoption. We are currently evaluating the impact of the adoption of ASU 2016-02 on our 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 US GAAP. This guidance is effective for annual periods beginning after December 15, 2017, and is applicable to us in fiscal 2019. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-01 on our consolidated financial position and results of operations.

In July 2015, the FASB issued guidance under Accounting Standards Codification (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 our first quarter of fiscal year 2018 and early adoption is permitted. The guidance must be applied prospectively. We are currently evaluating the impact of the adoption of this requirement on our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This guidance focuses on a reporting company’s consolidation evaluation to determine whether certain legal entities should be consolidated. This guidance is effective for annual periods beginning after December 15, 2015, and is applicable to us in fiscal 2017. Early adoption is permitted, including adoption in an interim period. We are currently evaluating this guidance, but do not anticipate that adoption of this guidance will have a material impact on our 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 us in fiscal 2018. Earlier application is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on our 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 our fiscal 2019. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial position and results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments. Financial instruments consist of cash and cash equivalents, accounts receivable, publicly-traded equity securities, cost-method equity investments, interest rate cap agreements, insurance contracts and related deferred compensation plan liabilities, accounts payable and debt obligations. Except for our outstanding convertible notes and 2022 Senior Notes, the fair value of these financial instruments approximate their carrying amount. As of September 24, 2016, we had $745.7 million of principal of convertible notes outstanding, comprised of our 2010 Notes with a principal of $12.3 million, our 2012 Notes with a principal of $363.4 million, and our 2013 Notes with a principal of $370.0 million. The convertible notes are recorded net of the unamortized discount and

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deferred issuance costs on our consolidated balance sheets. The fair value of our 2010 Notes, 2012 Notes and 2013 Notes as of September 24, 2016 was approximately $20.2 million, $481.9 million and $458.8 million, respectively. The fair value of our 2022 Senior Notes was approximately $1.06 billion. Amounts outstanding under our Credit Agreement and Securitization Program of $1.41 billion and $200.0 million aggregate principal, respectively, as of September 24, 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 September 24, 2016, there was $1.41 billion of aggregate principal outstanding under the Credit Agreement and $200.0 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 three-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 financial condition.

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. Fluctuations in the 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 (expense), 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 those currencies and adversely affected when the U.S. dollar weakens. However, we believe that the foreign currency exchange risk is not significant. We do not believe a hypothetical 10% increase or decrease in foreign currencies that we transact in would not have a material adverse impact on our financial condition or results of operations. During fiscal 2016, 2015 and 2014, we incurred net foreign exchange losses of $(1.0) million, $(3.0) million and $(1.8) million, respectively.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and Supplementary Data are listed under Part IV, Item 15, in this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure 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 September 24, 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.

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Report of Management on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of September 24, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO) in Internal Control-Integrated Framework.

Subject to the foregoing, based on management’s assessment, we believe that, as of September 24, 2016, our internal control over financial reporting is effective at a reasonable assurance level based on these criteria.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting. This report in which they expressed an unqualified opinion is included below.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Hologic, Inc.:

We have audited Hologic, Inc.'s internal control over financial reporting as of September 24, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Hologic, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hologic, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 24, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hologic, Inc. as of September 24, 2016 and September 26, 2015 and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended September 24, 2016 of Hologic, Inc. and our report dated November 17, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
November 17, 2016

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Changes in Internal Control over Financial Reporting

During the quarter ended September 24, 2016, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, we have adopted a Code of Ethics for Senior Financial Officers that applies to our principal executive officer and principal financial officer, principal accounting officer and controller, and other persons performing similar functions. Our Code of Ethics for Senior Financial Officers is publicly available on our website at investors.hologic.com as Appendix A to our Code of Conduct. We intend to satisfy the disclosure requirement under Item 5.05 of Current Report on Form 8-K regarding an amendment to, or waiver from, a provision of this code by posting such information on our website, at the address specified above.

The additional information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We maintain a number of equity compensation plans for employees, officers, directors and others whose efforts contribute to our success. The table below sets forth certain information as of the end of our fiscal year ended September 24, 2016 regarding the shares of our common stock available for grant or granted under stock option plans and equity incentives that (i) were approved by our stockholders, and (ii) were not approved by our stockholders.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b) (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	9,882,988	$ 25.37	8,320,216
Equity compensation plans not approved by security holders	—	$ —	—
Total	9,882,988	$ 25.37	8,320,216

(1) Includes 3,845,862 shares that are issuable upon restricted stock units (RSUs), and performance stock units (PSUs) vesting. The remaining balance consists of outstanding stock option grants.

(2) The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding RSUs and PSUs, which have no exercise price.

The additional information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

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Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

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PART IV

Item 15. Exhibits and Financial Statement Schedules
(a) The following documents are filed as part of this report:
(1) Financial Statements
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements
Consolidated Statements of Income for the years ended September 24, 2016, September 26, 2015 and September 27, 2014
Consolidated Statements of Comprehensive Income (Loss) for the years ended September 24, 2016, September 26, 2015 and September 27, 2014
Consolidated Balance Sheets as of September 24, 2016 and September 26, 2015
Consolidated Statements of Stockholders' Equity for the years ended September 24, 2016, September 26, 2015 and September 27, 2014
Consolidated Statements of Cash Flows for the years ended September 24, 2016, September 26, 2015 and September 27, 2014
Notes to Consolidated Financial Statements
(2) Financial Statement Schedules
All schedules have been omitted because they are not required or because the required information is given in the Consolidated Financial Statements or Notes thereto.
(b) Listing of Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
2.1	Agreement and Plan of Merger, dated April 29, 2012, by and among Hologic, Gold Acquisition Corp. and Gen-Probe Incorporated.	8-K	05/01/2012
3.1	Certificate of Incorporation of Hologic.	S-1	01/24/1990
3.2	Certificate of Amendment to Certificate of Incorporation of Hologic.	10-Q	03/30/1996
3.3	Certificate of Amendment to Certificate of Incorporation of Hologic.	10-K	09/24/2005
3.4	Certificate of Amendment to Certificate of Incorporation of Hologic.	8-K	10/22/2007
3.5	Certificate of Amendment to Certificate of Incorporation of Hologic.	8-K	03/11/2008
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Hologic.	8-K	11/21/2013
3.7	Certificate of Elimination of Series A Junior Participating Preferred Stock of Hologic.	8-K	06/25/2014
3.8	Fifth Amended and Restated Bylaws of Hologic, Inc.	10-Q	03/04/2016
4.1	Specimen Certificate for Shares of Hologic's Common Stock.	8-A	01/31/1990

4.2	Description of Capital Stock (Contained in Hologic’s Certificate of Incorporation, as amended, filed as Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 hereto).		
4.3	Indenture, dated December 10, 2007, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	12/10/2007

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
4.4	Second Supplemental Indenture, dated November 23, 2010, by and between Wilmington Trust Company, as Trustee, and Hologic.	10-K	09/25/2010
4.5	Form of 2.00% Convertible Exchange Senior Note due 2037 (included in Exhibit 4.4).	10-K	09/25/2010
4.6	Third Supplemental Indenture, dated March 5, 2012, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	03/08/2012
4.7	Form of 2.00% Convertible Senior Note due 2042 (included in Exhibit 4.6).	8-K	03/08/2012
4.8	Fourth Supplemental Indenture, dated February 21, 2013, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	02/21/2013
4.9	Form of 2.00% Convertible Senior Note due 2043 (included in Exhibit 4.8).	8-K	02/21/2013
4.10	Indenture, dated July 2, 2015, by and among Hologic, the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee.	8-K	07/02/2015
4.11	Form of 5.250% Senior Note due 2022 (included in Exhibit 4.10).	8-K	07/02/2015
10.1*	Second Amended and Restated 1999 Equity Incentive Plan.	10-Q	03/25/2006
10.2*	Amendment No. 1 to Second Amended and Restated 1999 Equity Incentive Plan.	S-8	10/23/2007
10.3*	Amendment No. 2 to Second Amended and Restated 1999 Equity Incentive Plan.	8-K	10/22/2007
10.4*	Amendment No. 3 to Second Amended and Restated 1999 Equity Incentive Plan.	8-K	12/12/2008
10.5*	The 2003 Incentive Award Plan of Gen-Probe Incorporated as amended and restated.	S-8	08/02/2012
10.6*	Hologic Amended and Restated 2008 Equity Incentive Plan.	8-K	03/11/2013
10.7*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.8*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2015).	8-K	11/05/2014
10.9*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	10/14/2015
10.10*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016

10.11*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.12*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	10/14/2015
10.13*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016
10.14*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.15*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2015).	8-K	11/05/2014

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.16*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	11/06/2015
10.17*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016
10.18*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (annual grant, adopted fiscal 2014).	10-K	09/28/2013
10.19*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (annual grant, adopted fiscal 2015).	10-K	09/27/2014
10.20*	Form of Independent Director Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (annual grant).	10-K	09/28/2013
10.21*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (initial grant, adopted fiscal 2014).	10-K	09/28/2013
10.22*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (initial grant, adopted fiscal 2015).	10-K	09/27/2014
10.23*	Form of Independent Director Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (initial grant).	10-K	09/28/2013
10.24*	Hologic, Inc. 2012 Employee Stock Purchase Plan, As Amended	8-K	03/04/2016
10.25*	Hologic Short-Term Incentive Plan.	8-K	11/06/2015
10.26*	Hologic Amended and Restated Deferred Equity Plan	8-K	12/16/2015
10.27*	Rabbi Trust Agreement.	10-K	09/28/2013
10.28*	Form of Indemnification Agreement (as executed with each director of Hologic).	8-K	03/06/2009
10.29*	Form of Senior Vice President Change of Control Agreement. (1)	10-Q	12/29/2012
10.30*	Form of Senior Vice President Severance Agreement. (1)	10-K	09/28/2013
10.31*	Employment Agreement dated December 6, 2013 by and between Stephen P. MacMillan and Hologic.	8-K	12/09/2013
10.32*	Amended and Restated Employment Agreement by and between the Company and Stephen P. MacMillan, dated September 18, 2015.	8-K	09/21/2015

10.33*	Amendment No. 1 to Amended and Restated Employment Agreement by and between the Company and Stephen P. MacMillan, dated September 24, 2016.	Filed herewith	
10.34*	Form of Matching Restricted Stock Unit Award Agreement.	8-K	12/09/2013
10.35*	Change of Control Agreement dated December 6, 2013 by and between Stephen P. MacMillan and Hologic.	8-K	12/09/2013
10.36*	Offer Letter dated March 9, 2014 by and between Eric B. Compton and Hologic.	8-K	03/14/2014
10.37*	Severance and Change of Control Agreement dated March 9, 2014 by and between Eric B. Compton and Hologic. (2)	10-K	11/19/2015
10.38*	Offer Letter dated May 8, 2014 by and between Robert W. McMahon and Hologic.	8-K	05/13/2014
10.39*	Severance and Change of Control Agreement dated May 8, 2014 by and between Robert W. McMahon and Hologic. (2)	10-K	11/19/2015

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.40*	Offer Letter dated May 4, 2014 by and between Peter J. Valenti and Hologic.	10-Q	06/28/2014
10.41*	Senior Vice President Severance Agreement dated May 26, 2014 by and between Peter J. Valenti and Hologic.	10-K	09/27/2014
10.42*	Offer Letter dated August 21, 2014 by and between Thomas A. West and Hologic.	10-K	09/27/2014
10.43*	Senior Vice President Severance Agreement dated October 3, 2014 by and between Thomas A. West and Hologic.	10-K	09/27/2014
10.44*	Letter of Intent dated February 27, 2014 and Terms and Conditions of Employment dated March 10, 2014 by and between Claus Egstrand and Hologic.	10-K	09/27/2014
10.45*	Severance and Change of Control Agreement dated September 18, 2014 by and between Claus Egstrand and Hologic.	10-K	09/27/2014
10.46*	Offer Letter dated January 6, 2015 by and between John M. Griffin and Hologic.	10-Q	03/28/2015
10.47*	Severance and Change of Control Agreement dated February 2, 2015 by and between John M. Griffin and Hologic.	10-Q	03/28/2015
10.48	Facility Lease (Danbury) dated December 30, 1995 by and among Melvin J. Powers and Mary P. Powers D/B/A M&N Realty and Lorad.	Trex Medical Corporation S-1	03/29/1996
10.49	Lease Agreement (Danbury and Bedford) by and between BONE (DE) QRS 15-12, INC., and Hologic dated August 28, 2002.	10-K	09/28/2002
10.50	First Amendment to Lease Agreement (Danbury and Bedford) by and between BONE (DE) QRS 15-12, INC., and Hologic dated October 29, 2007.	10-K	09/29/2007
10.51	Office Lease dated December 31, 2003 between Cytyc and Marlborough Campus Limited Partnership.	Cytyc Corporation 10-K	12/31/2003
10.52	Lease Agreement by and between Zona Franca Coyol S.A. and Cytyc Surgical Products Costa Rica S.A. dated April 23, 2007.	10-K	09/29/2007
10.53	Lease Agreement by and between 445 Simarano Drive, Marlborough LLC and Cytyc dated July 11, 2006.	10-K	09/29/2007

10.54	Lease Guaranty dated October 22, 2007 between Bel Marlborough I LLC and Hologic, as guarantor thereunder.	8-K	10/22/2007
10.55	Form of Exchange Agreement.	8-K	02/15/2013
10.56	Credit and Guaranty Agreement, dated May 29, 2015, among Hologic, Hologic GGO 4 Ltd, each Designated Borrower from time to time party thereto, the Guarantors from time to time party thereto, each Lender from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.	8-K	05/29/2015
10.57	Pledge and Security Agreement, dated May 29, 2015, among the grantors party thereto and Bank of America, N.A. as Collateral Agent	10-Q	06/27/2015
10.58	Restated Agreement dated July 24, 2009 by and between Gen-Probe Incorporated and Novartis Vaccines and Diagnostics, Inc. ‡	Gen-Probe 10-Q/A	09/30/2009
10.59	First Amendment to Restated Agreement dated November 8, 2013 by and between Gen-Probe Incorporated and Novartis Vaccines and Diagnostics, Inc.	10-K	09/28/2013

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.60	Second Amendment to Restated Agreement by and between Gen-Probe Incorporated and Grifols Diagnostic Solutions Inc.‡	10-Q	06/27/2015
10.61	Supply Agreement for Panther Instrument System effective November 22, 2006 between Gen-Probe Incorporated and STRATEC Biomedical Systems AG. ‡	Gen-Probe 10-Q	09/30/2007
10.62	Amendment No. 1 dated June 1, 2011 to Supply Agreement for Panther Instrument System. ‡‡	Filed herewith	
10.63	Amendment No. 2 dated February 28, 2013 to Supply Agreement for Panther Instrument System. ‡‡	Filed herewith	
12.1	Ratio of Earnings to Fixed Charges.	Filed herewith	
21.1	Subsidiaries of Hologic.	Filed herewith	
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith	
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.	Filed herewith	
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.	Filed herewith	
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.	Furnished herewith	
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.	Furnished herewith	
101.INS	XBRL Instance Document.	Filed herewith	
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith	

* Indicates management contract or compensatory plan, contract or arrangement.

‡ Confidential treatment has been granted with respect to certain portions of this exhibit. A complete version of this exhibit
has been filed separately with the U.S. Securities and Exchange Commission.

‡‡ Confidential treatment has been requested with respect to certain portions of this exhibit. A complete version of this exhibit has been filed separately with the U.S. Securities and Exchange Commission.

(1) List of executive officers to whom provided filed herewith.

Item 16. Form 10-K Summary
None.

SIGNATURES
Pursuant to the requirements of Section 13 or 15(d) 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.

By: /S/ STEPHEN P. MACMILLAN
Stephen P. MacMillan
Chairman, President and Chief Executive Officer
Date: November 17, 2016
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ STEPHEN P. MACMILLAN STEPHEN P. MACMILLAN	Chairman, President and Chief Executive Officer (Principal Executive Officer)	November 17, 2016
/S/ ROBERT W. MCMAHON ROBERT W. MCMAHON	Chief Financial Officer (Principal Financial Officer)	November 17, 2016
/S/ KARLEEN M. OBERTON KARLEEN M. OBERTON	Corporate Vice President, Finance and Accounting, Chief Accounting Officer (Principal Accounting Officer)	November 17, 2016
/S/ ELAINE S. ULLIAN ELAINE S. ULLIAN	Lead Independent Director	November 17, 2016
/S/ CHRISTOPHER J. COUGHLIN CHRISTOPHER J. COUGHLIN	Director	November 17, 2016
/S/ SALLY W. CRAWFORD SALLY W. CRAWFORD	Director	November 17, 2016
/S/ SCOTT T. GARRETT SCOTT T. GARRETT	Director	November 17, 2016
/S/ NANCY L. LEAMING NANCY L. LEAMING	Director	November 17, 2016
/S/ LAWRENCE M. LEVY LAWRENCE M. LEVY	Director	November 17, 2016

/S/ CHRISTIANA STAMOULIS CHRISTIANA STAMOULIS	Director	November 17, 2016

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Hologic, Inc.
Consolidated Financial Statements
Years ended September 24, 2016, September 26, 2015 and September 27, 2014
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Hologic, Inc.:

We have audited the accompanying consolidated balance sheets of Hologic, Inc. as of September 24, 2016 and September 26, 2015 and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended September 24, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hologic, Inc. at September 24, 2016 and September 26, 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 24, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hologic, Inc.'s internal control over financial reporting as of September 24, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 17, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
November 17, 2016

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Hologic, Inc.
Consolidated Statements of Income
(In millions, except number of shares, which are reflected in thousands, and per share data)

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Revenues:			
Product	$2,379.0	$ 2,270.4	$ 2,094.9
Service and other	453.7	434.6	435.8
	2,832.7	2,705.0	2,530.7
Costs of revenues:			
Product	756.8	755.5	731.3
Amortization of intangible assets	293.4	299.7	314.6
Impairment of intangible assets	—	—	26.6
Service and other	219.2	217.1	212.7
Gross Profit	1,563.3	1,432.7	1,245.5
Operating expenses:			
Research and development	232.1	214.9	203.2
Selling and marketing	415.1	363.0	331.7
General and administrative	267.3	261.0	259.8
Amortization of intangible assets	89.7	110.2	113.8
Impairment of intangible assets	—	—	5.6
Restructuring and divestiture charges	10.5	28.5	51.7
	1,014.7	977.6	965.8
Income from operations	548.6	455.1	279.7
Interest income	0.7	1.3	1.3
Interest expense	(155.3)	(205.5)	(220.6)
Debt extinguishment loss	(5.3)	(62.7)	(7.4)
Other income (expense), net	26.6	(11.0)	(4.9)
Income before income taxes	415.3	177.2	48.1
Provision for income taxes	84.5	45.6	30.8
Net income	$330.8	$ 131.6	$ 17.3
Net income per common share:			
Basic	$1.18	$ 0.47	$ 0.06
Diluted	$1.16	$ 0.45	$ 0.06
Weighted average number of shares outstanding:			
Basic	280,213	280,566	275,499
Diluted	286,156	289,537	278,360

See accompanying notes.

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Hologic, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In millions)

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Net income	$330.8	$ 131.6	$ 17.3
Changes in foreign currency translation adjustment	(10.4)	(11.0)	(13.3)
Changes in unrealized holding gains and losses on available-for-sale securities:			
Loss recognized in accumulated other comprehensive income (loss)	(1.1)	(2.0)	(3.2)
Net (gains) losses reclassified from accumulated other comprehensive income to the statement of income	(6.1)	—	—
Changes in pension plans, net of taxes of $0.3 in 2016, $0.3 in 2015, and $0.2 in 2014	(0.7)	(0.2)	(1.3)
Changes in value of hedged interest rate caps, net of tax of $2.0 in 2016 and $2.5 in 2015:			
Loss recognized in other comprehensive income, net	(3.4)	(3.9)	—
Loss reclassified from accumulated other comprehensive income to the statement of operations, net	3.9	—	—
Other comprehensive loss	(17.8)	(17.1)	(17.8)
Comprehensive income (loss)	$313.0	$ 114.5	$ (0.5)

See accompanying notes.

