Hill-Rom Holdings, Inc.
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2015

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ____ to ____

Commission File No. 1-6651

HILL-ROM HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Indiana	35-1160484
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Two Prudential Plaza, Suite 4100 Chicago, IL	60601
(Address of principal executive offices)	(Zip Code)

(312) 819-7200
(Registrant's telephone number, including area code)
1069 State Route 46 East
Batesville, Indiana 47006-8835
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Large accelerated filer R Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, without par value – 56,719,589 shares as of July 30, 2015.

HILL-ROM HOLDINGS, INC.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(In millions, except per share data)

	Quarter Ended June 30		Year to Date Ended June 30	
	2015	2014	2015	2014
Net Revenue				
Capital sales	$376.8	$302.8	$ 1,125.9	$ 911.9
Rental revenue	97.7	94.8	288.4	294.4
Total revenue	474.5	397.6	1,414.3	1,206.3
Cost of Revenue				
Cost of goods sold	217.9	168.2	652.3	508.9
Rental expenses	47.1	42.3	138.4	130.8
Total cost of revenue	265.0	210.5	790.7	639.7
Gross Profit	209.5	187.1	623.6	566.6
Research and development expenses	23.3	17.5	67.3	50.3
Selling and administrative expenses	150.5	128.6	455.5	396.7
Special charges (Note 8)	4.4	3.0	11.9	32.4
Operating Profit	31.3	38.0	88.9	87.2
Interest expense	(3.3)	(2.5)	(9.5)	(6.8)
Investment income and other, net	-	0.8	2.2	0.6
Income Before Income Taxes	28.0	36.3	81.6	81.0
Income tax expense (Note 9)	9.3	10.2	24.7	45.0
Net Income	18.7	26.1	56.9	36.0
Less: Net loss attributable to noncontrolling interests	(0.4)	-	(0.4)	-
Net Income Attributable to Common Shareholders	$19.1	$26.1	$ 57.3	$ 36.0
Net Income Attributable to Common Shareholders per Common Share - Basic	$0.34	$0.46	$ 1.01	$ 0.62
Net Income Attributable to Common Shareholders per Common Share - Diluted	$0.33	$0.45	$ 0.99	$ 0.61
Dividends per Common Share	$0.1600	$0.1525	$ 0.4725	$ 0.4425

Average Common Shares Outstanding - Basic (thousands) (Note 10)	56,670	57,273	56,777	57,612
Average Common Shares Outstanding - Diluted (thousands) (Note 10)	57,899	58,160	57,943	58,499

See Notes to Condensed Consolidated Financial Statements

Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	Quarter Ended June 30		Year to Date Ended June 30	
	2015	2014	2015	2014
Net Income	$18.7	$26.1	$ 56.9	$ 36.0
Other Comprehensive Income (Loss), net of tax (Note 7):				
Available-for-sale securities and currency hedges	0.1	(0.5)	(0.5)	(0.3)
Foreign currency translation adjustment	19.4	1.1	(51.2)	6.7
Change in pension and postretirement defined benefit plans	0.8	0.6	2.6	1.7
Total Other Comprehensive Income (Loss), net of tax	20.3	1.2	(49.1)	8.1
Total Comprehensive Income	39.0	27.3	7.8	44.1
Less: Comprehensive loss attributable to noncontrolling interests	(0.4)	-	(0.4)	-
Total Comprehensive Income Attributable to Common Shareholders	$39.4	$27.3	$ 8.2	$ 44.1

See Notes to Condensed Consolidated Financial Statements

Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(In millions)