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Hologic, Inc.
Consolidated Balance Sheets
(In millions, except number of shares, which are reflected in thousands, and par value)

	September 24, 2016	September 26, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 548.4	$ 491.3
Restricted cash	—	1.4
Accounts receivable, less reserves of $12.7 and $11.1, respectively	447.0	416.1
Inventories	274.7	283.1
Deferred income tax assets	—	19.0
Prepaid income taxes	16.9	21.7
Prepaid expenses and other current assets	39.6	33.2
Total current assets	1,326.6	1,265.8
Property, plant and equipment, net	460.2	457.1
Intangible assets, net	2,643.4	3,023.2
Goodwill	2,803.1	2,808.2
Other assets	83.7	88.2
Total assets	$ 7,317.0	$ 7,642.5
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 296.0	$ 391.2
Accounts payable	156.9	117.0
Accrued expenses	287.6	272.1
Deferred revenue	161.4	163.1
Total current liabilities	901.9	943.4
Long-term debt, net of current portion	3,049.4	3,221.0
Deferred income tax liabilities	982.6	1,178.4
Deferred revenue	15.9	19.6
Other long-term liabilities	224.5	200.9
Commitments and contingencies (Note 10)		
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; 285,015 and 282,495 shares issued, respectively	2.9	2.8
Additional paid-in-capital	5,560.3	5,559.9
Accumulated deficit	(3,138.2)	(3,469.0)
Treasury stock, at cost – 7,289 shares at September 24, 2016	(250.0)	—
Accumulated other comprehensive loss	(32.3)	(14.5)
Total stockholders' equity	2,142.7	2,079.2
Total liabilities and stockholders' equity	$ 7,317.0	$ 7,642.5

See accompanying notes.

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Hologic, Inc.
Consolidated Statements of Stockholders' Equity
(In millions, except number of shares, which are reflected in thousands)

	Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Equity
	Number of Shares	Par Value				Number of Shares	Amount	
Balance at September 28, 2013	272,036	2.7	5,536.3	(3,616.4)	20.4	219	(1.5)	1,941.5
Exercise of stock options	4,697	0.1	70.5	—	—	—	—	70.6
Issuance of common stock to employees upon vesting of restricted stock units, net of shares withheld for employee taxes	846	—	(9.8)	—	—	—	—	(9.8)
Issuance of common stock under the employee stock purchase plan	612	—	10.9	—	—	—	—	10.9
Stock-based compensation expense	—	—	49.5	—	—	—	—	49.5
Excess tax benefit from equity awards	—	—	0.8	—	—	—	—	0.8
Net income	—	—	—	17.3	—	—	—	17.3
Foreign currency translation adjustment	—	—	—	—	(13.3)	—	—	(13.3)
Adjustment to minimum pension liability, net	—	—	—	—	(1.3)	—	—	(1.3)
Retirement of treasury shares	(219)	—	—	(1.5)	—	(219)	1.5	—
Unrealized losses on marketable securities	—	—	—	—	(3.2)	—	—	(3.2)
Balance at September 27, 2014	277,972	2.8	5,658.2	(3,600.6)	2.6	—	—	2,063.0
Exercise of stock options	3,036	—	57.3	—	—	—	—	57.3
Issuance of common stock to employees upon vesting of restricted stock units, net of shares withheld for employee taxes	949	—	(12.9)	—	—	—	—	(12.9)
Issuance of common stock under the employee stock purchase plan	538	—	12.0	—	—	—	—	12.0
Stock-based compensation expense	—	—	54.6	—	—	—	—	54.6
Excess tax benefit from equity awards	—	—	7.6	—	—	—	—	7.6
Reacquisition of equity component from convertible notes repurchase, net of taxes	—	—	(216.9)	—	—	—	—	(216.9)
Net income	—	—	—	131.6	—	—	—	131.6
Foreign currency translation adjustment	—	—	—	—	(20.6)	—	—	(20.6)

Amounts reclassified out of cumulative translation adjustment	—	—	—	—	9.6	—	—	9.6
Adjustment to minimum pension liability, net	—	—	—	—	(0.2)	—	—	(0.2)
Unrealized losses on derivatives, net of taxes	—	—	—	—	(3.9)	—	—	(3.9)
Other-than-temporary impairment of marketable security reclassified out of accumulated other comprehensive income (loss)	—	—	—	—	7.8	—	—	7.8
Unrealized losses on marketable securities	—	—	—	—	(9.8)	—	—	(9.8)
Balance at September 26, 2015	282,495	2.8	5,559.9	(3,469.0)	(14.5)	—	—	2,079.2
Exercise of stock options	1,233	0.1	24.0	—	—	—	—	24.1
Issuance of common stock to employees upon vesting of restricted stock units, net of shares withheld for employee taxes	820	—	(16.4)	—	—	—	—	(16.4)
Issuance of common stock under the employee stock purchase plan	467	—	14.4	—	—	—	—	14.4
Stock-based compensation expense	—	—	62.3	—	—	—	—	62.3
Excess tax benefit from equity awards	—	—	10.5	—	—	—	—	10.5
Reacquisition of equity component from convertible notes repurchase, net of taxes	—	—	(94.4)	—	—	—	—	(94.4)
Net income	—	—	—	330.8	—	—	—	330.8
Foreign currency translation adjustment	—	—	—	—	(10.4)	—	—	(10.4)
Adjustment to minimum pension liability, net	—	—	—	—	(0.7)	—	—	(0.7)
Repurchase of common stock	—	—	—	—	—	7,289	(250.0)	(250.0)
Unrealized losses on derivatives, net of taxes	—	—	—	—	(3.4)	—	—	(3.4)
Net unrealized losses on marketable securities	—	—	—	—	(1.1)	—	—	(1.1)
Interest cost of interest rate cap reclassified to statement of income	—	—	—	—	3.9	—	—	3.9
Net realized gains on marketable securities reclassified out of accumulated other comprehensive income (loss)	—	—	—	—	(6.1)	—	—	(6.1)
Balance at September 24, 2016	285,015	$ 2.9	$ 5,560.3	$ (3,138.2)	$ (32.3)	7,289	$ (250.0)	$ 2,142.7

See accompanying notes.

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Hologic, Inc.
Consolidated Statements of Cash Flows
(In millions)

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
OPERATING ACTIVITIES			
Net income	$330.8	$ 131.6	$ 17.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	82.3	81.5	94.7
Amortization	383.1	409.9	428.5
Non-cash interest expense	52.1	63.8	68.7
Stock-based compensation expense	65.4	59.3	50.0
Excess tax benefit related to equity awards	(11.0)	(10.7)	(5.7)
Deferred income taxes	(155.8)	(148.8)	(243.1)
Gain on sale of available-for-sale marketable security	(25.1)	—	—
Asset impairment charges	—	—	38.4
Debt extinguishment losses	5.3	62.7	7.4
Equity investment impairment charges	1.1	7.8	6.9
Loss on disposal of property and equipment	5.5	6.6	7.1
Loss on sale of businesses	—	9.6	5.5
Other adjustments and non-cash items	(2.9)	14.3	(11.8)
Changes in operating assets and liabilities:			
Accounts receivable	(31.8)	(30.3)	7.9
Inventories	7.6	43.9	(44.7)
Prepaid income taxes	4.7	0.7	22.4
Prepaid expenses and other assets	(4.9)	5.7	17.3
Accounts payable	40.1	25.5	11.8
Accrued expenses and other liabilities	45.6	36.9	14.7
Deferred revenue	(4.9)	16.1	15.1
Net cash provided by operating activities	787.2	786.1	508.4
INVESTING ACTIVITIES			
Net proceeds from sale of business	—	—	10.1
Purchase of property and equipment	(47.3)	(48.1)	(44.3)
Increase in equipment under customer usage agreements	(47.2)	(41.3)	(35.9)
Proceeds from sale of available-for-sale marketable security	31.1	—	—
Net (purchases) sales of insurance contracts	(5.2)	(6.4)	13.8
Purchases of mutual funds	—	—	(29.7)
Sales of mutual funds	5.2	10.0	22.4
Purchase of intellectual property	(4.0)	—	—
Increase in other assets	(1.0)	(0.3)	(3.4)
Net cash used in investing activities	(68.4)	(86.1)	(67.0)
FINANCING ACTIVITIES			
Proceeds from long-term debt	—	2,495.1	—
Repayment of long-term debt	(75.0)	(3,095.0)	(595.0)
Payments to extinguish convertible notes	(392.8)	(543.7)	—
Proceeds from amounts borrowed under revolving credit line	50.0	358.0	—
Repayment of amounts borrowed under revolving credit line	(225.0)	(183.0)	—

Proceeds from accounts receivable securitization agreement	200.0	—	—
Repurchase of common stock	(250.0)	—	—
Payment of debt issuance costs	—	(22.7)	(2.4)
Purchase of interest rate caps	—	(13.2)	—
Payment of deferred acquisition consideration	—	—	(5.0)
Net proceeds from issuance of common stock pursuant to employee stock plans	38.5	70.0	81.4
Excess tax benefit related to equity awards	11.0	10.7	5.7
Payment of minimum tax withholdings on net share settlements of equity awards	(16.4)	(12.9)	(9.8)
Net cash used in financing activities	(659.7)	(936.7)	(525.1)
Effect of exchange rate changes on cash and cash equivalents	(2.0)	(8.1)	(2.7)
Net increase (decrease) in cash and cash equivalents	57.1	(244.8)	(86.4)
Cash and cash equivalents, beginning of period	491.3	736.1	822.5
Cash and cash equivalents, end of period	$548.4	$ 491.3	$ 736.1

See accompanying notes.

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Hologic, Inc.
Notes to Consolidated Financial Statements
(all tabular amounts in millions, except number of shares which are reflected in thousands)

1. Operations
Hologic, Inc. (the "Company" or "Hologic") develops, manufactures and supplies 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.
2. Summary of Significant Accounting Policies
Principles of Consolidation
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 Company's fiscal year ends on the last Saturday in September. Fiscal 2016, 2015 and 2014 ended on September 24, 2016, September 26, 2015 and September 27, 2014, respectively.
Management's Estimates and Uncertainties
The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("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. Significant estimates and assumptions by management affect the Company's revenue recognition for multiple element arrangements, allowance for doubtful accounts, the net realizable value of inventory, estimated fair value of cost-method equity investments, 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 and estimates 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, deferred tax rates and recoverability of the Company's net deferred tax assets and related valuation allowances.
Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.
The Company is subject to a number of risks similar to those of other companies of similar size in its industry, including dependence on third-party reimbursements to support the markets of the Company's products, early stage of development of certain products, rapid technological changes, recoverability of long-lived assets (including intangible assets and goodwill), competition, stability of world financial markets, ability to obtain regulatory approvals, changes in the regulatory environment, limited number of suppliers, customer concentration, integration of acquisitions, substantial indebtedness, government regulations, management of international activities, protection of proprietary rights, patent and other litigation, dependence on contract manufacturers and dependence on key individuals.
Cash Equivalents
Cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition.
Marketable Securities
The Company's marketable securities as of September 24, 2016 are comprised of solely of equity securities and as of September 26, 2015 also included mutual funds. The equity securities are investments in the common stock of publicly traded companies, and the mutual funds were used to fund a portion of the Company's deferred compensation plan. The equity securities are classified as available-for-sale and are recorded at fair value with the unrealized gains or losses, net of tax, within accumulated other comprehensive income (loss), which is a component of stockholders' equity. The mutual funds were classified as trading and recorded at fair value with unrealized gains and losses recorded in other income (expense), net in the Consolidated Statements of Income.

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The Company periodically reviews its marketable equity securities classified as available-for-sale for other-than-temporary declines in fair value below carrying value, or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The determination that a decline is other-than-temporary is, in part, subjective and influenced by many factors. When assessing marketable equity securities for other-than-temporary declines in fair value, the Company considers factors including: the significance of the decline in value compared to the carrying value; the underlying factors contributing to a decline in the price of the security; how long the market value of the investment has been less than its carrying value; any market conditions that impact liquidity; the views of external investment analysts; the financial condition and near-term prospects of the investee; any news or financial information that has been released specific to the investee; and the outlook for the overall industry in which the investee operates. In the fourth quarters of fiscal 2016 and 2015, the Company concluded that the decline in fair value of one of its marketable securities was other-than-temporary based on the length of time the security's market value was significantly below its carrying value and recorded impairment charges of $1.1 million and $7.8 million, respectively.

The following reconciles cost basis to fair market value.

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other Than Temporary Impairment	Fair Value
As of September 24, 2016	$2.4	$ —	$ (0.3)	$ (1.1)	$ 1.0
As of September 26, 2015	$16.1	$ 7.2	$ (0.3)	$ (7.8)	$ 15.2
As of September 27, 2014	$15.5	$ 10.2	$ (1.3)	$ —	$ 24.4

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 (expense), net.

Concentrations of Credit Risk

Financial instruments that subject the Company to credit risk primarily consist of cash and cash equivalents, cost-method equity investments, and trade accounts receivable. The Company invests its cash and cash equivalents with high credit quality financial institutions.

The Company’s customers are principally located in the United States, Europe and Asia. The Company performs ongoing credit evaluations of the financial condition of its customers and generally does not require collateral. Although the Company is directly affected by the overall financial condition of the healthcare industry, as well as global economic conditions, management does not believe significant credit risk exists as of September 24, 2016. The Company generally has not experienced any material losses related to receivables from individual customers or groups of customers in the healthcare industry. The Company maintains an allowance for doubtful accounts based on accounts past due and historical collection experience.

There were no customers with balances greater than 10% of accounts receivable as of September 24, 2016 and September 26, 2015, or any customers that represented greater than 10% of consolidated revenues for fiscal years 2016, 2015 and 2014 (see Note 13).

Supplemental Cash Flow Statement Information

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Cash paid during the period for income taxes	$184.8	$ 168.7	$ 231.8
Cash paid during the period for interest	$104.0	$ 143.0	$ 155.7

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Inventories

Inventories are valued at the lower of cost or market on a first in, first out basis. Work-in-process and finished goods inventories consist of materials, labor and manufacturing overhead. The valuation of inventory requires management to estimate excess and obsolete inventory. The Company employs a variety of methodologies to determine the net realizable value of its inventory. Provisions for excess and obsolete inventory are primarily based on management's estimates of forecasted sales, usage levels and expiration dates, as applicable for disposable products. A significant change in the timing or level of demand for the Company's products compared to forecasted amounts may result in recording additional charges for excess and obsolete inventory in the future. The Company records charges for excess and obsolete inventory within cost of product revenues.

Inventories consisted of the following:

	September 24, 2016	September 26, 2015
Raw materials	$ 96.4	$ 98.3
Work-in-process	51.7	58.7
Finished goods	126.6	126.1
	$ 274.7	$ 283.1

Property, Plant and Equipment

Property, plant and equipment is recorded at cost less allowances for depreciation. The straight-line method of depreciation is used for all property and equipment.

Property, plant and equipment consisted of the following:

	September 24, 2016	September 26, 2015
Equipment and software	$ 381.9	$ 365.9
Equipment under customer usage agreements	334.6	305.7
Buildings and improvements	186.1	182.1
Leasehold improvements	65.6	59.2
Land	51.9	51.4
Furniture and fixtures	18.4	17.3
	1,038.5	981.6
Less - accumulated depreciation and amortization	(578.3)	(524.5)
	$ 460.2	$ 457.1

Property, plant and equipment are depreciated over the following estimated useful lives:

Asset Classification	Estimated Useful Life
Building and improvements	35–40 years
Equipment and software	3–10 years
Equipment under customer usage agreements	3–8 years
Furniture and fixtures	5–7 years
Leasehold improvements	Shorter of the Original Term of Lease or Estimated Useful Life

Equipment under customer usage agreements primarily consists of diagnostic instrumentation and imaging equipment located at customer sites but owned by the Company. Generally, the customer has the right to use the equipment for a period of time provided they meet certain agreed to conditions. The Company recovers the cost of providing the equipment from the sale of disposables. The depreciation costs associated with equipment under customer usage agreements are charged to cost of product revenues over the estimated useful life of the equipment. The costs to maintain the equipment in the field are charged to cost of product revenue as incurred.

Long-Lived Assets

The Company reviews its long-lived assets, which includes property, plant and equipment and identifiable intangible assets (see below for discussion of intangible assets), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360-10-35-15, Property, Plant and Equipment—Impairment or Disposal of Long-Lived Assets (ASC 360). Recoverability of these assets is evaluated by comparing the carrying value of the assets to the undiscounted cash flows estimated to be generated by those assets over their remaining economic life. If the undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are considered impaired. The impairment loss is measured by comparing the fair value of the assets to their carrying value. Fair value is determined by either a quoted market price, if any, or a value determined by a discounted cash flow technique.

In the second quarter of fiscal 2014, the Company evaluated its MRI breast coils product line asset group, which was within its Breast Health segment, for impairment due to the Company's expectation that it would be sold or disposed of significantly before the end of its previously estimated useful life. At this time, the undiscounted cash flows expected to be generated by this asset group over its estimated remaining useful life were not sufficient to recover its carrying value. The Company estimated the fair value of the asset group using market participant assumptions, which were based on underlying cash flow estimates, resulting in an impairment charge of $28.6 million. Pursuant to ASC 360 subtopic 10-35-28, the impairment charge was allocated to the long-lived assets with $27.1 million to intangible assets and $1.5 million to property and equipment. The property and equipment charge was recorded to cost of product revenues and general and administrative expenses in the amounts of $0.3 million and $1.2 million, respectively. The Company believes this adjustment falls within Level 3 of the fair value hierarchy. The Company completed the sale of this product line in the fourth quarter of fiscal 2014 (see Note 3).

In the first quarter of fiscal 2014, the Company recorded a $3.1 million impairment charge to record certain of its buildings at fair value related to the shutdown of its Hitec Imaging organic photoconductor manufacturing line (see Note 3).

Business Combinations and Acquisition of Intangible Assets

The Company records tangible and intangible assets acquired in business combinations under the purchase method of accounting. The Company accounts for acquisitions in accordance with ASC 805, Business Combinations (ASC 805). Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the dates of acquisition. The Company allocates the purchase price in excess of the fair value of the net tangible assets acquired to identifiable intangible assets, including purchased research and development, based on detailed valuations that use certain information and assumptions provided by management. The Company allocates any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill. The use of alternative valuation assumptions, including estimated cash flows and discount rates, and alternative useful life assumptions could result in different purchase price allocations and intangible asset amortization expense in current and future periods.

The Company uses the income approach to determine the fair value of developed technology and in-process research and development ("IPR&D") acquired in a business combination. This approach determines fair value by estimating the after-tax cash flows attributable to the respective asset over its useful life and then discounting these after-tax cash flows back to a present value. The Company bases its revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected trends in technology and expected product introductions by competitors. Developed technology represents patented and unpatented technology and know-how. Regarding the value of the in-process projects, the Company considers, among other factors, the in-process projects' stage of completion, the complexity of the work completed as of the acquisition date, the projected costs to complete, the contribution of core technologies and other acquired assets, the expected introduction date and the estimated useful life of the technology. The Company believes that the estimated developed technology and IPR&D amounts represent the fair value at the date of acquisition and do not exceed the amount a third-party would pay for the assets.

The Company also uses the income approach, as described above, to determine the estimated fair value of certain other identifiable intangible assets including customer relationships, trade names and business licenses. Customer relationships represent established relationships with customers, which provide a ready channel for the sale of additional products and services. Trade names represent acquired company and product names.