	June 30, 2015	September 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 123.4	$ 99.3
Trade accounts receivable, net of allowances (Note 2)	390.6	411.0
Inventories (Note 2)	169.9	176.2
Deferred income taxes (Notes 1 and 9)	43.1	40.9
Other current assets	54.4	51.9
Total current assets	781.4	779.3
Property, plant and equipment, net (Note 2)	287.5	261.5
Goodwill (Note 4)	406.3	399.8
Software and other intangible assets, net (Note 2)	235.0	261.1
Deferred income taxes (Notes 1 and 9)	22.9	23.0
Other assets	24.4	27.4
Total Assets	$ 1,757.5	$ 1,752.1
LIABILITIES		
Current Liabilities		
Trade accounts payable	$ 85.2	$ 112.7
Short-term borrowings (Note 5)	130.0	126.9
Accrued compensation	82.8	89.2
Accrued product warranties (Note 12)	29.4	28.4
Other current liabilities	81.1	85.1
Total current liabilities	408.5	442.3
Long-term debt (Note 5)	447.8	364.9
Accrued pension and postretirement benefits (Note 6)	75.7	76.9
Deferred income taxes (Notes 1 and 9)	23.9	31.0
Other long-term liabilities	32.4	30.5
Total Liabilities	988.3	945.6
Commitments and Contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Common stock (Note 2)	4.4	4.4
Additional paid-in-capital	144.6	134.1
Retained earnings	1,530.1	1,499.8
Accumulated other comprehensive loss (Note 7)	(123.2)	(74.1)
Treasury stock, at cost (Note 2)	(797.2)	(757.7)
Total Shareholders' Equity Attributable to Common Shareholders	758.7	806.5

Noncontrolling Interests		10.5		-
Total Shareholders' Equity		769.2		806.5
Total Liabilities and Shareholders' Equity	$	1,757.5	$	1,752.1

See Notes to Condensed Consolidated Financial Statements

Hill-Rom Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	Year to Date Ended June 30 2015	2014
Operating Activities		
Net income	$ 56.9	$ 36.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	53.1	49.5
Amortization	8.3	9.6
Acquisition-related intangible asset amortization	23.4	20.9
Provision for deferred income taxes	(12.3)	4.6
Loss on disposal of property, equipment leased to others, intangible assets and impairments	-	7.3
Stock compensation	14.0	13.2
Excess tax benefits from employee stock plans	(1.7)	0.5
Change in working capital excluding cash, current debt, acquisitions and dispositions:		
Trade accounts receivable	4.7	29.8
Inventories	(3.4)	(1.2)
Other current assets	(5.1)	(4.2)
Trade accounts payable	(18.1)	(9.4)
Accrued expenses and other liabilities	0.3	(23.1)
Other, net	4.3	0.7
Net cash provided by operating activities	124.4	134.2
Investing Activities		
Capital expenditures and purchases of intangible assets	(102.6)	(44.4)
Proceeds on sale of property and equipment leased to others	1.2	1.8
Payment for acquisition of businesses, net of cash acquired	(5.1)	(15.5)
Refund on acquisition of businesses	-	4.6
Other	2.1	3.2
Net cash used in investing activities	(104.4)	(50.3)
Financing Activities		
Net change in short-term debt	(0.7)	(0.2)
Borrowings on revolving credit facility	95.0	35.0
Payments on revolving credit facility	-	(40.0)
Proceeds from long-term debt	-	0.6
Payment of long-term debt	(11.5)	(7.6)
Debt issuance costs	(1.6)	-
Purchase of noncontrolling interest of former joint venture	(1.6)	(1.3)
Payment of cash dividends	(26.7)	(25.4)
Proceeds on exercise of stock options	10.2	10.2
Proceeds from stock issuance	2.1	1.8

Excess tax benefits from employee stock plans	1.7	(0.5)
Treasury stock acquired	(57.4)	(71.6)
Net cash provided by (used in) financing activities	9.5	(99.0)
Effect of exchange rate changes on cash	(5.4)	(0.4)
Net Cash Flows	24.1	(15.5)
Cash and Cash Equivalents:		
At beginning of period	99.3	127.4
At end of period	$ 123.4	$ 111.9

See Notes to Condensed Consolidated Financial Statements

Hill-Rom Holdings, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars in millions except per share data)

1. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Unless the context otherwise requires, the terms “Hill-Rom,” “we,” “our” and “us” refer to Hill-Rom Holdings, Inc. and our consolidated subsidiaries. The unaudited Condensed Consolidated Financial Statements appearing in this Quarterly Report on Form 10-Q should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in our latest Annual Report on Form 10-K for the fiscal year ended September 30, 2014 (“2014 Form 10-K”) as filed with the United States (“U.S.”) Securities and Exchange Commission. The September 30, 2014 Condensed Consolidated Balance Sheet was derived from audited Consolidated Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the U.S. In the opinion of management, the Condensed Consolidated Financial Statements herein include all adjustments, consisting only of normal recurring adjustments, necessary to state fairly the financial position, results of operations and cash flows for the interim periods presented. Quarterly results are not necessarily indicative of annual results.