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Intangible Assets and Goodwill
Intangible Assets
Intangible assets are initially recorded at fair value and stated net of accumulated amortization and impairments. The Company amortizes its intangible assets that have finite lives using either the straight-line method, or if reliably determinable, based on the pattern in which the economic benefit of the asset is expected to be utilized. Amortization is recorded over the estimated useful lives ranging from 2 to 30 years. The Company evaluates the realizability of its definite lived intangible assets whenever events or changes in circumstances or business conditions indicate that the carrying value of these assets may not be recoverable based on expectations of future undiscounted cash flows for each asset group. If the carrying value of an asset or asset group exceeds its undiscounted cash flows, the Company estimates the fair value of the assets, generally utilizing a discounted cash flow analysis based on the present value of estimated future cash flows to be generated by the assets using a risk-adjusted discount rate. To estimate the fair value of the assets, the Company uses market participant assumptions pursuant to ASC 820, Fair Value Measurements.
Indefinite lived intangible assets, such as IPR&D assets, are required to be tested for impairment annually, or more frequently if indicators of impairment are present. The Company's annual impairment test date is as of the first day of its fourth quarter.
During the fourth quarter of fiscal 2014, the Company recorded impairment charges of $5.1 million for a reduction in fair value of its remaining IPR&D assets. The reduction in fair value was primarily due to lower revenue projections of the respective products compared to those estimated at the time of the Gen-Probe acquisition.
During the second quarter of fiscal 2014, the Company recorded impairment charges of $26.6 million and $0.5 million to developed technology and trade names, respectively, related to its MRI breast coils product line discussed above. In addition, the Company periodically re-evaluates the lives of its definite-lived intangible assets, and in the second quarter of fiscal 2014 shortened the life of certain corporate trade names, which were phased out.
Intangible assets consisted of the following:

	September 24, 2016		September 26, 2015	
Description	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Developed technology	$3,983.7	$ 1,991.6	$3,979.1	$ 1,698.5
In-process research and development	3.7	—	3.7	—
Customer relationships and contracts	1,098.9	546.2	1,101.1	467.5
Trade names	236.2	141.6	236.4	131.5
Business licenses	2.4	2.1	2.5	2.1
	$5,324.9	$ 2,681.5	$5,322.8	$ 2,299.6

In the third quarter of fiscal 2016, the Company accelerated the amortization of the Cystic Fibrosis developed technology asset of $6.2 million as a result of discontinuing this product line.
In the second quarter of fiscal 2016, the Company acquired certain intellectual property for $4.8 million, which was recorded in developed technology.
Amortization expense related to developed technology is classified as a component of cost of product revenues—amortization of intangible assets. Amortization expense related to customer relationships and contracts, trade names, and business licenses is classified as a component of amortization of intangible assets within operating expenses.
The estimated amortization expense at September 24, 2016 for each of the five succeeding fiscal years was as follows:

Fiscal 2017	$365.8
Fiscal 2018	$355.0
Fiscal 2019	$343.1
Fiscal 2020	$331.4
Fiscal 2021	$312.0

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Goodwill

In accordance with ASC 350, Intangibles—Goodwill and Other (ASC 350), the Company tests goodwill for impairment at the reporting unit level on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value. Events that could indicate impairment and trigger an interim impairment assessment include, but are not limited to, current economic and market conditions, including a decline in market capitalization, a significant adverse change in legal factors, business climate, operational performance of the business or key personnel, and an adverse action or assessment by a regulator.

In performing the impairment test, the Company utilizes the two-step approach prescribed under ASC 350. The first step requires a comparison of the carrying value of each reporting unit to its estimated fair value. To estimate the fair value of its reporting units for Step 1, the Company primarily utilizes the income approach. The income approach is based on a DCF analysis and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. Assumptions used in the DCF require significant judgment, including judgment about appropriate discount rates and terminal values, growth rates, and the amount and timing of expected future cash flows. The forecasted cash flows are based on the Company's most recent budget and strategic plan and for years beyond this period, the Company's estimates are based on assumed growth rates expected as of the measurement date. The Company believes its assumptions are consistent with the plans and estimates used to manage the underlying businesses. The discount rates used are intended to reflect the risks inherent in future cash flow projections and are based on estimates of the weighted-average cost of capital ("WACC") of market participants relative to each respective reporting unit. The market approach considers comparable market data based on multiples of revenue or earnings before interest, taxes, depreciation and amortization ("EBITDA") and is primarily used as a corroborative analysis to the results of the DCF analysis. The Company believes its assumptions used to determine the fair value of its reporting units are reasonable. If different assumptions were used, particularly with respect to forecasted cash flows, terminal values, WACCs, or market multiples, different estimates of fair value may result and there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows.

If the carrying value of a reporting unit exceeds its estimated fair value, the Company is required to perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. The implied fair value of goodwill is derived by performing a hypothetical purchase price allocation for each reporting unit as of the measurement date and allocating the reporting unit's estimated fair value to its assets and liabilities. The residual amount from performing this allocation represents the implied fair value of goodwill. To the extent this amount is below the carrying value of goodwill, an impairment charge is recorded.

The Company conducted its fiscal 2016 impairment test on the first day of the fourth quarter, and as noted above used DCF and market approaches to estimate the fair value of its reporting units as of June 26, 2016, and ultimately used the fair value determined by the DCF approach in making its impairment test conclusions. The Company believes it used reasonable estimates and assumptions about future revenue, cost projections, cash flows, market multiples and discount rates as of the measurement date. As a result of completing Step 1, all of the Company's reporting units had fair values exceeding their carrying values, and as such, Step 2 of the impairment test was not required. For illustrative purposes, had the fair value of each of the reporting units that passed Step 1 been lower than 10%, all of the reporting units would still have passed Step 1 of the goodwill impairment test.

At September 24, 2016, the Company believes that each reporting unit, with goodwill aggregating $2.80 billion, was not at risk of failing Step 1 of the goodwill impairment test based on the current forecasts.

The Company conducted its fiscal 2015 and 2014 impairment tests on the first day of the respective year's fourth quarter, and as noted above used DCF and market approaches to estimate the fair value of its reporting units as of June 28, 2015 and June 29, 2014, respectively, and ultimately used the fair value determined by the DCF approach in making its impairment test conclusions. The Company believes it used reasonable estimates and assumptions about future revenue, cost projections, cash flows, market multiples and discount rates as of the measurement date. As a result of completing Step 1, all of the Company's reporting units had fair values exceeding their carrying values, and as such, Step 2 of the impairment test was not required.

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A rollforward of goodwill activity by reportable segment from September 26, 2015 to September 24, 2016 is as follows:

	Diagnostics	Breast Health	GYN Surgical	Skeletal Health	Total
Balance at September 26, 2015	$ 1,152.3	$ 631.8	$ 1,016.0	$ 8.1	$ 2,808.2
Tax adjustments	(1.3)	—	—	—	(1.3)
Foreign currency and other	(2.8)	—	(1.0)	—	(3.8)
Balance at September 24, 2016	$ 1,148.2	$ 631.8	$ 1,015.0	$ 8.1	$ 2,803.1

Other Assets

Other assets consisted of the following:

	September 24, 2016	September 26, 2015
Other Assets		
Life insurance contracts	$ 36.0	$ 27.5
Manufacturing access fees	9.6	11.6
Derivative assets	0.4	6.2
Mutual funds	—	5.6
Marketable securities	1.0	15.2
Cost-method equity investments	3.5	4.2
Deferred tax assets	9.3	—
Other	23.9	17.9
	$ 83.7	$ 88.2

Life insurance contracts were purchased in connection with the Company's Nonqualified Deferred Compensation Plan ("DCP") and are recorded at their cash surrender value (see Note 9 for further discussion). The manufacturing access fees are related to a manufacturing supply and purchase agreement for our Aptima HPV products and are being amortized over the term of the agreement.

The Company's cost-method equity investments are carried at cost as the Company owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. The Company regularly evaluates the carrying value of its cost-method equity investments for impairment and whether any events or circumstances are identified that would significantly harm the fair value of the investment. The primary indicators the Company utilizes to identify these events and circumstances are the investee's ability to remain in business, such as the investee's liquidity and rate of cash use, and the investee's ability to secure additional funding and the investee valuation as determined by that additional funding. In the event a decline in fair value is judged to be other-than-temporary, the Company will record an other-than-temporary impairment charge in other income (expense), net in the Consolidated Statements of Operations. During fiscal 2014, the Company recorded other-than-temporary impairment charges of $6.9 million related to certain of its cost-method equity investments to adjust their carrying amounts to fair value. No such charges were recorded in fiscal 2016 or 2015 for cost-method equity investments.

Research and Software Development Costs

Costs incurred for the research and development of the Company's products are expensed as incurred. Nonrefundable advance payments for goods or services to be received in the future by the Company for use in research and development activities are deferred. The deferred costs are expensed as the related goods are delivered or the services are performed.

The Company accounts for the development costs of software embedded in the Company's products in accordance with ASC 985, Software. Costs incurred in the research, design and development of software embedded in products to be sold to customers are charged to expense until technological feasibility of the ultimate product to be sold is established. The Company's policy is that technological feasibility is achieved when a working model, with the key features and functions of the product, is available for customer testing. Software development costs incurred after the establishment of technological feasibility and until the product is available for general release are capitalized, provided recoverability is reasonably assured. Software development costs eligible for capitalization have not been significant to date.

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Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are translated in accordance with ASC 830, Foreign Currency Matters. The reporting currency for the Company is the U.S. dollar. The functional currency of the Company's foreign subsidiaries is determined based on the guidance in ASC 830. The majority of the Company's foreign subsidiaries' functional currency is the applicable local currency, although certain of the Company's foreign subsidiaries' functional currency is the U.S. dollar based on the nature of their operations or functions. Assets and liabilities of subsidiaries whose functional currency is the local currency are translated at the exchange rate in effect at each balance sheet date. Before translation, the Company re-measures foreign currency denominated assets and liabilities, including inter-company accounts receivable and payable, into the functional currency of the respective entity, resulting in unrealized gains or losses recorded in other income (expense), net in the Consolidated Statements of Income. Revenues and expenses are translated using average exchange rates during the respective period. Foreign currency translation adjustments are accumulated as a component of other comprehensive income (loss) as a separate component of stockholders' equity. Gains and losses arising from transactions denominated in foreign currencies are included in other income (expense), net in the Consolidated Statements of Income and were not significant in any of the reporting periods presented.

Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes certain transactions that have generally been reported in the statement of stockholders' equity. The following tables summarize the components and changes in accumulated balances of other comprehensive income for the periods presented:

	Year Ended September 24, 2016					Year Ended September 26, 2015				
	Foreign Currency Translation	Marketable Securities	Pension Plans	Hedged Interest Rate Caps	Total	Foreign Currency Translation	Marketable Securities	Pension Plans	Hedged Interest Rate Caps	Total
Beginning Balance	$(15.7)	$ 6.9	$(1.8)	$(3.9)	$(14.5)	$(4.7)	$ 8.9	$(1.6)	$—	$2.6
Other comprehensive loss before reclassifications	(10.4)	(1.1)	(0.7)	(3.4)	(15.6)	(20.6)	(9.8)	(0.2)	(3.9)	(34.5)
(Gains) charges reclassified to statement of income	—	(6.1)	—	3.9	(2.2)	9.6	7.8	—	—	17.4
Ending Balance	$(26.1)	$ (0.3)	$(2.5)	$(3.4)	$(32.3)	$(15.7)	$ 6.9	$(1.8)	$(3.9)	$(14.5)

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 (expense), net and resulted in reclassifying a $7.2 million gain out of other comprehensive income (loss) to other income (expense), net. In the fourth quarter of fiscal 2016, the Company recorded a $1.1 million other-than-temporary impairment charge and this amount was reclassified out of other comprehensive income (loss) to other income (expense), net.

During fiscal 2015, the Company reclassified $9.6 million out of accumulated other comprehensive income to restructuring and divestiture charges related to writing off the cumulative translation adjustment in connection with its substantial liquidation of the MRI breast coils product line (see Note 3). In addition, during fiscal 2015 the Company reclassified $7.8 million out of accumulated other comprehensive income to other (expense) income, net for the other-than-temporary impairment of a marketable security.

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.

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During fiscal 2015, the Company entered into separate interest rate cap agreements with multiple counter-parties to help mitigate the interest rate volatility associated with the variable rate interest on its credit facilities under its Prior Credit Agreement, which has been replaced by the new Credit Agreement (see Note 4). 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 the Prior Credit Agreement. The terms in the new Credit Agreement are consistent with the Prior Credit Agreement, and therefore the interest rate caps continue to be highly effective at offsetting the cash flows being hedged. The Company designated these derivatives as cash flow hedges of the variability of the LIBOR-based interest payments on $1.0 billion of principal over a three-year period, which ends on December 30, 2017.

As of September 24, 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 fiscal 2016, $3.9 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 approximately $6.9 million from AOCI to the Consolidated Statements of Income in the next twelve months.

The aggregate fair value of these interest rate caps was $1.4 million and $6.9 million at September 24, 2016 and September 26, 2015, respectively, and is included in both Prepaid expenses and other current assets and Other assets on the Company’s Consolidated Balance Sheet. Refer to Note 5 “Fair Value Measurements” below 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 fiscal 2016, the Company recorded a realized gain of $1.5 million from settling forward foreign currency contracts, and net unrealized losses of $1.1 million on outstanding contracts.

As of September 24, 2016, the Company had outstanding forward foreign currency contracts that were not designated for hedge accounting and are 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 a notional amount of $165.0 million.

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 September 24, 2016:

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	Balance Sheet Location	September 24, 2016	September 26, 2015
Assets:			
Derivative instruments designated as a cash flow hedge:			
Interest rate cap agreements	Prepaid expenses and other current assets	$ 1.0	$ 0.7
Interest rate cap agreements	Other Assets	0.4	6.2
		$ 1.4	$ 6.9
Derivatives not designated as hedging instruments:			
Forward foreign currency contracts	Prepaid expenses and other current assets	$ 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:

	Year Ended September 24, 2016	Year Ended September 26, 2015
Amount of loss recognized in other comprehensive income, net of taxes:		
Interest rate cap agreements	$ (3.4)	$ (3.9)

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	Year Ended September 24, 2016	Location of Gain (Loss) Recognized in Income
Forward foreign currency contracts	$ 0.4	Other income (expense), net

Revenue Recognition

The Company generates revenue from the sale of its products, primarily medical imaging systems and diagnostic and surgical disposable products, and related services, which are primarily support and maintenance services on its medical imaging systems.

The Company recognizes product revenue upon shipment provided that there is persuasive evidence of an arrangement, there are no uncertainties regarding acceptance, the sales price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Generally, the Company’s product arrangements for capital equipment sales, primarily in its Breast Health and Skeletal Health reporting segments, are multiple-element arrangements, including services, such as installation, training and support and maintenance, and multiple products. Based on the terms and conditions of the product arrangements, the Company believes that these services and undelivered products can be accounted for separately from the delivered product element as the Company’s delivered products have value to its customers on a stand-alone basis. Accordingly, revenue for services not yet performed at the time of product delivery are deferred and recognized as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. There is no customer right of return in the Company’s sales agreements for its capital equipment.

Service revenues primarily consist of amounts recorded under service and maintenance contracts and repairs not covered under warranty, installation and training, and shipping and handling costs billed to customers. Service and maintenance contract

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revenues are recognized ratably over the term of the contract. Other service revenues are recognized as the services are performed.

For revenue arrangements with multiple deliverables, the Company records revenue as separate units of accounting if the delivered items have value to the customer on a stand-alone basis, and if the arrangement includes a general right of return relative to the delivered items, the delivery or performance of the undelivered items is considered probable and substantially within the Company's control. Some of the Company's products have both software and non-software components that function together to deliver the product's essential functionality. The Company determined that except for its computer-aided detection ("CAD") products and C-View product, the software element in its other products is incidental and not within the scope of the software revenue recognition rules, ASC 985-605, Software—Revenue Recognition. The Company determined that given the significance of the software component's functionality to its CAD and C-View systems, which are sold by its Breast Health segment, these products are within the scope of the software revenue recognition rules. The Company evaluated the appropriate revenue recognition treatment of its other hardware products, including its Dimensions digital mammography systems, which have both software and non-software components that function together to deliver the products' essential functionality (i.e., it is a tangible product), and determined they are not within the scope of ASC 985-605.

The Company is required to allocate revenue to its multiple element arrangements based on the relative fair value of each element's selling price. The Company typically determines the selling price of its products based on its best estimate of selling prices ("ESP") and services based on vendor-specific objective evidence of selling price ("VSOE"). The Company determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, the Company's policy requires a substantial majority of selling prices for a product or service to be within a reasonably narrow range. The Company also considers the class of customer, method of distribution, and the geographies into which its products and services are sold when determining VSOE. If VSOE cannot be established, which may occur in instances when a product or service has not been sold separately, stand-alone sales are too infrequent, or product pricing is not within a relatively narrow range, the Company will generally establish the selling price using ESP to allocate arrangement consideration. The objective of ESP is to determine the price at which the Company would typically transact a stand-alone sale of the product or service. ESP is determined by considering a number of factors including Company pricing policies, internal costs and gross margin objectives, method of distribution, information gathered from experience in customer negotiations, market research and information, recent technological trends, competitive landscape and geographies.

For those arrangements accounted for under the software revenue recognition rules, ASC 985-605 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on their relative VSOE of fair value. If VSOE does not exist for a delivered element, the residual method is applied in which the arrangement consideration is allocated to the undelivered elements based on their VSOE with the remaining consideration recognized as revenue for the delivered elements. For multiple-element software arrangements where VSOE of fair value of Post-Contract Customer Support ("PCS") has been established, the Company recognizes revenue using the residual method at the time all other revenue recognition criteria have been met.

Within its Diagnostics segment, the Company manufactures blood screening products according to demand schedules provided by its collaboration partner, Grifols, S.A. ("Grifols"). The Company's agreement provides that it shares a portion of Grifols's revenue from screening blood donations. Upon shipment to Grifols, the Company recognizes product revenue at an agreed upon fixed transfer price, which is not refundable, and records the related cost of products sold. Based on the terms of the Company's collaboration agreement with Grifols, the Company's ultimate share of the net revenue from sales to the end user in excess of the transfer price is not known until it is reported to the Company by Grifols. On a monthly basis, Grifols reports net revenue generated during the prior month and remits an additional corresponding net payment to the Company, which is recorded as revenue at that time. This payment combined with the transfer price revenues previously recognized represents the Company's ultimate share of net revenue under the agreement.

While the majority of its instruments are placed at customer sites, in certain instances the Company sells instruments to its clinical diagnostics customers and records sales of these instruments upon shipment or delivery, depending on the terms of the arrangement.

Within its Diagnostics business, and to a lesser extent, its GYN Surgical business, the Company provides its instrumentation (for example, the ThinPrep Processor, ThinPrep Imaging System, and the Panther and Tigris systems) and certain other hardware to customers without requiring them to purchase the equipment or enter into a lease. The Company installs the instrumentation or equipment at the customer's site and recovers the cost of providing the instrumentation or equipment in the amount it charges for its diagnostic tests, assays and other disposables. Customers enter into a customer usage agreement and typically commit to purchasing minimum quantities of disposable products at a stated price over a defined contract term, which is typically between three and five years. Revenue is recognized over the term of the customer usage agreement as tests, assays and other disposable products are shipped or delivered, depending on the customer's arrangement.

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Accounts Receivable and Reserves

The Company records reserves for doubtful accounts based upon a specific review of all outstanding invoices, known collection issues and historical experience. The Company regularly evaluates the collectability of its trade accounts receivables and performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and its assessment of the customer's current credit worthiness.

Accounts receivable reserve activity for fiscal 2016, 2015 and 2014 was as follows:

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-offs and Payments	Balance at End of Period
Period Ended:				
September 24, 2016	$ 11.1	$ 2.0	$ (0.4)	$ 12.7
September 26, 2015	$ 12.0	$ 1.6	$ (2.5)	$ 11.1
September 27, 2014	$ 8.8	$ 4.4	$ (1.2)	$ 12.0

Cost of Service and Other Revenues

Cost of service and other revenues primarily represents payroll and related costs associated with the Company's professional services' employees, consultants, infrastructure costs and overhead allocations, including depreciation, rent and materials consumed in providing the service.

Stock-Based Compensation

The Company accounts for share-based payments in accordance with ASC 718, Stock Compensation (ASC 718). As such, all share-based payments to employees, including grants of stock options, restricted stock units, performance stock units and market stock units and shares issued under the Company's employee stock purchase plan, are recognized in the Consolidated Statements of Operations based on their fair values on the date of grant.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average number of common shares and the dilutive effect of potential future issuances of common stock from outstanding stock options, restricted stock units and convertible debt determined by applying the treasury stock method. In accordance with ASC 718, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of in-the-money stock options and restricted stock units. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of equity awards.