The Condensed Consolidated Financial Statements include the accounts of Hill-Rom and its wholly-owned subsidiaries. In addition, we also consolidate variable interest entities (VIEs) where Hill-Rom is deemed to have a controlling financial interest. Intercompany accounts and transactions have been eliminated in consolidation, including the intercompany transactions with consolidated VIEs. Where our ownership interest is less than 100 percent, the noncontrolling interests are reported in our Condensed Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires our management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results could differ from those estimates. Examples of such estimates include our income taxes (Notes 1 and 9), accounts receivable reserves (Note 2), accrued warranties (Note 12), and commitments and contingencies (Note 14), among others.

Fair Value Measurements

Fair value measurements are classified and disclosed in one of the following three categories:

- Level 1: Financial instruments with unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets and liabilities.

- Level 2: Financial instruments with observable inputs other than those included in Level 1 such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3: Financial instruments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Unobservable inputs reflect our own assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include our own data.

We record cash and cash equivalents, as disclosed on our Condensed Consolidated Balance Sheets, as Level 1 instruments and certain other insignificant derivatives and investments as either Level 2 or 3 instruments. Refer to Note 5 for disclosure of our debt instrument fair values.

Taxes Collected from Customers and Remitted to Governmental Units

Taxes assessed by a governmental authority that are directly imposed on a revenue producing transaction between us and our customers, including but not limited to sales taxes, use taxes and value added taxes, are accounted for on a net (excluded from revenue and costs) basis.

Income Taxes

We and our eligible domestic subsidiaries file a consolidated U.S. income tax return. Foreign operations file income tax returns in a number of jurisdictions. Deferred income taxes are computed using an asset and liability approach to reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. We have a variety of deferred tax assets in numerous tax jurisdictions. These deferred tax assets are subject to periodic assessment as to recoverability. If it is determined that it is more likely than not that the benefits will not be realized, valuation allowances are recognized. In evaluating whether it is more likely than not that we would recover these deferred tax assets, future taxable income, the reversal of existing temporary differences and tax planning strategies are considered.

As of June 30, 2015, we had $23.8 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to foreign operating loss carryforwards and other tax attributes. The valuation allowance was decreased in the current year to date period by $1.9 million to reflect the expected realization of certain deferred assets in Australia. We believe that our estimates for the valuation allowances recorded against deferred tax assets are appropriate based on current facts and circumstances.

We account for uncertain income tax positions using a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The difference between the tax benefit recognized in the financial statements for an uncertain income tax position and the tax benefit claimed in the tax return is referred to as an unrecognized tax benefit.

Employee Benefits Change

During the second quarter of fiscal 2014, we implemented a new paid time off policy as part of our employee benefits programs, replacing certain previously existing vacation and sick time policies. In conjunction with these changes in policies, the vesting provisions with respect to the accumulation of paid time off were delayed resulting in the recognition and utilization of paid time off in the same benefits year. As a result of this change, significant portions of our existing accrued vacation balance were no longer necessary and we reversed $12.2 million in the second quarter of fiscal 2014 and an additional $1.2 million in the third quarter of fiscal 2014 to reflect the change in vesting provisions.

Recently Issued Accounting Standards

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which provides guidance for revenue recognition. 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 in exchange for those goods or services.

In July 2015, the FASB approved delaying the effective date of the new standard by one year. As a result, this guidance will be effective for us in the first quarter of fiscal 2019, ending December 31, 2018. Early adoption is permitted as of the original effective date, but not earlier. We are currently in the process of evaluating the impact of adoption of this ASU on our Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance is effective for us in the first quarter of fiscal 2017, ending December 31, 2016. Early adoption is permitted. We do not expect the adoption of this standard to materially impact our Consolidated Financial Statements.

Except as noted above, there have been no significant changes to our assessment of the impact of recently issued accounting standards included in Note 1 of Notes to Consolidated Financial Statements in our 2014 Form 10-K.