The Company applies the provisions of ASC 260, Earnings Per Share, Subsection 10-45-44, to determine the diluted weighted average shares outstanding as it relates to its convertible notes, and due to the type of debt instrument issued and its accounting policy, the Company applies the treasury stock method and not the if-converted method. The dilutive impact of the Company's convertible notes is based on the difference between the Company's current period average stock price and the conversion price of the convertible notes, provided there is a premium. As such, dilution related to the conversion premium on the 2010 Notes, 2012 Notes and 2013 Notes is included in the calculation of diluted weighted-average shares outstanding in fiscal 2016 and 2015 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. In fiscal 2014, only the dilution of the conversion premium on the 2010 Notes is included in diluted weighted-average shares outstanding.

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A reconciliation of basic and diluted share amounts for fiscal 2016, 2015, and 2014 was as follows:

	September 24, 2016	September 26, 2015	September 27, 2014
Basic weighted average common shares outstanding	280,213	280,566	275,499
Weighted average common stock equivalents from assumed exercise of stock options and restricted stock units	2,631	2,898	2,368
Incremental shares from Convertible Notes premium	3,312	6,073	493
Diluted weighted average common shares outstanding	286,156	289,537	278,360
Weighted-average anti-dilutive shares related to:			
Outstanding stock options	1,029	1,502	5,033
Restricted stock units	62	49	20

In those reporting periods in which the Company has reported net income, anti-dilutive shares generally are comprised of those stock options that either have an exercise price above the average stock price for the period or the stock options' combined exercise price, average unrecognized stock compensation expense and assumed tax benefits upon exercise is greater than the average stock price for the period.

Product Warranties

The Company generally offers a one-year warranty for its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Factors that affect the Company's warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. The Company periodically assesses the adequacy of the warranty reserve and adjusts the amount as necessary.

Product warranty activity for fiscal 2016 and 2015 was as follows:

	Balance at Beginning of Period	Provisions	Settlements/ Adjustments	Balance at End of Period
Period ended:				
September 24, 2016	$ 5.4	$ 7.1	$ (7.5)	$ 5.0
September 26, 2015	$ 6.3	$ 6.1	$ (7.0)	$ 5.4

Advertising Costs

Advertising costs are charged to operations as incurred. The Company does not have any direct-response advertising. Advertising costs, which include trade shows and conventions, were approximately $20.2 million, $14.4 million and $14.1 million for fiscal 2016, 2015 and 2014, respectively, and were included in selling and marketing expense in the Consolidated Statements of Income.

Recently Adopted Accounting Pronouncements

On September 27, 2015, the Company early adopted FASB ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in the balance sheet. Rather, it requires deferred tax assets and liabilities to be classified as noncurrent in the balance sheet. The Company adopted this standard prospectively in the first quarter of fiscal 2016, and prior periods were not retrospectively adjusted.

On June 26, 2016, the Company retrospectively adopted FASB ASU 2015-13, Presentation of Debt Issuance Costs, which simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability consistent with the presentation of a debt discount and not recorded as separate assets. The Company adopted this standard in the fourth quarter of fiscal 2016, and the fiscal 2015 balance sheet was retrospectively recast. In fiscal 2015, the Company had $0.6 million related to current debt issuance costs recorded in prepaid expenses and other current assets and $27.0 million related to non-current debt issuance costs recorded in other assets. The adoption of this standard resulted in these amounts being reclassified as liabilities, reducing both the current

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portion of long-term debt and long-term debt, net of current portion at the end of fiscal 2015 by $27.6 million in total and a corresponding reduction to the aforementioned asset accounts. Debt issuance costs will no longer be recorded as an asset.

Recently Issued 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.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718). The guidance changes how companies account for certain aspects of share-based payments to employees. Entities will be required to recognize income tax effects of awards in the income statement when the awards vest or are settled. The guidance also allows an employer to repurchase more of an employee's shares than it can today for tax withholding purposes by providing for withholding at the employee's maximum rate as opposed to the minimum rate without triggering liability accounting and by allowing an entity-wide policy election to account for forfeitures as they occur. The updated guidance is effective for annual periods beginning after December 15, 2016, and is applicable to the Company in fiscal 2018. Early adoption is permitted. The adoption of ASU 2016-09 is not expected to have a material effect on the Company's consolidated financial position and results of operations, although the income tax affect from vesting of stock units and option exercises could be significant to quarterly results of operations.

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 impact of the adoption of ASU 2016-02 on its consolidated financial position and results of operations.

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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 US 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 impact of the adoption of ASU 2016-01 on its consolidated financial position and results of operations.

In July 2015, the Financial Accounting Standards Board (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 February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This guidance focuses on a reporting company's consolidation evaluation to determine whether certain legal entities should be consolidated. This guidance is effective for annual periods beginning after December 15, 2015, and is applicable to the Company in fiscal 2017. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating this guidance, 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 us in fiscal 2018. Earlier application 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 impact of the adoption of ASU 2014-09 on its consolidated financial position and results of operations.

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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. As a result of these assessments, the Company has undertaken various restructuring actions which are described below. The following table displays charges taken related to restructuring actions in fiscal 2016, 2015 and 2014 and a rollforward of the charges to the accrued balances as of September 24, 2016:

	Fiscal 2016 Actions	Fiscal 2015 Actions	Fiscal 2014 Actions	Consolidation of Diagnostics Operations	Other Operating Cost Reductions	Total
Restructuring and Divestiture Charges						
Fiscal 2014 charges:						
Workforce reductions	$ —	$ —	$ 29.5	$ 2.9	$ 9.8	$ 42.2
Non-cash impairment charge	—	—	—	—	3.1	3.1
Facility closure costs	—	—	—	—	0.6	0.6
Other	—	—	—	0.1	0.2	0.3
Fiscal 2014 restructuring charges	$ —	$ —	$ 29.5	$ 3.0	$ 13.7	$ 46.2
Divestiture net charges						5.5
Fiscal 2014 restructuring and divestiture charges						$ 51.7
Fiscal 2015 charges:						
Workforce reductions	$ —	$ 10.0	$ 6.0	$ 0.1	$ 0.2	$ 16.3
Facility closure costs	—	—	2.0	0.5	0.1	2.6
Fiscal 2015 restructuring charges	$ —	$ 10.0	$ 8.0	$ 0.6	$ 0.3	$ 18.9
Divestiture net charges						9.6
Fiscal 2015 restructuring and divestiture charges						$ 28.5
Fiscal 2016 charges:						
Workforce reductions	$ 10.5	$ —	$ —	$ —	$ —	$ 10.5
Fiscal 2016 restructuring charges	$ 10.5	$ —	$ —	$ —	$ —	$ 10.5

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	Fiscal 2016 Actions	Fiscal 2015 Actions	Fiscal 2014 Actions	Consolidation of Diagnostics Operations	Other Operating Cost Reductions	Total
Rollforward of Accrued Restructuring						
Balance as of September 28, 2013	$ —	$ —	$ —	$ 3.0	$ 9.3	$ 12.3
Fiscal 2014 restructuring charges	$ —	$ —	$ 29.5	$ 3.0	$ 13.7	$ 46.2
Stock-based compensation	—	—	(6.6)	—	—	(6.6)
Non-cash impairment charges	—	—	—	—	(3.1)	(3.1)
Severance payments	—	—	(10.9)	(3.0)	(17.1)	(31.0)
Other payments	—	—	—	—	(0.9)	(0.9)
Balance as of September 27, 2014	$ —	$ —	$ 12.0	$ 3.0	$ 1.9	$ 16.9
Fiscal 2015 restructuring charges	$ —	$ 10.0	$ 8.0	$ 0.6	$ 0.3	$ 18.9
Stock-based compensation	—	(4.1)	—	—	—	(4.1)
Severance payments	—	(2.8)	(16.2)	(3.0)	(1.9)	(23.9)
Other payments	—	—	(1.3)	(0.5)	(0.3)	(2.1)
Balance as of September 26, 2015	$ —	$ 3.1	$ 2.5	$ 0.1	$ —	$ 5.7
Fiscal 2016 restructuring charges	$ 10.5	$ —	$ —	$ —	$ —	$ 10.5
Stock-based compensation	(0.4)	—	—	—	—	(0.4)
Severance payments	(4.6)	(2.9)	(1.4)	(0.1)	—	(9.0)
Other payments	—	—	(0.5)	—	—	(0.5)
Balance as of September 24, 2016	$ 5.5	$ 0.2	$ 0.6	$ —	$ —	$ 6.3

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 majority of 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. Additional charges of $0.2 million are expected in fiscal 2017 related to this Action.

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 or will be moved to both Marlborough and Danbury. The transition is expected to be substantially completed by the end of calendar year 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 $1.7 million in severance and benefits charges related to this action in fiscal 2016. This action is complete and no additional severance and benefits charges are expected.

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In connection with shutting down the Bedford location, the Company expects to record lease obligation charges ranging from approximately $8.0 million to $12.0 million in fiscal 2017 as it meets the cease-use date requirements for a portion of the facility. In order to estimate the lease obligation charges, the Company has made certain assumptions including the time period it will take to obtain a subtenant and certain sub-lease rates. These estimates may vary from the sub-lease agreements ultimately executed, if at all, resulting in an adjustment to the 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 benefits 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.

Fiscal 2015 Actions

During each quarter of fiscal 2015, the Company continued to make executive management changes resulting in the termination of certain executives and employees on a worldwide basis. In addition, the Company continued to consolidate and close certain international offices to improve operational efficiency and reduce costs. Severance and benefit charges under these actions were recorded pursuant to ASC 712 and ASC 420 depending on the employees terminated, and the Company recorded severance and benefit charges of $10.0 million in fiscal 2015. Included in the charge was $4.1 million of stock-based compensation. No additional charges will be recorded under these actions.

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

Fiscal 2014 Actions

During the first quarter of fiscal 2014, the Company implemented a cost reduction initiative comprised of reducing headcount and evaluating research projects and operating costs. In connection with this plan, the Company terminated certain employees on a worldwide basis. The Company recorded the severance and benefit charges pursuant to ASC 420 and ASC 712, depending on the employee terminated. The Company recorded $6.3 million of severance and benefit charges in the first quarter of fiscal 2014, which included $0.4 million of stock-based compensation.

On December 6, 2013, Stephen P. MacMillan was appointed as President, Chief Executive Officer and a director of the Company. The employment of John W. Cumming, the Company’s prior President and Chief Executive Officer, terminated upon Mr. MacMillan’s appointment. The Company provided separation benefits to Mr. Cumming pursuant to his employment letter dated July 18, 2013 resulting in a charge of $6.6 million in the first quarter of fiscal 2014, which included $4.4 million of stock-based compensation related to the acceleration of all of Mr. Cumming’s outstanding equity awards in accordance with the existing terms of Mr. Cumming’s share-based payment arrangements.

In the second, third, and fourth quarters of fiscal 2014, the Company continued to make executive management changes and implement additional cost reduction initiatives resulting in the termination of certain executives and employees on a worldwide basis. In addition, in the fourth quarter of fiscal 2014 the Company decided to consolidate and close certain international offices. Severance and benefit charges under these actions were recorded pursuant to ASC 420 and ASC 712 depending on the employees terminated, and the Company recorded severance and benefit charges of $16.6 million in fiscal 2014. Included in the charge was $1.8 million of stock-based compensation for the modification of the terms of equity awards to certain employees. For those employees who continued to be employed beyond the minimum retention period, charges were recorded ratably over the estimated service period of the affected employees.

During fiscal 2015, the Company recorded $6.0 million for severance and benefits costs and $2.0 million for facility closure costs related to this action. The facility closure costs primarily relate to lease obligation charges for three office locations that were vacated and the Company had met the cease-use date criteria. This action was completed in fiscal 2015.

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Consolidation of Diagnostics Operations

In connection with its acquisition of Gen-Probe in fiscal 2012, the Company implemented restructuring actions to consolidate its Diagnostics operations, including streamlining product development initiatives, reducing overlapping functional areas in sales, marketing and general and administrative functions, and consolidating manufacturing resources, field services and support. As a result, the Company terminated certain employees from Gen-Probe and its legacy diagnostics business in research and development, sales, marketing, and general and administrative functions. The Company recorded severance and benefit charges in fiscal 2012 of $13.3 million related to this action pursuant to ASC 420, Exit or Disposal Cost Obligations (ASC 420). The majority of these employees ceased working in the fourth quarter of fiscal 2012, and their full severance charge was recorded in the fourth quarter of fiscal 2012. In addition, certain of the terminated Gen-Probe employees had unvested stock options, which were accelerated at termination pursuant to the stock options' original terms. As such, the severance charges in fiscal 2012 include $3.5 million of stock-based compensation expense. In fiscal 2013, the Company recorded $10.8 million of severance charges, including $6.3 million for stock-based compensation. Included in these charges was $9.7 million recorded in the second quarter of fiscal 2013 related to the termination of certain Gen-Probe executives, including Carl Hull, Gen-Probe's former Chairman, President and Chief Executive Officer. The charge was for the acceleration of certain retention payments and equity awards pursuant to the original terms of the related agreements. No additional charges were recorded in fiscal 2014, 2015 or 2016 under this portion of the action.

In addition, under this plan, the Company completed moving its legacy molecular diagnostics operations from Madison, Wisconsin to Gen-Probe's facilities in San Diego, California. This transfer was completed at the end of fiscal 2014, and as a result, many of the employees in Madison were terminated. The Company recorded severance and benefit charges pursuant to ASC 420 beginning in fiscal 2012 through the third quarter of fiscal 2015 as charges were recorded over requisite service periods. The Company recorded $0.1 million, $3.0 million, $3.2 million and $0.9 million for severance and benefits in fiscal 2015, 2014, 2013 and 2012, respectively, and $0.5 million for facility closure costs in fiscal 2015. The Company also recorded non-cash charges of $0.6 million in the fourth quarter of fiscal 2012 as a result of exiting certain research projects. This action is complete and no additional charges were recorded in fisca1 2016.

Other Operating Cost Reductions:

Hitec-Imaging Organic Photoconductor Manufacturing Line Shut-down

In the fourth quarter of fiscal 2013, in connection with the Company's cost reduction initiatives, the Company decided to shut-down its Hitec-Imaging organic photoconductor manufacturing line located in Germany. This production line was included within the Breast Health segment. As a result, the Company terminated certain employees, primarily in manufacturing, in fiscal 2014. During the first quarter of fiscal 2014, the Company completed its negotiations with the local Works Council to determine severance benefits for the approximately 95 affected employees. The Company recorded severance and benefit charges pursuant to ASC 420 and began notifying the affected employees in the second quarter of fiscal 2014. The Company recorded charges of $0.3 million and $8.7 million in fiscal 2015 and 2014, respectively in connection with terminating these employees.

In the first quarter of fiscal 2014, the Company recorded an impairment charge of $3.1 million to record certain buildings at this location to their estimated fair value.

Divestitures

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

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4. Borrowings and Credit Agreements

The Company’s borrowings consisted of the following:

	September 24, 2016	September 26, 2015
Current debt obligations, net of debt discount and issuance costs:		
Term Loan	$ 83.8	$ 74.4
Revolver	—	175.0
Securitization Program	200.0	—
Convertible Notes	12.2	141.8
Total current debt obligations	296.0	391.2
Long-term debt obligations, net of debt discount and issuance costs:		
Term Loan	1,308.2	1,388.3
2022 Senior Notes	977.7	973.9
Convertible Notes	763.5	858.8
Total long-term debt obligations	3,049.4	3,221.0
Total debt obligations	$ 3,345.4	$ 3,612.2

In April 2015, the FASB issued ASU No. 2015-03, Presentation of Debt Issuance Costs. ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability consistent with the presentation of a debt discount and not recorded as separate assets. The Company adopted this standard in the fourth quarter of fiscal 2016, and the prior period was retrospectively adjusted. In fiscal 2015, the Company had $0.6 million related to current debt issuance costs recorded in prepaid expenses and other current assets and $27.0 million related to non-current debt issuance costs recorded in other assets. The adoption of this standard resulted in these amounts being reclassified as liabilities, reducing both the current portion of long-term debt and long-term debt, net of current portion at the end of fiscal 2015 by $27.6 million in total and a corresponding reduction to the aforementioned asset accounts. Debt issuance costs will no longer be recorded as an asset.

The debt maturity schedule for the Company’s obligations as of September 24, 2016 is as follows:

	2017	2018	2019	2020	2021	2022 and Thereafter	Total
Term Loan	$84.4	$121.9	$150.0	$1,050.0	$ —	$ —	$1,406.3
Securitization Program	200.0	—	—	—	—	—	200.0
2022 Senior Notes	—	—	—	—	—	1,000.0	1,000.0
Convertible Notes (1)	12.3	790.4	—	—	—	—	802.7
	$296.7	$912.3	$150.0	$1,050.0	$ —	$ 1,000.0	$3,409.0

(1) Classified based on the earliest date of redemption for each respective issuance. In addition, the balance in fiscal 2018 reflects accretion on the 2013 Notes through September 24, 2016.

Credit Agreement

On May 29, 2015, the Company and certain of its domestic subsidiaries entered into a Credit and Guaranty Agreement (the “Credit Agreement”) with Bank of America, N.A., in its capacity as Administrative Agent, Swing Line Lender and L/C Issuer, and certain other lenders party thereto (collectively, the "Lenders"). This Credit Agreement replaced the Company's existing senior secured credit facility with Goldman Sachs Bank USA, in its capacity as administrative agent and collateral agent and the lenders party thereto ("Prior Credit Agreement") entered into on August 1, 2012, and the proceeds under the Credit Agreement of $1.68 billion were used to pay off the amounts outstanding under the Prior Credit Agreement.

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The credit facilities ("Credit Facilities") under the Credit Agreement consist of:

- A $1.5 billion secured term loan to the Company with a final maturity date of May 29, 2020 (the “Term Loan”); and
- A secured revolving credit facility under which the Borrowers (as defined below) may borrow up to $1 billion, subject to certain sublimits, with a final maturity date of May 29, 2020 (the “Revolver”).

The Company and one of its subsidiaries, Hologic GGO 4 Ltd ("Hologic U.K."), are the initial borrowers (the “Borrowers”) under the Credit Agreement. The Company's obligations under the Credit Agreement are guaranteed by certain of its domestic subsidiaries (the "Subsidiary Guarantors"). Hologic U.K.’s obligations under the Credit Agreement are guaranteed by the Company and the Subsidiary Guarantors.

In addition to the Term Loan, the Company borrowed $175.0 million under the Revolver upon entering into the Credit Agreement that was subsequently repaid during fiscal 2016. Borrowings under the Revolver may be made in certain alternative currencies pursuant to the terms of the Credit Agreement. The Company has the ability, subject to the terms of the Credit Agreement, to designate any additional wholly-owned foreign subsidiary of the Company as a Designated Borrower (as defined in the Credit Agreement) to receive loans up to a $100 million sublimit. The obligations of any Designated Borrower under such sublimit would be guaranteed by the Company and the Subsidiary Guarantors. During fiscal 2016, the Company added Hologic UK Finance, Ltd as a Designated Borrower.

Borrowings under the Credit Facilities bear interest, at the Company's option and in each case plus an applicable margin, as follows:

- Term Loan: the Base Rate (as defined in the Credit Agreement) or the Eurocurrency Rate (i.e., the Libor rate); and
- Revolver: if funded in U.S. dollars, the Base Rate or the Eurocurrency Rate, and, if funded in an alternative currency, the Eurocurrency Rate; and if requested under the swing line sublimit, the Base Rate.

The applicable margin to the Base Rate and the Eurocurrency Rate is subject to specified changes depending on the total net leverage ratio as defined in the Credit Agreement. Current borrowings outstanding under the Credit Agreement bear interest at the Eurocurrency Rate plus the applicable margin, which is currently 1.50% per annum. The Company is also required to pay a quarterly commitment fee on the undrawn committed amount available under the Revolver.

The Company is 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. Any amounts outstanding under the Revolver are due at maturity. In addition, subject to the terms and conditions set forth in the Credit Agreement, the Company may be required to make certain mandatory prepayments from specified excess cash flows from operations (to the extent the Company’s 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 the Company, first, to the Term Loan, second, to any outstanding amount under the swing line sublimit, third, to the Revolver, and fourth to any outstanding amount under a letter of credit sublimit. Subject to certain limitations, the Company may voluntarily prepay any of the credit facilities under the Credit Agreement without premium or penalty.

Borrowings outstanding under the Credit Agreement in fiscal 2016 and a combination of the Credit Agreement and the Prior Credit Agreement in fiscal 2015 had weighted-average interest rates of 2.08% and 2.43%, respectively. The interest rate on the amounts outstanding at September 24, 2016 was 2.05%. Interest expense in fiscal 2016 and 2015 under the Credit Agreement and the Prior Credit Agreement aggregated $40.4 million and $54.7 million, respectively, which includes non-cash interest expense of $4.4 million and $9.0 million, respectively, related to the amortization of the deferred issuance costs and accretion of the debt discount.

The Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including covenants restricting the ability of the Borrowers and the Subsidiary Guarantors, subject to negotiated exceptions, to incur additional indebtedness and additional liens on their 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 their businesses. The Credit Agreement also contains customary representations and warranties and events of default, including payment defaults, breach of representations and warranties, covenant defaults, cross defaults and an event of default upon a change of control of the Company.

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Borrowings are secured by first-priority liens on, and a first-priority security interest in, substantially all of the assets of the Company, with certain exceptions. For example, borrowings under the Credit Agreement are not secured by those accounts receivable that are transferred to the special purpose entity under the Company's Accounts Receivable Securitization program. The Credit Agreement contains total net leverage ratio and interest coverage ratio financial covenants measured as of the last day of each fiscal quarter and an excess cash flow prepayment requirement measured as of the end of each fiscal year. The total net leverage ratio is 5.50:1.00 beginning on the Company's fiscal quarter ended September 26, 2015, and then decreases over time to 4.00:1.00 for the quarter ending March 28, 2020. The interest coverage ratio is 3.75:1.00 beginning on the Company's fiscal quarter ended September 26, 2015, and will remain as such for each quarter thereafter. The total net leverage ratio is defined as the ratio of the Company's consolidated net debt as of the quarter end to its consolidated adjusted EBITDA (as defined in the Credit Agreement) for the four-fiscal quarter period ending on the measurement date. The interest coverage ratio is defined as the ratio of the Company's consolidated adjusted EBITDA for the prior four-fiscal quarter period ending on the measurement date to adjusted consolidated cash interest expense (as defined in the Credit Agreement) for the same measurement period. These terms, and the calculation thereof, are defined in further detail in the Credit Agreement. The Company was in compliance with these covenants as of September 24, 2016, and no Mandatory Prepayments were required as of September 24, 2016.

The Company has evaluated the Credit Agreement for derivatives pursuant to ASC 815, Derivatives and Hedging, and identified embedded derivatives that require bifurcation as the features are not clearly and closely related to the host instrument. The embedded derivatives are a default provision, which could require additional interest payments, and a provision requiring contingent payments to compensate the lenders for changes in tax deductions. The Company has determined that the fair value of these embedded derivatives was nominal as of September 24, 2016 and September 26, 2015.

Pursuant to ASC 470, Debt (ASC 470), the accounting for the Credit Agreement was evaluated on a creditor-by-creditor basis with regard to the Prior Credit Agreement to determine whether each transaction should be accounted for as a modification or extinguishment. Certain creditors under the Prior Credit Agreement did not participate in this refinancing transaction and ceased being creditors of the Company. As a result, the Company recorded a debt extinguishment loss of $18.2 million in the third quarter of fiscal 2015 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to these creditors. For the remainder of the creditors, this transaction has been accounted for as a modification because on a creditor-by-creditor basis the present value of the cash flows between the two debt instruments before and after the transaction was less than 10%. Pursuant to ASC 470, subtopic 50-40, third-party costs of $4.6 million related to this transaction were recorded as interest expense and $3.8 million were recorded as deferred issuance costs to be amortized over the term of the agreement. In addition, fees paid directly to the Lenders of $4.9 million were recorded as a debt discount.

On May 6, 2016, the Company used the proceeds borrowed under the Securitization Program, discussed below, to repay $175.0 million owed under its Revolver. No amounts are outstanding under the Revolver as of September 24, 2016.

Prior Credit Agreement

On August 1, 2012, the Company and certain domestic subsidiaries (the "Guarantors") entered into the Prior Credit Agreement with Goldman Sachs Bank USA, in its capacity as administrative and collateral agent, and the lenders party thereto (collectively, the "Prior Lenders").

The credit facilities under the Prior Credit Agreement initially consisted of:

- $1.0 billion senior secured tranche A term loan ("Term Loan A") with a final maturity date of August 1, 2017;
- $1.5 billion secured tranche B term loan ("Term Loan B") with a final maturity date of August 1, 2019; and
- $300.0 million secured revolving credit facility ("Revolving Facility") with a final maturity date of August 1, 2017.

Pursuant to the terms and conditions of the Prior Credit Agreement, the Prior Lenders committed to provide senior secured financing in an aggregate amount of up to $2.8 billion. As of the closing of the Gen-Probe Incorporated acquisition on August 1, 2012, the Company borrowed $2.5 billion aggregate principal under the term loans of the Prior Credit Agreement. Net proceeds to the Company were $2.41 billion, after issuing the term loans at a discount and deducting associated fees and expenses, all of which were being amortized to interest expense over the respective

maturity dates of the debt. The proceeds were used to fund a portion of the purchase price for the Gen-Probe acquisition.
On October 31, 2013, the Company voluntarily prepaid $100.0 million of the Term Loan B facility. Pursuant to ASC 470, the Company recorded a debt extinguishment loss of $2.9 million in the first quarter of fiscal 2014 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to this voluntary prepayment.
On February 26, 2014, the Company, the Guarantors, Goldman Sachs, and the Prior Lenders entered into Refinancing Amendment No. 3 to the Prior Credit Agreement and reduced the applicable interest rates. In connection with this refinancing, the Company voluntarily prepaid $25.0 million of the new senior secured tranche B term loan facility. Pursuant to ASC 470, the accounting for this refinancing was evaluated on a creditor-by-creditor basis to determine whether each transaction should

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be accounted for as a modification or extinguishment. Certain creditors under the Prior Credit Agreement did not participate in this refinancing transaction and ceased being creditors of the Company. As a result, the Company recorded a debt extinguishment loss of $4.4 million in the second quarter of fiscal 2014 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to these creditors. For the remainder of the creditors, this transaction was accounted for as a modification because on a creditor-by-creditor basis the present value of the cash flows between the two debt instruments before and after the transaction was less than 10%. Pursuant to ASC 470, subtopic 50-40, third-party costs of $1.0 million related to this transaction were recorded to interest expense.

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

Borrowings outstanding under the Prior Credit Agreement in fiscal 2014 had weighted-average interest rate of 2.89%. Interest expense under the Prior Credit Agreement totaled $75.3 million for fiscal 2014, which included non-cash interest expense of $12.7 million, related to the amortization of the deferred financing costs and accretion of the debt discount.

Senior Notes

2022 Senior Notes

On July 2, 2015, the Company completed a private placement of $1.0 billion aggregate principal amount of its 5.250% Senior Notes due 2022 (the “2022 Senior Notes”) at an offering price of 100% of the aggregate principal amount of the 2022 Senior Notes. 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 used the net proceeds of the 2022 Senior Notes, plus available cash to discharge the outstanding 6.25% Senior Notes due 2020 (the "Senior Notes") and redeemed such Senior Notes, in the aggregate principal amount of $1.0 billion on August 1, 2015 at an aggregate redemption price of $1.03 billion, reflecting a premium payment of $31.25 million. In addition, the Company made a final interest payment in the amount of $31.25 million for interest accrued to August 1, 2015, to holders of record of the Senior Notes as of July 15, 2015. As a result of this transaction, the Company recorded a debt extinguishment loss in the fourth quarter of fiscal 2015 of $22.3 million, which included the pro-rata premium payment and pro-rata debt issuance costs. The Company evaluated the accounting under ASC 470 at the creditor-by-creditor level to determine modification versus extinguishment accounting.

The Company recorded interest expense related to the 2022 Senior Notes and Senior Notes of $56.0 million, $67.2 million and $64.0 million in fiscal 2016, 2015 and 2014, respectively, which includes non-cash interest expense of $3.8 million, $2.1 million and $1.7 million in fiscal 2016, 2015 and 2014, respectively, related to the amortization of the deferred financing costs.

The 2022 Senior Notes were not registered, and will be not registered, under the Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, and were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. The 2022 Senior Notes are general senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis by certain domestic subsidiaries of Hologic (the “Domestic Guarantors”).

The 2022 Senior Notes were issued pursuant to an indenture (the "Indenture"), dated as of July 2, 2015, among the Company, the Domestic Guarantors and Wells Fargo Bank, National Association, as trustee. The Indenture contains covenants which limit, among other things, the ability of the Company and the Domestic Guarantors to incur additional indebtedness and additional liens on their assets, engage in mergers or acquisitions or dispose of assets, pay dividends or make other distributions, enter into certain transactions with affiliated persons and to make certain investments. These covenants are subject to a number of exceptions and qualifications, including the suspension of certain of these covenants upon the 2022 Senior Notes receiving an investment grade credit rating. The Indenture does not require the Company to maintain any financial covenants.

The Company 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 Indenture. The Company may also redeem up to 35% of the aggregate principal amount of the 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. The Company also has 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. In addition, if the Company undergoes a change of control, as provided in the Indenture, the Company 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.

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The Company has evaluated the 2022 Senior Notes for derivatives pursuant to ASC 815 and did not identify any embedded derivatives that require bifurcation. All features were deemed to be clearly and closely related to the host instrument.

Convertible Notes

On December 10, 2007, the Company issued and sold $1.725 billion, at par, of 2.00% Convertible Senior Notes due December 15, 2037 (“2007 Notes”). On November 18, 2010, the Company entered into separate, privately-negotiated exchange agreements under which it retired $450.0 million in aggregate principal of its 2007 Notes for $450.0 million in aggregate principal of new 2.00% Convertible Exchange Senior Notes due December 15, 2037 (“2010 Notes”). On February 29, 2012, the Company entered into separate, privately-negotiated exchange agreements under which it retired $500.0 million in aggregate principal of the 2007 Notes for $500.0 million in aggregate principal of new 2.00% Convertible Senior Notes due March 1, 2042 (“2012 Notes”). On February 14, 2013, the Company entered into separate, privately-negotiated exchange agreements under which it retired $370.0 million in aggregate principal of the 2007 Notes for $370.0 million in aggregate principal of new 2.00% Convertible Senior Notes due December 15, 2043 (“2013 Notes”).

On November 14, 2013, the Company announced that it had issued a notice of redemption to the holders of its 2007 Notes to redeem any 2007 Notes outstanding on December 18, 2013 at a redemption price payable in cash equal to 100.00% of the principal amount of the 2007 Notes plus accrued and unpaid interest to, but not including, December 18, 2013. Holders of the 2007 Notes also had the option of putting the 2007 Notes to the Company as of December 13, 2013. The 2007 Notes were redeemed at their par value aggregating $405.0 million. Under ASC 470, the derecognition of the 2007 Notes did not result in a gain or loss as the fair value of the liability component of the 2007 Notes was determined to be equal to the consideration paid to redeem the 2007 Notes, and as a result, no value was allocated to the reacquisition of the conversion option.

The 2010 Notes, the 2012 Notes and the 2013 Notes are collectively referred to herein as the “Convertible Notes.”

Holders may require the Company to repurchase the Convertible Notes prior to maturity on the dates set forth below:

- the 2010 Notes on each of December 15, 2016, 2020 and 2025, December 13, 2030 and December 14, 2035;
- the 2012 Notes on each of March 1, 2018, 2022, 2027 and 2032 and March 2, 2037; and
- the 2013 Notes on each of December 15, 2017, 2022, 2027, 2032 and 2037.

Holders may also require the Company to repurchase the Convertible Notes upon a fundamental change, as defined in each of the applicable indentures. The Company may redeem all or a portion of the 2010 Notes at any time on or after December 19, 2016, all or a portion of the 2012 Notes at any time on or after March 6, 2018 and all or a portion of the 2013 Notes at any time on or after December 15, 2017. If, prior to maturity, a holder requires the Company to repurchase the Convertible Notes or the Company elects to redeem the Convertible Notes, the repurchase or redemption price of each Convertible Note will equal 100% of its principal amount, plus accrued and unpaid interest to, but excluding, the redemption or repurchase date, as applicable. On November 9, 2016, the Company announced that it would repurchase, on December 15, 2016, all of the outstanding 2010 Notes at a repurchase price payable in cash equal to 100% of the original principal amount of the 2010 Notes validly surrendered for repurchase and not withdrawn plus accrued and unpaid interest, if any, to, but not including, December 15, 2016, at the option of the holders of the 2010 Notes. The Company also announced on November 9, 2016, that it had elected to redeem, on December 19, 2016, all of the then outstanding 2010 Notes (those 2010 Notes not put to the Company on December 15, 2016 or validly submitted for conversion prior to December 16, 2016) at a redemption price payable in cash equal to 100% of the accreted principal amount of the 2010 Notes to be redeemed plus accrued and unpaid interest (including contingent interest, if any) to, but not including December 19, 2016.

It is the Company's current intent and policy to settle any conversion of the Convertible Notes as if the Company had elected to make either a net share settlement or all cash election, such that upon conversion, the Company intends to pay the holders in cash for the principal amount of the Convertible Notes and, if applicable shares of its common stock or cash to satisfy the premium based on a calculated daily conversion value. On November 9, 2016, the Company announced that it had made an irrevocable net share settlement election to settle any conversions of the 2010 Notes validly submitted on or after November 9, 2016 in cash.

The 2010, 2012, and 2013 Notes all bear interest at a rate of 2.00% per year on the principal amount, payable semi-annually in arrears in cash on June 15 and December 15, March 1 and September 1, and June 15 and December 15, respectively, of each year ending on December 15, 2016, March 1, 2018, and December 15, 2013, respectively. The 2013 Notes no longer bear interest payable at 2.00%. The 2010 Notes will accrete principal from December 15, 2016 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. The 2012 Notes will accrete principal from March 1, 2018 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. The 2013 Notes accrete principal from their date of issuance at a rate of 4.00% per year until and including December 15, 2017, and 2.00% per year thereafter. Beginning with the six month interest period commencing December 15, 2016, March 1, 2018 and December 15, 2017, the Company will pay contingent interest during any six month interest period to the holders of 2010, 2012 and 2013 Notes, respectively, if the "trading price", as defined, of the 2010, 2012 and 2013 Notes for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six month interest period equals or exceeds 120% of the accreted principal amount of the 2010, 2012 and 2013 Notes. The holders of each of the 2010, 2012 or 2013 Notes may convert their respective Notes into shares of the Company's common stock at a conversion price of approximately $23.03 per share, $31.175 per share and $38.59 per share, respectively, subject to adjustment, prior to the close of business on September 15, 2037, December 1, 2014 and September 15, 2043, respectively, subject to prior redemption or repurchase of the 2010, 2012, and 2013 Notes, respectively, under any of the following circumstances: (1) during any calendar quarter if the last reported sale price of the Company's common stock exceeds 130% of the 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; (2) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of such period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (3) if the notes have been called for redemption; or (4) upon the occurrence of specified corporate events. At the option of the holder, regardless of the foregoing circumstances, holders may convert their respective 2010, 2012 and 2013 Notes at any time on or after September 15, 2037, December 1, 2041 and September 15, 2043, respectively, through the close of business on the second scheduled trading day immediately preceding the maturity date. The conversion rate will not be adjusted for accrued interest or accreted principal in excess of the original $1,000 principal amount, as accrued interest and accreted principal will not be convertible into common stock. For both the 2012 and 2013 Notes none of these triggering events have occurred as of September 24, 2016.

During the fourth quarter of fiscal 2016, the closing price of the Company's common stock exceeded 130% of the applicable conversion price of its 2010 Notes on at least 20 of the last 30 consecutive trading days of the quarter and, on November 9, 2016, the Company announced that it had elected to redeem all of the then outstanding 2010 Notes on December 19, 2016. Therefore holders of the 2010 Notes are able to convert their notes during the first quarter of fiscal 2017. As such, the Company classified the $12.2 million carrying value of its 2010 Notes (which had a principal value of $12.3 million at September 24, 2016) as a current debt obligation. As of September 24, 2016, the if-converted value of the 2010 Notes exceeded the aggregate principal amount by approximately $7.9 million.

On various dates during the fourth quarter of fiscal 2016, the Company entered into privately negotiated repurchase transactions and extinguished $46.3 million principal amount of the 2010 Notes for total payments of $79.2 million. These amounts include the conversion premium resulting from the Company's stock price on the date of the transactions being in excess of the conversion price of $23.03 for the 2010 Notes. Under ASC 470, this transaction was accounted for as an extinguishment and derecognition of the 2010 Notes and resulted in a debt loss extinguishment of $0.8 million. In addition, $1.3 million principal was put to the Company during the quarter.

On various dates during the second quarter of fiscal 2016, the Company entered into privately negotiated repurchase transactions and extinguished $90.0 million and $136.6 million principal amount of the 2010 Notes and 2012 Notes, respectively, for total payments of $140.1 million and $171.3 million, respectively. These amounts include the conversion premium resulting from the Company's stock price on the date of the transactions being in excess of the conversion price of $23.03 and $31.175 for the 2010 Notes and 2012 Notes, respectively. Under ASC 470, these transactions were accounted for as an extinguishment and derecognition of the 2010 and 2012 Notes and resulted in an aggregate debt loss extinguishment of $4.5 million.

On various dates during the fourth quarter of fiscal 2015, the Company entered into privately negotiated repurchase transactions and extinguished $300.0 million principal of the 2010 Notes for a total payment of $543.7 million, which includes the conversion premium resulting from the Company's stock price on the date of the transaction being in excess of the conversion price of $23.03. Under ASC 470, this transaction was accounted for as an extinguishment and derecognition of the 2010 Notes and resulted in a debt loss extinguishment of $15.5 million.

In lieu of delivery of shares of the Company's common stock in satisfaction of the Company's obligation upon conversion of the Convertible Notes, the Company may elect to deliver cash or a combination of cash and shares of its common stock. If the Company elects to satisfy its conversion obligation in a combination of cash and shares of the Company's common stock, the Company is required to deliver up to a specified dollar amount of cash per $1,000 original principal amount of Convertible Notes, and will settle the remainder of its conversion obligation in shares of its common stock, in each case based on the daily conversion value calculated as provided in the respective indentures for the Convertible Notes. This net share settlement election is in the Company's sole discretion and does not require the consent of holders of the Convertible Notes. It is the Company's current intent and policy to settle any conversion of the Convertible Notes as if the Company had elected to make the net share settlement election.

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The Convertible Notes are the Company's senior unsecured obligations and rank equally with all of its existing and future senior unsecured debt and prior to all future subordinated debt. The Convertible Notes are effectively subordinated to any future secured indebtedness to the extent of the collateral securing such indebtedness, and structurally subordinated to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

Accounting for the Convertible Notes

The Convertible Notes have been recorded pursuant to FASB Staff Position ("FSP") APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1) (codified within ASC 470) since they can be settled in cash or partially in cash upon conversion. FSP APB 14-1 requires the liability and equity components of the convertible debt instrument to be separately accounted for in a manner that reflects the entity's nonconvertible debt borrowing rate when interest expense is subsequently recognized. The excess of the debt's principal amount over the amount allocated to the liability component is recognized as the value of the embedded conversion feature ("equity component") within additional-paid-in capital in stockholders' equity and amortized to interest expense over the expected life of the liability component (typically the date of the earliest redemption) using the effective interest method. The liability component is initially recorded at its fair value, which is calculated using a discounted cash flow technique. Key inputs used to estimate the fair value of the liability component included the Company's estimated nonconvertible debt borrowing rate as of the measurement date (i.e., the date the Convertible Notes are issued), the amount and timing of cash flows, and the expected life of the Convertible Notes. The effective interest rate is estimated by comparing other companies' debt issuances that had features similar to the Company's debt excluding the conversion feature and who had similar credit ratings during the same annual period as the Company. In addition, third-party transaction costs are required to be allocated to the liability and equity components based on their relative values. The original issuance of the 2007 Notes and both exchange transactions for the 2010 Notes and 2012 Notes, which each included a derecognition and re-recognition, were accounted for under this accounting guidance.

The 2013 Notes exchange transaction was accounted for as a modification pursuant to ASC 470-50 and not an extinguishment because the terms of the two debt instruments were not substantially different. This determination was based on the fact that the present value of the cash flows on a creditor by creditor basis between the two debt instruments was less than 10% and the change in the fair value of the conversion option before and after the exchange transaction was less than 10%. As a result, there is no gain or loss from this exchange. As required, the Company recorded the increase in the fair value of the conversion option of $32.5 million from this exchange to additional paid-in-capital, net of deferred taxes. The Company determined the fair value of the conversion option for each debt instrument on the date of modification by calculating the fair value of each debt instrument using the binomial model and subtracting the fair value of the respective debt instrument's liability component. The fair value of the liability component for each debt instrument was determined by using a discounted cash flow technique with an effective interest rate of 3.25% and 5.42% for the 2007 Notes and 2013 Notes, respectively. These rates represent the estimated nonconvertible borrowing rate with a maturity as of the measurement date consistent with the first put dates of each debt instrument. The difference between the debt's fair value and the fair value of its liability component represents the value allocated to the debt's conversion option. In addition, direct costs incurred for this exchange of $4.1 million were expensed as incurred within interest expense.

The Company accounted for the 2010 Notes and 2012 Notes extinguishments in fiscal 2016, discussed above, under the derecognition provisions of subtopic ASC 470-20-40, which requires the allocation of the fair value of the consideration transferred and transaction costs incurred to the extinguishment of the liability component and the reacquisition of the equity component. In connection with these transactions, the Company recorded a debt extinguishment loss on the 2010 Notes of $4.6 million and a debt extinguishment loss on the 2012 Notes of $0.7 million, for a total debt extinguishment loss of $5.3 million in fiscal 2016. The 2010 Notes debt extinguishment loss was comprised of the loss on the debt itself of $4.0 million, the write-off of the pro-rata amount of debt issuance costs of $0.4 million allocated to the notes retired, and allocated third party costs of $0.2 million. The 2012 Notes debt extinguishment loss was comprised of the write-off of the pro-rata amount of debt issuance costs of $0.5 million allocated to the notes retired, and allocated third party costs of $0.2 million. The loss on the debt itself was calculated as the difference between the fair value of the liability component immediately before the respective transactions and their related carrying values. The fair value of the liability component was calculated using a discounted cash flow technique, and the Company used effective interest rates of 2.71% for the 2010 Notes and 3.87% and 3.41% for the 2012 Notes, which had two valuation dates, representing the estimated rate for non-convertible debt (with similar features as the 2010 and 2012 Notes excluding the conversion feature) issued by a company with a credit rating similar to the Company. In addition, under this accounting standard, a portion of the fair value of the consideration transferred is allocated to the reacquisition of the equity component, which is the difference between the fair value of the consideration transferred and the fair value of the liability component immediately before the extinguishment. As a result, on a gross basis, $83.7 million related to the 2010 Notes and $38.9 million related to the 2012 Notes were allocated to the reacquisition of the equity component of the original instrument, which was recorded net of deferred taxes of $15.7 million and $12.5 million, respectively, within additional paid-in-capital.

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The Company also accounted for the 2010 Notes extinguishment in fiscal 2015, discussed above, under the derecognition provisions of subtopic ASC 470-20-40. In connection with this transaction, the Company recorded a debt extinguishment loss of $15.5 million in the fourth quarter fiscal 2015. This debt extinguishment loss was comprised of the loss on the debt itself of $14.4 million, the write-off of the pro-rata amount of debt issuance costs of $0.7 million allocated to the notes retired, and allocated third party costs of $0.4 million. The fair value of the liability component was calculated using a discounted cash flow technique as described above, and the Company used an effective interest rate of 2.71% representing the estimated rate for non-convertible debt (with similar features as the 2010 Notes excluding the conversion feature) issued by a company with a credit rating similar to the Company. In addition, on a gross basis, $246.1 million was allocated to the reacquisition of the equity component of the original instrument, which was recorded net of deferred taxes of $29.2 million within additional paid-in-capital.

As of September 24, 2016 and September 26, 2015, the Convertible Notes and related equity components (recorded in additional paid-in-capital, net of deferred taxes) consisted of the following:

	2016	2015
2010 Notes principal amount	$12.3	$150.0
Unamortized discount and issuance costs (1)	(0.1)	(8.2)
Net carrying amount	$12.2	$141.8
Equity component, net of taxes	$1.6	$20.0
2012 Notes principal amount	$363.4	$500.0
Unamortized discount and issuance costs (1)	(9.5)	(21.8)
Net carrying amount	$353.9	$478.2
Equity component, net of taxes	$35.8	$49.2
2013 Notes principal amount	$370.0	$370.0
Principal accretion	57.1	40.5
Unamortized discount and issuance costs (1)	(17.5)	(29.9)
Net carrying amount	$409.6	$380.6
Equity component, net of taxes	$131.5	$131.5

(1) In connection with the adoption of ASU 2015-03, debt issuance costs are presented as direct deduction from the debt liability consistent with the presentation of a debt discount.

Interest expense under the Convertible Notes is as follows:

	Years Ended		
	September 24, 2016	September 26, 2015	September 27, 2014
Amortization of debt discount	$22.3	$ 34.9	$ 37.1
Amortization of deferred financing costs	1.1	1.7	1.9
Principal accretion	16.6	15.9	15.3
Non-cash interest expense	40.0	52.5	54.3
2.00% accrued interest (cash)	10.0	18.2	22.3
	$50.0	$ 70.7	$ 76.6

If the Company fails to comply with the reporting obligations contained in the agreements for the Convertible Notes, the sole remedy of the holders of the Convertible Notes for the first 90 days following such event of default consists exclusively of the right to receive an extension fee in an amount equal to 0.25% of the accreted principal amount of the Convertible Notes. Based on its evaluation of the Convertible Notes in accordance with ASC 815, the Company determined that the Convertible Notes contain a single embedded derivative, comprising both the contingent interest feature and the filing failure penalty payment, requiring bifurcation as the features are not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal as of September 24, 2016 and September 26, 2015.

As of September 24, 2016, upon conversion, including the potential premium that could be payable on a fundamental change (as defined), the Company would issue a maximum of approximately 29.6 million shares of common stock to the holders of the Convertible Notes.

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Accounts Receivable Securitization Program

On April 25, 2016, the Company entered into a one-year $200.0 million accounts receivable securitization program (the "Securitization Program") with several of its wholly owned subsidiaries and certain financial institutions. Under the terms of the Securitization Program, the Company and certain of its wholly-owned subsidiaries sell their respective customer receivables to a bankruptcy remote special purpose entity, which is also a wholly-owned subsidiary of the Company. In addition, the Company also contributed a portion of its customer receivables to the special purpose entity in connection with its establishment. The Company retains servicing responsibility. The special purpose entity, as borrower, and the Company, as servicer, have entered into a Credit and Security Agreement with several lenders pursuant to which the special purpose entity may borrow up to $200.0 million from the lenders, with the loans secured by the receivables. The amount that the special purpose entity may borrow at a given point in time is determined based on the amount of qualifying receivables that are present in the special purpose entity at such point in time. The entire amount available was borrowed in the third quarter of fiscal 2016. Borrowings outstanding under the Securitization Program bear interest at LIBOR plus the applicable margin of 0.7% and are included as a component of current liabilities in the Company's consolidated balance sheet, while the accounts receivable securing these obligations remain as a component of net receivables in the Company's consolidated balance sheet. The Company and the special purpose entity are operated and maintained as separate legal entities. The assets of the special purpose entity secure the amounts borrowed and cannot be used to pay other debts or liabilities of the Company. The special purpose entity is not a guarantor under the Company's Credit Agreement and is not a guarantor of the Company's 2022 Senior Notes.

Borrowings under the Securitization Program for fiscal 2016 had a weighted-average interest rate of 1.17%. Interest expense under the Securitization Program aggregated $1.0 million for fiscal 2016. The interest rate on the amounts outstanding at September 24, 2016 was 1.22%.

The Credit and Security Agreement contains customary representations and warranties and events of default, including payment defaults, breach of representations and warranties, covenant defaults, and an event of default upon a change of control of the Company. In addition, it contains financial covenants consistent with that of the Credit Agreement. As of September 24, 2016, the Company was in compliance with the Credit and Security Agreement covenants.

5. Fair Value Measurements

The Company applies the provisions of ASC 820 for its financial assets and liabilities that are re-measured and reported at fair value each reporting period and its nonfinancial assets and liabilities that are re-measured and reported at fair value on a non-recurring basis. Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. Financial assets and liabilities are categorized within the valuation hierarchy based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

- Level 1—Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.
- Level 2—Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.
- Level 3—Inputs to the valuation methodology are unobservable inputs based on management’s best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

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 2 for further discussion and information on the equity investments, 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

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classified within Level 1.

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

	Fair Value Measurements at September 24, 2016			
	Carrying Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities	$ 1.0	$ 1.0	$ —	$ —
Interest rate caps - derivative	1.4	—	1.4	—
Forward foreign currency contracts	0.2	—	0.2	—
Total	$ 2.6	$ 1.0	$ 1.6	$ —
Liabilities:				
Deferred compensation liabilities	$ 37.0	$ 37.0	$ —	$ —
Forward foreign currency contracts	1.3	—	1.3	—
Total	$ 38.3	$ 37.0	$ 1.3	$ —

	Fair Value Measurements at September 26, 2015			
	Carrying Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities:				
Equity securities	$ 15.2	$ 15.2	$ —	$ —
Mutual funds	5.6	5.6	—	—
Interest rate cap- derivative	6.9	—	6.9	—
Total	$ 27.7	$ 20.8	$ 6.9	$ —
Liabilities:				
Deferred compensation liabilities	$ 29.4	$ 29.4	$ —	$ —
Total	$ 29.4	$ 29.4	$ —	$ —

There were no Level 3 assets or liabilities outstanding during fiscal 2016 and 2015. Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3), which solely consisted of contingent consideration liabilities, during the year ended September 27, 2014 were as follows:

	2014
Balance at beginning of period	$3.8
Payments / Accruals	(3.8)
Balance at end of period	$—

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.

In the fourth quarter of fiscal 2014, the Company recorded a $5.1 million impairment charge within its Diagnostics segment to record its remaining IPR&D assets at fair value. This adjustment falls within Level 3 of the fair value hierarchy.

In the second quarter of fiscal 2014, the Company recorded an impairment charge of $28.6 million within its Breast Health segment, which was comprised of $27.1 million for intangible assets and $1.5 million for property and equipment. This adjustment falls within Level 3 of the fair value hierarchy.

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In the first quarter of fiscal 2014, the Company recorded a $3.1 million impairment charge to record certain of its buildings at fair value related to the shutdown of its Hitec Imaging organic photoconductor manufacturing line. This adjustment falls within Level 3 of the fair value hierarchy.

The Company holds certain cost-method equity investments in non-publicly traded securities aggregating $3.5 million and $4.2 million at September 24, 2016 and September 26, 2015, respectively, which are included in other long-term assets on the Company's Consolidated Balance Sheets. These investments are generally carried at cost, less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, the Company uses all available financial information related to the entities, including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment's fair value is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and to do so would be impractical. During fiscal 2014, the Company recorded other-than-temporary impairment charges of $6.9 million related to its cost-method equity investments to adjust their carrying amounts to fair value.

The following chart depicts certain assets presented at fair value using level 3 inputs under the fair value hierarchy measured on a nonrecurring basis for which the Company has recorded impairment charges:

		Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
Fiscal 2014:					
Intangible assets	$ 36.2	——		$ 36.2	$(32.2)
Property and equipment	1.0	——		1.0	(1.5)
Buildings	1.4	——		1.4	(3.1)
Cost-method equity investments	0.8	——		0.8	(6.9)
					$(43.7)

The above fair value amounts represent only those individual assets remeasured and not the consolidated balances. Refer to Note 4 for disclosure of the nonrecurring fair value measurement related to the debt extinguishment losses recorded in fiscal 2016, 2015 and 2014.

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 and 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.

Amounts outstanding under the Company's Credit Agreement and Securitization Program of $1.41 billion and $200.0 million aggregate principal, respectively, as of September 24, 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 $1.06 billion and $1.03 billion as of September 24, 2016 and September 26, 2015, respectively, 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.

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The estimated fair values of the Company's Convertible Notes at September 24, 2016 and September 26, 2015 are as follows:

	2016	2015
2010 Notes	20.2	264.1
2012 Notes	481.9	688.2
2013 Notes	458.8	471.8
	$960.9	$1,424.1

6. Income Taxes

The Company's income before income taxes consisted of the following:

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Domestic	$310.7	$ 158.3	$ 95.1
Foreign	104.6	18.9	(47.0)
	$415.3	$ 177.2	$ 48.1

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The provision for income taxes contained the following components:

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Federal:			
Current	$209.0	$ 185.2	$ 242.2
Deferred	(122.7)	(137.0)	(212.5)
	86.3	48.2	29.7
State:			
Current	16.6	3.5	22.1
Deferred	(22.7)	(11.0)	(24.7)
	(6.1)	(7.5)	(2.6)
Foreign:			
Current	14.7	5.7	9.6
Deferred	(10.4)	(0.8)	(5.9)
	4.3	4.9	3.7
	$84.5	$ 45.6	$ 30.8

The income tax provision differed from the tax provision computed at the U.S. federal statutory rate due to the following:

	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Income tax provision at federal statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) in tax resulting from:			
Domestic production activities deduction	(5.0)	(10.1)	(30.6)
State income taxes, net of federal benefit	2.0	1.2	4.3
Tax credits	(3.2)	(3.8)	(5.2)
Unrecognized tax benefits	2.4	(1.8)	2.5
Cumulative translation adjustment write-off	—	1.9	—
Non-deductible compensation	0.1	1.9	5.5
Foreign rate differential	(6.1)	(1.6)	10.7
Change in state deferred tax rate	(1.8)	—	—
Change in valuation allowance	(3.4)	1.0	35.4
Other	0.3	2.1	6.3
	20.3 %	25.8 %	63.9 %

The Company's effective tax rate in fiscal 2016 was lower than the statutory rate primarily due to earnings in jurisdictions subject to lower tax rates, the domestic production activities deduction benefit, and a change in the valuation allowance related to the sale of a marketable security with a higher tax than book basis.

The Company's effective tax rate in fiscal 2015 was lower than the statutory rate primarily due to the domestic production activities deduction benefit.

The Company’s effective tax rate in fiscal 2014 was higher than the statutory rate primarily due to unbenefited foreign losses partially offset by the domestic production activities deduction benefit.

The Company uses the asset and liability method to account for income taxes in accordance with ASC 740, Income Taxes. Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting bases of assets and liabilities at each reporting period. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the period in which these differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the

amounts expected to be realized.
In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in the balance sheet. Rather, it requires deferred tax assets and

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liabilities to be classified as noncurrent in the balance sheet. The Company adopted this standard prospectively in the first quarter of fiscal 2016, and prior periods were not retrospectively adjusted.

The Company's significant deferred tax assets and liabilities were as follows:

	September 24, 2016	September 26, 2015
Deferred tax assets		
Net operating loss carryforwards	$40.0	$45.4
Capital losses	19.1	25.7
Non-deductible accruals	21.1	16.3
Non-deductible reserves	31.1	26.8
Stock-based compensation	34.8	24.3
Research and other credits	10.7	14.5
Nonqualified deferred compensation plan	14.1	11.3
Other temporary differences	9.2	10.2
	180.1	174.5
Less: valuation allowance	(46.2)	(60.9)
	$133.9	$113.6
Deferred tax liabilities		
Depreciation and amortization	$(1,030.8)	$(1,171.5)
Debt discounts and deferrals	(75.1)	(100.1)
Debt issuance costs	(1.3)	(1.4)
	$(1,107.2)	$(1,273.0)
	$(973.3)	$(1,159.4)

Under ASC 740, the Company can only recognize a deferred tax asset for the future benefit to the extent that it is "more likely than not" that these assets will be realized. After considering all available positive and negative evidence, the Company established a valuation allowance against specifically identified deferred tax assets because it is more-likely-than-not that these assets will not be realized. In making this determination, the Company considered numerous factors including historical profitability, estimated future taxable income and the character of such income. The valuation allowance decreased $14.7 million in fiscal 2016 from fiscal 2015 primarily due to a change in the valuation allowance related to the sale of a marketable security with a higher tax than book basis, foreign exchange rate fluctuations, and a change in judgment regarding the realizability of foreign net operating losses.

At September 24, 2016, the Company had $13.9 million, $63.9 million and $45.0 million in gross federal, state, and foreign net operating losses, respectively, and $0.3 million, $13.7 million and $1.6 million in federal, state, and foreign credit carryforwards, respectively. These losses and credits expire between 2017 and 2036, except for $44.6 million in losses and $8.9 million in credits that have unlimited carryforward periods. The federal, state, and foreign net operating losses exclude $4.5 million, $151.3 million and $46.5 million, respectively, in net operating losses, that the Company expects will expire unutilized.

At September 24, 2016, the Company had $163.6 million in gross unrecognized tax benefits excluding interest, of which $80.1 million, if recognized, would reduce the Company's effective tax rate. At September 26, 2015, the Company had $154.7 million in gross unrecognized tax benefits excluding interest, of which $74.9 million, if recognized, would have reduced the Company's effective tax rate. In the next twelve months it is reasonably possible that the Company will reduce its gross unrecognized tax benefits by up to $1.0 million due to expiring statutes of limitations.

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The Company's unrecognized income tax benefits activity for fiscal 2016 and 2015 was as follows:

	2016	2015
Balance at beginning of fiscal year	$154.7	$137.0
Tax positions related to current year:		
Additions	23.9	11.0
Reductions	—	—
Tax positions related to prior years:		
Additions related to change in estimate	1.1	21.1
Reductions	(6.9)	(10.3)
Payments	(6.0)	(0.8)
Lapses in statutes of limitations and settlements	(3.2)	(3.7)
Acquired tax positions:		
Additions related to reserves acquired from acquisitions	—	0.4
Balance as of the end of the fiscal year	$163.6	$154.7

The Company's policy is to include accrued interest and penalties related to unrecognized tax benefits and income tax liabilities, when applicable, in income tax expense. As of September 24, 2016 and September 26, 2015, gross accrued interest was $13.1 million and $9.9 million, respectively. At September 24, 2016, no significant penalties have been accrued.

The Company and its subsidiaries are subject to various federal, state, and foreign income taxes. The Company's U.S. Federal income tax returns are no longer subject to examination prior to fiscal 2011. State income tax returns are generally no longer subject to examination prior to fiscal year 2012. The Internal Revenue Service concluded its fiscal 2011 federal income tax return examination and commenced its fiscal 2013 and 2014 federal income tax examination in fiscal 2016. The Company is also undergoing tax examinations in Germany for fiscal 2011 through 2014. Massachusetts began a state tax examination for fiscal 2012 through 2013 in fiscal 2016.

The Company intends to reinvest, indefinitely, approximately $187.6 million in unremitted foreign earnings. It is not practicable to estimate the additional taxes that may be payable upon repatriation.

7. Stockholders' Equity and Stock-Based Compensation

Stock Repurchase Program

On November 11, 2013, the Company announced that its Board of Directors authorized the repurchase of up to $250 million of the Company's outstanding common stock over a three-year period. Under the stock repurchase program, the Company is authorized to repurchase, from time-to-time, shares of its outstanding common stock on the open market or in privately negotiated transactions in the United States. During fiscal 2016, the Company repurchased 7.3 million shares of its common stock for total consideration of $250.0 million. This share repurchase authorization is now fully utilized.

On June 21, 2016, the Company's Board of Directors authorized the repurchase of up to an additional $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 fiscal 2016.

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Stock-Based Compensation

Equity Compensation Plans

The Company has one share-based compensation plan pursuant to which awards are currently being made—the 2008 amended and restated Equity Incentive Plan (“2008 Equity Plan”). The purpose of the 2008 Equity Plan is to provide stock options, restricted stock units and other equity interests in the Company to employees, officers, directors, consultants and advisors of the Company and any other person who is determined by the Board of Directors to have made (or is expected to make) contributions to the Company. The 2008 Equity Plan is administered by the Board of Directors of the Company, and a total of 31.5 million shares were reserved for issuance under this plan. As of September 24, 2016, the Company had 8.3 million shares available for future grant under the 2008 Equity Plan.

The following presents stock-based compensation expense in the Company’s Consolidated Statements of Operations in fiscal 2016, 2015 and 2014:

	2016	2015	2014
Cost of revenues	$10.5	$8.7	$7.3
Research and development	10.8	8.6	8.4
Selling and marketing	10.9	8.8	8.2
General and administrative	32.8	29.1	19.5
Restructuring and divestiture	0.4	4.1	6.6
	$65.4	$59.3	$50.0

Grant-Date Fair Value

The Company uses a binomial model to determine the fair value of its stock options. The Company considers a number of factors to determine the fair value of options including the assistance of an outside valuation adviser. Information pertaining to stock options granted during fiscal 2016, 2015 and 2014 and related assumptions are noted in the following table:

	Years ended		
	September 24, 2016	September 26, 2015	September 27, 2014
Options granted (in millions)	1.1	1.3	2.4
Weighted-average exercise price	$39.32	$27.68	$22.01
Weighted-average grant date fair value	$12.91	$9.95	$7.67
Assumptions:			
Risk-free interest rates	1.6 %	1.7 %	1.2 %
Expected life (in years)	4.7	5.3	4.4
Expected volatility	37.8 %	38.6 %	41.4 %
Dividend yield	—	—	—

The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. In projecting expected stock price volatility, the Company uses a combination of historical stock price volatility and implied volatility from observable market prices of similar equity instruments. The Company estimated the expected life of stock options based on historical experience using employee exercise and option expiration data.

In connection with appointing Stephen P. MacMillan as its new President and Chief Executive Officer in December 2013, the Company granted approximately 0.1 million market stock units ("MSUs"). The MSUs vest in three separate tranches in an amount of 1/3rd of the total amount of the award based on the Company’s stock price meeting certain defined average stock prices for 30 consecutive trading days. These MSUs were valued at an average of $18.65 per share using the Monte Carlo simulation model and each tranche had its own derived service period. The Company recognized compensation expense under the accelerated method as prescribed by ASC 718 in fiscal 2014 through a portion of fiscal 2015, and all tranches have vested due to the defined average stock prices being met for the required period. In addition, per the terms of his employment agreement, the Company granted 0.2 million restricted stock units ("RSUs") to match Mr. MacMillan’s purchase of 0.2 million shares of the Company’s common stock on the open market in the second quarter of fiscal 2014. The RSUs cliff vest three years from the date of grant, and the Company is accounting for this grant as a liability award pursuant to ASC 718 because this RSU award contains an additional vesting condition (the requirement that Mr. MacMillan retain the matching shares during the vesting period) that is not service, performance or market based. As such, this award is marked-to-market at each reporting period, and at September 24, 2016, $7.8 million has been recorded as a liability for this award.

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Stock-Based Compensation Expense Attribution

The Company uses the straight-line attribution method to recognize stock-based compensation expense for stock options and RSUs. The vesting term of stock options is generally four or five years with annual vesting of 25% and 20% per year, respectively, on the anniversary of the grant date, and RSUs generally vest over three or four years with annual vesting at 33% and 25% per year, respectively, on the anniversary of the grant date. Effective in the fourth quarter of fiscal 2016, the Company implemented a retirement provision providing for the continued vesting of equity awards granted after November 6, 2015 once an employee meets certain age and years of service criteria and retires from the Company. This provision from an accounting perspective can result in a shorter requisite service period for certain employees, resulting in accelerated stock-based compensation expense. Since this provision affected previously granted awards, it was accounted for as a modification and the Company recognized an additional $4.0 million of expense in the fourth quarter of fiscal 2016.

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time granted and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Based on an analysis of historical forfeitures, the Company has determined a specific forfeiture rate for certain employee groups and has applied forfeiture rates ranging from 0% to 7.0% as of September 24, 2016 depending on the specific employee group. This analysis is re-evaluated annually and the forfeiture rate will be adjusted as necessary. Ultimately, the actual stock-based compensation expense recognized will only be for those stock options and RSUs that vest.

Stock-based compensation expense related to stock options was $10.9 million, $12.2 million, and $16.3 million in fiscal 2016, 2015 and 2014, respectively. Stock compensation expense related to stock units, including RSUs, performance stock units ("PSUs") and MSUs, was $50.5 million, $43.7 million, and $30.6 million in fiscal 2016, 2015 and 2014, respectively. The related tax benefit recorded in the Consolidated Statements of Operations was $23.1 million, $17.7 million and $15.3 million in fiscal 2016, 2015 and 2014, respectively. Included within stock-based compensation expense in fiscal 2016, 2015 and 2014 is $0.4 million, $4.1 million and $6.6 million, respectively, related to modification accounting, the acceleration of vesting of certain retention RSUs provided under their original terms upon termination, and the acceleration of vesting for certain options assumed in the Gen-Probe acquisition related to employees who were terminated in connection with the Company's restructuring action to consolidate its Diagnostics operations. The original terms of the stock options assumed in the Gen-Probe acquisition provided for acceleration upon a change-in-control and termination within 18 months of the change-in-control. At September 24, 2016, there was $21.2 million and $66.6 million of unrecognized compensation expense related to stock options and RSUs, respectively, to be recognized over a weighted average period of 2.8 years and 2.0 years, respectively.

Share Based Payment Activity

The following table summarizes all stock option activity under the Company's stock option plans for the year ended September 24, 2016:

	Number of Shares (in millions)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in millions)
Options outstanding at September 26, 2015	6.7	$ 22.21	4.9	$ 119.1
Granted	1.1	39.32		
Canceled/ forfeited	(0.5)	27.00		
Exercised	(1.2)	19.55		$ 21.6
Options outstanding at September 24, 2016	6.1	$ 25.37	4.9	$ 80.1
Options exercisable at September 24, 2016	3.0	$ 21.95	3.1	$ 48.8
Options vested and expected to vest at September 24, 2016 (1)	5.9	$ 25.32	4.9	$ 79.0

(1)

This represents the number of vested stock options as of September 24, 2016 plus the unvested outstanding options at September 24, 2016 expected to vest in the future, adjusted for estimated forfeitures.

During fiscal 2015 and 2014, the total intrinsic value of options exercised (i.e., the difference between the market price on the date of exercise and the price paid by the employee to exercise the options) was $42.0 million and $34.7 million, respectively.

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A summary of the Company's RSU activity during the year ended September 24, 2016 is presented below:

Non-vested Shares	Number of Shares (in millions)	Weighted-Average Grant-Date Fair Value
Non-vested at September 26, 2015	3.7	$ 24.54
Granted	1.0	39.38
Vested	(1.2)	22.96
Forfeited	(0.4)	25.74
Non-vested at September 24, 2016	3.1	$ 29.98

The number of RSUs vested includes shares withheld on behalf of employees to satisfy minimum statutory tax withholding requirements. The Company pays the minimum statutory tax withholding requirement on behalf of its employees. During fiscal 2016, 2015 and 2014 the total fair value of RSUs vested was $28.4 million, $27.2 million and $22.6 million, respectively.

The Company also granted approximately 0.2 million and 0.3 million PSUs during fiscal 2016 and 2015, respectively, to members of its senior management team, which have a weighted-average grant date fair value of $39.72 and $26.58, respectively. Each recipient of the 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 will vest upon achieving the measurement criteria. 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.

Employee Stock Purchase Plan

In March 2012, the Company's stockholders approved the Hologic, Inc. 2012 Employee Stock Purchase Plan ("2012 ESPP"), which provides for the granting of up to 2.5 million shares of the Company's common stock to eligible employees. The 2012 ESPP plan period is semi-annual and allows participants to purchase the Company's common stock at 85% of the lower of (i) the market value per share of the common stock on the first day of the offering period or (ii) the market value per share of the common stock on the purchase date. The first plan period began on July 1, 2012. Stock-based compensation expense in fiscal 2016, 2015 and 2014 was $4.0 million, $3.4 million and $3.1 million, respectively.

The Company uses the Black-Scholes model to estimate the fair value of shares to be issued as of the grant date using the following weighted average assumptions:

	September 24, 2016	September 26, 2015	September 27, 2014
Assumptions:			
Risk-free interest rates	0.34 %	0.10 %	0.08 %
Expected life (in years)	0.5	0.5	0.5
Expected volatility	27.2 %	27.4 %	30.0 %
Dividend yield	—	—	—

8. Profit Sharing 401(k) Plan

The Company has a qualified profit sharing plan covering substantially all of its employees. The Company made contributions of $16.2 million, $14.4 million and $13.3 million for fiscal 2016, 2015 and 2014, respectively.

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9. Deferred Compensation Plans
Nonqualified Deferred Compensation Plan
Effective March 15, 2006, the Company adopted its DCP to provide non-qualified retirement benefits to a select group of executive officers, senior management and highly compensated employees of the Company. Eligible employees may elect to contribute up to 75% of their annual base salary and 100% of their annual bonus to the DCP and such employee contributions are 100% vested. In addition, the Company may elect to make annual discretionary contributions on behalf of participants in the DCP. Each Company contribution is subject to a three-year vesting schedule, such that each contribution vests one third annually. Employee contributions are recorded within accrued expenses.
Upon enrollment into the DCP, employees make investment elections for both their voluntary contributions and discretionary contributions, if any, made by the Company. Earnings and losses on contributions based on these investment elections are recorded as a component of compensation expense in the period earned.
Annually, the Compensation Committee of the Board of Directors has approved a discretionary cash contribution to the DCP for each year. Discretionary contributions by the Company to the DCP are held in a Rabbi Trust. The Company is recording compensation expense for the DCP discretionary contributions ratably over the three-year vesting period of each annual contribution, unless the participant meets the plan retirement provision of reaching a certain age and years of service criteria in which case the expense is accelerated to match the required service period to receive such benefit. Under the DCP, the Company recorded compensation expense of $3.1 million, $1.8 million and $3.7 million in fiscal 2016, 2015 and 2014, respectively. The full amount of the discretionary contribution, net of forfeitures, along with employee deferrals is recorded within accrued expenses and totaled $37.0 million and $29.4 million at September 24, 2016 and September 26, 2015, respectively.
The Company has purchased Company-owned group life insurance contracts, in which both voluntary and discretionary Company DCP contributions are invested, to partially fund payment of the Company’s obligation to the DCP participants. The total amount invested at September 24, 2016 and September 26, 2015 was $36.0 million and $27.5 million, respectively. The values of these life insurance contracts are recorded in other long-term assets. Changes in the cash surrender value of life insurance contracts, which were not significant in fiscal 2016, 2015 and 2014, are recorded within other income (expense), net. In fiscal 2015, the Company had an additional $5.6 million of investments in mutual funds to fund the DCP which were sold in fiscal 2016 and replaced with life insurance contracts.
Deferred Equity Plan
Effective September 17, 2015, the Company adopted the Hologic, Inc. Deferred Equity Plan (the “DEP”). The DEP is designed to allow executives and non-employee Directors to accumulate Company stock in a tax-efficient manner to meet their long-term equity accumulation goals and shareholder ownership guidelines. Under the DEP, eligible participants may elect to defer the settlement of RSUs and PSUs granted under the 2008 Equity Plan until separation from service or separation from service plus a fixed number of years. Participants may defer settlement by vesting tranche. Although the equity will vest on schedule, if deferral of settlement is elected, no shares will be issued until the settlement date. The settlement date will be the earlier of death, disability, change in control of the Company or separation from service plus the number of years of deferral elected by the participant. While these shares upon vesting are not distributed to the individuals and are not outstanding, these shares will be included in basic weighted average shares outstanding used to calculate earnings per share.

10. Commitments and Contingencies
Finance Lease Obligations
The Company has two non-cancelable lease agreements for buildings that are primarily used for manufacturing. The Company was responsible for a significant portion of the construction costs, and in accordance with ASC 840, Leases, Subsection 40-15-5, the Company was deemed to be the owner of the respective buildings during the construction period. At the completion of the construction period, the Company reviewed the lease for potential sale-leaseback treatment in accordance with ASC 840, Subsection 40, Sale-Leaseback Transactions. Based on its analysis, the Company determined that the lease did not qualify for sale-leaseback treatment. Therefore, the building, leasehold

improvements and associated liabilities remain on the Company’s financial statements throughout the lease term, and the building and leasehold improvements are being depreciated on a straight line basis over their estimated useful lives of 35 years. The Company recorded the fair market value of the buildings and land aggregating $28.3 million within property and equipment on its Consolidated Balance Sheets. Depreciation expense related to the buildings and land is recorded within depreciation in the Company's Consolidated Statements of Cash Flows. During fiscal 2016, the Company executed an amendment to one of the leases extending the term to 2024, and a renewal option was removed. There were no other significant provisions to the terms of the lease agreement. At September 24, 2016, the Company has recorded $2.9 million in accrued expenses and $34.8 million in other long-term

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liabilities related to these obligations. The current term of the leases is for a period of approximately 10 and 8 years, respectively, with the option to extend for one lease for two consecutive 5-year terms and the other for one 5-year term.
Future minimum lease payments, including principal and interest, under these leases were as follows at September 24, 2016:

Fiscal 2017	$3.1
Fiscal 2018	2.9
Fiscal 2019	1.2
Fiscal 2020	1.2
Fiscal 2021	1.2
Thereafter	2.8
Total minimum payments	12.4
Less-amount representing interest	(3.9)
Total	$8.5

Non-cancelable Purchase and Royalty Commitments
The Company has certain non-cancelable purchase obligations primarily related to inventory purchases and diagnostics instruments, primarily the Tigris and Panther systems, and to a lesser extent other operating expense commitments. These obligations are not recorded in the Consolidated Balance Sheets. For reasons of quality assurance, sole source availability or cost effectiveness, certain key components and raw materials and instruments are available only from a sole supplier and the Company has certain long-term supply contracts to assure continuity of supply. At September 24, 2016, purchase commitments are as follows:

Fiscal 2017	$58.5
Fiscal 2018	15.6
Fiscal 2019	13.0
Total	$87.1

In connection with its R&D efforts, the Company has various license agreements with unrelated parties that provide the Company with rights to develop and market products using certain technology and patent rights. Terms of the various license agreements require the Company to pay royalties ranging from less than 1% up to 35% of future sales on products using the specified technology. Such agreements generally provide for a term that commences upon execution and continues until expiration of the last patent covering the licensed technology. Under certain of these agreements, the Company is required to pay minimum annual royalty payments regardless of the level of sales. In addition, the Company has commitments for minimum payments under certain collaboration agreements. At September 24, 2016, minimum commitments for these agreements are as follows:

Fiscal 2017	$0.7
Fiscal 2018	0.7
Fiscal 2019	0.5
Fiscal 2020	0.5
Fiscal 2021	0.5
Thereafter	2.7
Total	$5.6

Concentration of Suppliers
The Company purchases certain components of its products from a single or small number of suppliers. A change in or loss of these suppliers could cause a delay in filling customer orders and a possible loss of sales, which could adversely affect results of operations; however, management believes that suitable replacement suppliers could be obtained in such an event.

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Operating Leases

The Company conducts its operations in leased facilities under operating lease agreements that expire through fiscal 2035. Substantially all of the Company's lease agreements require the Company to maintain the facilities during the term of the lease and to pay all taxes, insurance, utilities and other costs associated with those facilities. The Company makes customary representations and warranties and agrees to certain financial covenants and indemnities. In the event the Company defaults on a lease, typically the landlord may terminate the lease, accelerate payments and collect liquidated damages. As of September 24, 2016, the Company was not in default of any covenants contained in its lease agreements. Certain of the Company's lease agreements provide for renewal options. Such renewal options are at rates similar to the current rates under the agreements.

Future minimum lease payments under all of the Company's operating leases at September 24, 2016 are as follows:

Fiscal 2017	$17.3
Fiscal 2018	15.5
Fiscal 2019	10.5
Fiscal 2020	8.3
Fiscal 2021	6.6
Thereafter	14.3
Total	$72.5

Rent expense, net of sublease income from these locations, was $17.9 million, $19.2 million, and $21.1 million for fiscal 2016, 2015 and 2014, respectively.

The Company subleases a portion of a building it owns and some of its facilities and has received aggregate rental income of $2.4 million, $2.0 million and $1.8 million in fiscal 2016, 2015 and 2014, respectively, which has been recorded as an offset to rent expense. The future minimum annual rental income payments under these sublease agreements at September 24, 2016 are as follows:

Fiscal 2017	$2.3
Fiscal 2018	2.2
Fiscal 2019	2.1
Fiscal 2020	1.3
Fiscal 2021	0.3
Thereafter	0.9
Total	$9.1

11. Litigation and Related Matters

On June 9, 2010, Smith & Nephew, Inc. ("Smith & Nephew") filed suit against Interlace, Inc., 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. 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 hysteroscopic tissue removal system infringed U.S. patent 8,061,359. Both complaints sought 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 bench trial regarding the Company's assertion of inequitable conduct on the part of Smith & Nephew with regard to the '359 patent was held on December 9, 2012 and oral arguments on the issue of inequitable 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 Company intends to file post-trial motions seeking to reverse the jury's verdict. The USPTO has issued final decisions that the claims of the

‘459 and the '359 patents asserted as part of the litigation are not patentable. Smith & Nephew has appealed these decisions to the U.S. Patent Trial and Appeal Board. On January 20, 2016, the U.S. Patent Trial and Appeal Board affirmed the USPTO decision holding the claims at issue in the ‘459 patent as invalid. Smith & Nephew has appealed this holding to the Court of Appeals for the Federal Circuit (CAFC). On September 22, 2016, oral arguments related to the ‘359 patent were held at the Patent Trial and

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Appeal Board (PTAB). On October 25, 2016 the PTAB reversed the USPTO decision related to the '359 patent. The Company intends to appeal the PTAB reversal decision. 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 filed suit against Gen-Probe in the United States District Court for the District of Delaware. The Gen-Probe complaint alleged that certain of Gen-Probe's diagnostics products, including products that incorporate Gen-Probe's patented hybridization protection assay technology, such as the Aptima Combo 2 and Aptima HPV assays, infringe Enzo's U.S. patent 6,992,180. On March 6, 2012, Enzo Life Sciences, Inc. ("Enzo") filed suit against the Company in the United States District Court for the District of Delaware. The complaint alleged that certain of the Company's molecular diagnostics products, including without limitation products based on its proprietary Invader chemistry, such as Cervista HPV HR and Cervista HPV 16/18, infringe Enzo's U.S. patent 6,992,180. The complaint seeks permanent injunctive relief and unspecified damages. On September 30, 2013, Enzo amended its list of accused products to include Prodesse, MilliPROBE, PACE and Procleix assays. The complaint seeks permanent injunctive relief and unspecified damages. Enzo has asserted the '180 patent claims against six other companies. The court issued a Markman order on July 7, 2015 construing the claims, and it is expected that summary judgment motions will be heard in the fall of 2016. 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 U.S. Patent 6,992,180. The complaint further alleged that certain of the Company's molecular diagnostic products, including Hologic's Progensa PCA3 products, all Aptima products and all Procleix products infringe Enzo's U. S. Patent 7,064,197. On June 11, 2015, this matter was stayed pending the resolution of summary judgment motions in the 2012 case referenced above. On March 30, 2016, the Company filed a request for inter-parties review of the '179 patent at the USPTO. 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 certain additional Company molecular diagnostic products, including, inter alia, the 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 of which the ultimate resolution would 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.
12. Grifols Collaboration Agreement
Under its collaboration agreement with Grifols, the Company manufactures blood screening products, while Grifols is responsible for marketing, sales and service of those products, which Grifols sells under its trademarks. The Company is entitled to recover 50% of its manufacturing costs incurred in connection with the collaboration and will receive a percentage of the blood screening assay revenue generated under the collaboration. The Company's share of revenue from any assay it sells Grifols is currently 50% and will remain so through the remainder of the term of the collaboration. Grifols is obligated to purchase all of the quantities of assays specified on a 90-day demand forecast,

due 90 days prior to the date Grifols intends to take delivery, and certain quantities specified on a rolling 12-month forecast.

The Company recognizes product revenue, and collaborative research and license revenue, which is included within services and other revenues, under this collaboration agreement. The Company recognized revenue of $235.4 million, $253.1 million and $223.3 million under this collaboration agreement in fiscal 2016, 2015, and 2014 respectively.

13. Business Segments and Geographic Information

The Company reports segment information in accordance with ASC 280, Segment Reporting. Operating segments are identified as components of an enterprise about which separate, discrete financial information is available for evaluation by the

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chief operating decision maker, or decision-making group, in making decisions about how to allocate resources and assess performance. The Company's chief operating decision maker is its chief executive officer, and the Company's reportable segments have been identified based on the types of products manufactured and the end markets to which the products are sold. Each reportable segment generates revenue from either the sale of medical equipment and related services and/or sale of disposable supplies, primarily used for diagnostic testing and surgical procedures. 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 impairment charges, restructuring and divestiture charges, litigation charges, and other one-time or unusual items.

Identifiable assets for the four principal reportable 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.

Segment information for fiscal 2016, 2015, and 2014 was as follows:

	Years ended		
	September 24, 2016	September 26, 2015	September 27, 2014
Total revenues:			
Diagnostics	$1,236.9	$ 1,211.8	$ 1,186.8
Breast Health	1,112.8	1,063.4	944.7
GYN Surgical	393.1	335.8	307.9
Skeletal Health	89.9	94.0	91.3
	$2,832.7	$ 2,705.0	$ 2,530.7
Operating income:			
Diagnostics	$126.0	$ 109.5	$ 48.7
Breast Health	350.5	296.3	187.6
GYN Surgical	69.1	38.6	30.3
Skeletal Health	3.0	10.7	13.1
	$548.6	$ 455.1	$ 279.7
Depreciation and amortization:			
Diagnostics	$341.8	$ 358.7	$ 376.0
Breast Health	22.6	28.6	41.7
GYN Surgical	99.9	102.7	104.6
Skeletal Health	1.1	1.4	0.9
	$465.4	$ 491.4	$ 523.2
Capital expenditures:			
Diagnostics	$53.5	$ 55.6	$ 52.2
Breast Health	10.6	12.8	10.0
GYN Surgical	17.7	9.5	8.0
Skeletal Health	0.4	0.4	0.4
Corporate	12.3	11.1	9.6
	$94.5	$ 89.4	$ 80.2

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	September 24, 2016	September 26, 2015	September 27, 2014
Identifiable assets:			
Diagnostics	$ 3,771.9	$ 4,055.8	$ 4,383.5
Breast Health	809.1	815.4	859.8
GYN Surgical	1,570.7	1,658.1	1,748.2
Skeletal Health	30.9	25.3	26.1
Corporate	1,134.4	1,087.9	1,351.1
	$ 7,317.0	$ 7,642.5	$ 8,368.7

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, the United Kingdom and Germany. 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:

	Years ended					
	September 24, 2016		September 26, 2015		September 27, 2014	
United States	78.9	%	76.0	%	75.1	%
Europe	10.2	%	11.8	%	13.3	%
Asia-Pacific	7.6	%	8.5	%	7.7	%
All others	3.3	%	3.7	%	3.9	%
	100.0	%	100.0	%	100.0	%

The Company's property, plant and equipment, net are geographically located as follows:

	September 24, 2016	September 26, 2015	September 27, 2014
United States	$ 370.7	$ 369.1	$ 366.8
Costa Rica	28.1	27.7	27.9
Europe	49.2	50.8	56.0
All other countries	12.2	9.5	11.2
	$ 460.2	$ 457.1	$ 461.9

14. Accrued Expenses and Other Long-Term Liabilities
Accrued expenses and other long-term liabilities consisted of the following:

	September 24, 2016	September 26, 2015
Accrued Expenses		
Compensation and employee benefits	$ 176.4	$ 173.2
Interest	11.7	14.6
Income and other taxes	38.4	13.3
Other	61.1	71.0
	$ 287.6	$ 272.1

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	September 24, 2016	September 26, 2015
Other Long-Term Liabilities		
Reserve for income tax uncertainties	$ 167.6	$ 145.1
Accrued lease obligation—long-term	34.8	34.0
Pension liabilities	11.2	10.1
Other	10.9	11.7
	$ 224.5	$ 200.9

15. Pension and Other Employee Benefits

The Company has certain defined benefit pension plans covering the employees of its Hitec Imaging German subsidiary (the "Pension Benefits"). As of September 24, 2016 and September 26, 2015, the Company's pension liability was $11.0 million and $10.0 million, respectively, which is primarily recorded as a component of long-term liabilities in the Consolidated Balance Sheets. Under German law, there are no rules governing investment or statutory supervision of the pension plan. As such, there is no minimum funding requirement imposed on employers. Pension benefits are safeguarded by the Pension Guaranty Fund, a form of compulsory reinsurance that guarantees an employee will receive vested pension benefits in the event of insolvency. The pension plans were closed on December 31, 1997 and only eligible employees at that date could participate in the plans prior to closing to new participants.

The tables below provide a reconciliation of benefit obligations, plan assets, funded status, and related actuarial assumptions of the Company's German Pension Benefits.

Change in Benefit Obligation	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Benefit obligation at beginning of year	$(10.0)	$ (10.3)	$ (10.1)
Service cost	—	—	—
Interest cost	(0.2)	(0.3)	(0.3)
Plan participants' contributions	—	—	—
Actuarial loss	(1.2)	(0.9)	(0.8)
Foreign exchange gain	0.1	1.2	0.6
Benefits paid	0.3	0.3	0.3
Benefit obligation at end of year	(11.0)	(10.0)	(10.3)
Plan assets	—	—	—
Benefit obligation at end of year	$(11.0)	$ (10.0)	$ (10.3)

The tables below outline the components of the net periodic benefit cost and related actuarial assumptions of the Company's German Pension Benefits.

Components of Net Periodic Benefit Cost	Years ended September 24, 2016	September 26, 2015	September 27, 2014
Service cost	$—	$ —	$ —
Interest cost	0.4	0.3	0.3
Expected return on plan assets	—	—	—
Amortization of prior service cost	—	—	—
Recognized net actuarial gain	(0.2)	—	—
Net periodic benefit cost	$0.2	$ 0.3	$ 0.3

Weighted-Average Net Periodic Benefit Cost Assumptions	2016	2015	2014
Discount rate	1.30 %	2.05 %	2.95 %
Expected return on plan assets	— %	— %	— %
Rate of compensation increase	— %	— %	— %

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The projected benefit obligation for the German Pension Benefits with projected benefit obligations in excess of plan assets was $11.0 million and $10.0 million at September 24, 2016 and September 26, 2015, respectively, and the accumulated benefit obligation for the German Pension Benefits was $11.0 million and $10.0 million at September 24, 2016 and September 26, 2015, respectively.
The Company is also obligated to pay long-term service award benefits under the German Pension Benefits. The projected benefit obligation for long-term service awards was $0.1 million at both September 24, 2016 and September 26, 2015, respectively.
The table below reflects the total Pension Benefits expected to be paid for the German Pension Benefits each fiscal year as of September 24, 2016:

2017	$0.3
2018	$0.3
2019	$0.4
2020	$0.4
2021	$0.4
2022 to 2026	$2.0

The Company also maintains additional contractual pension benefits for its top German executive officers in the form of a defined contribution plan. These contributions were insignificant in fiscal 2016, 2015 and 2014. Additionally, the Company has Swiss pension plans, which were insignificant in fiscal 2016, 2015, and 2014.

16. Quarterly Statement of Operations Information (Unaudited)
The following table presents a summary of quarterly results of operations for fiscal 2016 and 2015:

	2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$695.2	$693.3	$717.4	$726.8
Gross profit	379.1	385.0	393.1	406.1
Net income (1)	84.9	68.9	84.8	92.2
Diluted net income per common share	$0.29	$0.24	$0.30	$0.33

	2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$652.8	$655.5	$693.9	$702.8
Gross profit	338.6	336.0	378.7	379.4
Net income (2)	29.2	47.8	29.4	25.2
Diluted net income per common share	$0.10	$0.17	$0.10	$0.09

(1) Net income in the first quarter of fiscal 2016 included restructuring charges of $2.3 million and a realized gain of $25.1 million related to the sale of all the shares in a marketable security investment. Net income in the second quarter of fiscal 2016 included restructuring charges of $3.8 million and a debt extinguishment loss of $4.5 million. Net income in the fourth quarter of fiscal 2016 included restructuring charges of $2.9 million, a debt extinguishment loss of $0.8 million, and an other-than-temporary impairment charge of $1.1 million related to a marketable security.

(2) Net income in the first quarter of fiscal 2015 included restructuring charges of $8.0 million and a debt extinguishment loss of $6.7 million. Net income in the third quarter of fiscal 2015 included restructuring and divestiture charges of $11.9 million and a debt extinguishment loss of $18.2 million. Net income in the fourth

quarter of fiscal 2015 included restructuring and divestiture charges of $6.5 million, a debt extinguishment loss of $37.8 million, and an other-than-temporary impairment charge of $7.8 million related to a marketable security.

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
2.1	Agreement and Plan of Merger, dated April 29, 2012, by and among Hologic, Gold Acquisition Corp. and Gen-Probe Incorporated.	8-K	05/01/2012
3.1	Certificate of Incorporation of Hologic.	S-1	01/24/1990
3.2	Certificate of Amendment to Certificate of Incorporation of Hologic.	10-Q	03/30/1996
3.3	Certificate of Amendment to Certificate of Incorporation of Hologic.	10-K	09/24/2005
3.4	Certificate of Amendment to Certificate of Incorporation of Hologic.	8-K	10/22/2007
3.5	Certificate of Amendment to Certificate of Incorporation of Hologic.	8-K	03/11/2008
3.6	Certificate of Designation of Series A Junior Participating Preferred Stock of Hologic.	8-K	11/21/2013
3.7	Certificate of Elimination of Series A Junior Participating Preferred Stock of Hologic.	8-K	06/25/2014
3.8	Fifth Amended and Restated Bylaws of Hologic, Inc.	10-Q	03/04/2016
4.1	Specimen Certificate for Shares of Hologic's Common Stock.	8-A	01/31/1990
4.2	Description of Capital Stock (Contained in Hologic's Certificate of Incorporation, as amended, filed as Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 hereto).		
4.3	Indenture, dated December 10, 2007, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	12/10/2007
4.4	Second Supplemental Indenture, dated November 23, 2010, by and between Wilmington Trust Company, as Trustee, and Hologic.	10-K	09/25/2010
4.5	Form of 2.00% Convertible Exchange Senior Note due 2037 (included in Exhibit 4.4).	10-K	09/25/2010
4.6	Third Supplemental Indenture, dated March 5, 2012, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	03/08/2012
4.7	Form of 2.00% Convertible Senior Note due 2042 (included in Exhibit 4.6).	8-K	03/08/2012
4.8	Fourth Supplemental Indenture, dated February 21, 2013, by and between Wilmington Trust Company, as Trustee, and Hologic.	8-K	02/21/2013

4.9	Form of 2.00% Convertible Senior Note due 2043 (included in Exhibit 4.8).	8-K	02/21/2013
4.10	Indenture, dated July 2, 2015, by and among Hologic, the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee.	8-K	07/02/2015
4.11	Form of 5.250% Senior Note due 2022 (included in Exhibit 4.10).	8-K	07/02/2015
10.1*	Second Amended and Restated 1999 Equity Incentive Plan.	10-Q	03/25/2006
10.2*	Amendment No. 1 to Second Amended and Restated 1999 Equity Incentive Plan.	S-8	10/23/2007
10.3*	Amendment No. 2 to Second Amended and Restated 1999 Equity Incentive Plan.	8-K	10/22/2007
10.4*	Amendment No. 3 to Second Amended and Restated 1999 Equity Incentive Plan.	8-K	12/12/2008

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.5*	The 2003 Incentive Award Plan of Gen-Probe Incorporated as amended and restated.	S-8	08/02/2012
10.6*	Hologic Amended and Restated 2008 Equity Incentive Plan.	8-K	03/11/2013
10.7*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.8*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2015).	8-K	11/05/2014
10.9*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	10/14/2015
10.10*	Form of Stock Option Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016
10.11*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.12*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	10/14/2015
10.13*	Form of Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016
10.14*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2014).	8-K	11/12/2013
10.15*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2015).	8-K	11/05/2014
10.16*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2016).	8-K	11/06/2015
10.17*	Form of Performance Stock Unit Award Agreement Under 2008 Equity Incentive Plan (adopted fiscal 2017).	8-K	11/09/2016
10.18*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (annual grant, adopted fiscal 2014).	10-K	09/28/2013
10.19*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (annual grant, adopted fiscal 2015).	10-K	09/27/2014

10.20*	Form of Independent Director Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (annual grant).	10-K	09/28/2013
10.21*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (initial grant, adopted fiscal 2014).	10-K	09/28/2013
10.22*	Form of Independent Director Stock Option Award Agreement Under 2008 Equity Incentive Plan (initial grant, adopted fiscal 2015).	10-K	09/27/2014
10.23*	Form of Independent Director Restricted Stock Unit Award Agreement Under 2008 Equity Incentive Plan (initial grant).	10-K	09/28/2013
10.24*	Hologic, Inc. 2012 Employee Stock Purchase Plan, As Amended	8-K	03/04/2016
10.25*	Hologic Short-Term Incentive Plan.	8-K	11/06/2015
10.26*	Hologic Amended and Restated Deferred Equity Plan	8-K	12/16/2015
10.27*	Rabbi Trust Agreement.	10-K	09/28/2013

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.28*	Form of Indemnification Agreement (as executed with each director of Hologic).	8-K	03/06/2009
10.29*	Form of Senior Vice President Change of Control Agreement. (1)	10-Q	12/29/2012
10.30*	Form of Senior Vice President Severance Agreement. (1)	10-K	09/28/2013
10.31*	Employment Agreement dated December 6, 2013 by and between Stephen P. MacMillan and Hologic.	8-K	12/09/2013
10.32*	Amended and Restated Employment Agreement by and between the Company and Stephen P. MacMillan, dated September 18, 2015.	8-K	09/21/2015
10.33*	Amendment No. 1 to Amended and Restated Employment Agreement by and between the Company and Stephen P. MacMillan, dated September 24, 2016.	Filed herewith	
10.34*	Form of Matching Restricted Stock Unit Award Agreement.	8-K	12/09/2013
10.35*	Change of Control Agreement dated December 6, 2013 by and between Stephen P. MacMillan and Hologic.	8-K	12/09/2013
10.36*	Offer Letter dated March 9, 2014 by and between Eric B. Compton and Hologic.	8-K	03/14/2014
10.37*	Severance and Change of Control Agreement dated March 9, 2014 by and between Eric B. Compton and Hologic. (2)	10-K	11/19/2015
10.38*	Offer Letter dated May 8, 2014 by and between Robert W. McMahon and Hologic.	8-K	05/13/2014
10.39*	Severance and Change of Control Agreement dated May 8, 2014 by and between Robert W. McMahon and Hologic. (2)	10-K	11/19/2015
10.40*	Offer Letter dated May 4, 2014 by and between Peter J. Valenti and Hologic.	10-Q	06/28/2014
10.41*	Senior Vice President Severance Agreement dated May 26, 2014 by and between Peter J. Valenti and Hologic.	10-K	09/27/2014
10.42*	Offer Letter dated August 21, 2014 by and between Thomas A. West and Hologic.	10-K	09/27/2014
10.43*	Senior Vice President Severance Agreement dated October 3, 2014 by and between Thomas A. West and Hologic.	10-K	09/27/2014

10.44*	Letter of Intent dated February 27, 2014 and Terms and Conditions of Employment dated March 10, 2014 by and between Claus Egstrand and Hologic.	10-K	09/27/2014
10.45*	Severance and Change of Control Agreement dated September 18, 2014 by and between Claus Egstrand and Hologic.	10-K	09/27/2014
10.46*	Offer Letter dated January 6, 2015 by and between John M. Griffin and Hologic.	10-Q	03/28/2015
10.47*	Severance and Change of Control Agreement dated February 2, 2015 by and between John M. Griffin and Hologic.	10-Q	03/28/2015
10.48	Facility Lease (Danbury) dated December 30, 1995 by and among Melvin J. Powers and Mary P. Powers D/B/A M&N Realty and Lorad.	Trex Medical Corporation S-1	03/29/1996
10.49	Lease Agreement (Danbury and Bedford) by and between BONE (DE) QRS 15-12, INC., and Hologic dated August 28, 2002.	10-K	09/28/2002

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
10.50	First Amendment to Lease Agreement (Danbury and Bedford) by and between BONE (DE) QRS 15-12, INC., and Hologic dated October 29, 2007.	10-K	09/29/2007
10.51	Office Lease dated December 31, 2003 between Cytyc and Marlborough Campus Limited Partnership.	Cytyc Corporation 10-K	12/31/2003
10.52	Lease Agreement by and between Zona Franca Coyol S.A. and Cytyc Surgical Products Costa Rica S.A. dated April 23, 2007.	10-K	09/29/2007
10.53	Lease Agreement by and between 445 Simarano Drive, Marlborough LLC and Cytyc dated July 11, 2006.	10-K	09/29/2007
10.54	Lease Guaranty dated October 22, 2007 between Bel Marlborough I LLC and Hologic, as guarantor thereunder.	8-K	10/22/2007
10.55	Form of Exchange Agreement.	8-K	02/15/2013
10.56	Credit and Guaranty Agreement, dated May 29, 2015, among Hologic, Hologic GGO 4 Ltd, each Designated Borrower from time to time party thereto, the Guarantors from time to time party thereto, each Lender from time to time party thereto and Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.	8-K	05/29/2015
10.57	Pledge and Security Agreement, dated May 29, 2015, among the grantors party thereto and Bank of America, N.A. as Collateral Agent	10-Q	06/27/2015
10.58	Restated Agreement dated July 24, 2009 by and between Gen-Probe Incorporated and Novartis Vaccines and Diagnostics, Inc. ‡	Gen-Probe 10-Q/A	09/30/2009
10.59	First Amendment to Restated Agreement dated November 8, 2013 by and between Gen-Probe Incorporated and Novartis Vaccines and Diagnostics, Inc.	10-K	09/28/2013
10.60	Second Amendment to Restated Agreement by and between Gen-Probe Incorporated and Grifols Diagnostic Solutions Inc.‡	10-Q	06/27/2015
10.61	Supply Agreement for Panther Instrument System effective November 22, 2006 between Gen-Probe Incorporated and STRATEC Biomedical Systems AG. ‡	Gen-Probe 10-Q	09/30/2007
10.62	Amendment No. 1 dated June 1, 2011 to Supply Agreement for Panther Instrument System. ‡‡	Filed herewith	
10.63			

	Amendment No. 2 dated February 28, 2013 to Supply Agreement for Panther Instrument System. ‡‡	Filed herewith
12.1	Ratio of Earnings to Fixed Charges.	Filed herewith
21.1	Subsidiaries of Hologic.	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
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.	Filed herewith
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.	Filed herewith

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
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.	Furnished herewith	
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.	Furnished herewith	
101.INS	XBRL Instance Document.	Filed herewith	
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith	

* Indicates management contract or compensatory plan, contract or arrangement.
‡ Confidential treatment has been granted with respect to certain portions of this exhibit. A complete version of this exhibit has been filed separately with the U.S. Securities and Exchange Commission.
‡‡ Confidential treatment has been requested with respect to certain portions of this exhibit. A complete version of this exhibit has been filed separately with the U.S. Securities and Exchange Commission.
(1) List of executive officers to whom provided filed herewith.