2. Supplementary Balance Sheet Information

	June 30, 2015	September 30, 2014
Allowance for possible losses and discounts on trade receivables	$ 26.1	$ 31.4
Inventories:		
Finished products	$ 88.8	$ 93.5
Raw materials and work in process	81.1	82.7
Total inventory	$ 169.9	$ 176.2
Accumulated depreciation of property, plant and equipment	$ 599.5	$ 588.1
Accumulated amortization of software and other intangible assets	$ 302.0	$ 283.3
Preferred stock, without par value:		
Shares authorized	1,000,000	1,000,000
Shares issued	None	None
Common stock, without par value:		
Shares authorized	199,000,000	199,000,000
Shares issued	80,323,912	80,323,912
Shares outstanding	56,715,942	57,439,911
Treasury shares	23,607,970	22,884,001

3. Acquisitions

Trumpf Medical

On August 1, 2014, we completed the acquisition of Trumpf Medical ("Trumpf") and funded the transaction with a combination of cash on hand and borrowings under our revolving credit facility. Trumpf provides a portfolio of well-established operating room (OR) infrastructure products such as surgical tables, surgical lighting, and supply units and expands our product offerings in the surgical suite.

The purchase price was $232.9 million ($226.6 million net of cash acquired). The results of Trumpf are included in the Condensed Consolidated Financial Statements since the date of acquisition.

The following summarizes the fair value of assets acquired and liabilities assumed at the date of the acquisition. In fiscal 2015, we made certain adjustments to the opening balance sheet as of the acquisition date to reflect certain fair value adjustments and, in the second quarter, recorded a $3.0 million liability to reflect the final settlement of certain purchase agreement provisions with the seller, which has subsequently been paid. These adjustments were not material to prior period financial statements and therefore, the 2014 comparative period presented has not been revised to reflect these adjustments. Fair values of assets and liabilities acquired are still considered preliminary and subject to further adjustments.

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		Amount
Trade receivables	$	65.6
Inventory		63.6
Other current assets		24.2
Property, plant, and equipment		42.1
Goodwill		63.6
Trade name (5-year useful life)		6.7
Customer relationships (10-year weighted average useful life)		15.8
Developed technology (8-year weighted average useful life)		17.8
Other intangibles		4.8
Other noncurrent assets		0.7
Deferred tax asset		15.5
Current liabilities		(73.4)
Long term debt		(6.0)
Noncurrent liabilities		(8.1)
Total purchase price	$	232.9

Goodwill was allocated entirely to our Surgical and Respiratory Care segment. The goodwill related to the acquired German operations will be tax deductible in Germany while the remaining goodwill will not be deductible for tax purposes.

On an unaudited proforma basis, as if the Trumpf acquisition had been consummated prior to the earliest date of the financial results presented, our revenue would have been higher by approximately $79 million and $202 million for the quarter and year to date periods ended June 30, 2014. As previously disclosed, the impact to net income on an unaudited proforma basis would not have been significant to our financial results for fiscal 2014. The unaudited pro forma results are based on the Company's historical financial statements and those of the Trumpf business and do not necessarily indicate the results of operations that would have resulted had the acquisition been completed at the beginning of the comparable period presented and are not indicative of the results of operations in future periods.

Other

We have used cash on hand for other business acquisitions and equity investments which we do not consider individually material to the Company's financial position or results of operations. These included one equity investment in which the investee was determined to be a VIE and Hill-Rom was determined to have a controlling financial interest, resulting in consolidation of the investee. The portion of this investee's assets, liabilities, and operating results which are not attributable to Hill-Rom's equity investment are recognized in our Condensed Consolidated Financial Statements as attributable to noncontrolling interests.

Welch Allyn

In June 2015, we announced entry into a definitive agreement under which Hill-Rom will acquire Welch Allyn Holdings, Inc. ("Welch Allyn") for $1.625 billion in cash and approximately 8.1 million newly-issued shares of Hill-Rom common stock, for a total combined purchase price of approximately $2.05 billion. The purchase price is subject to adjustment for changes in stock price and normal true-up provisions in the merger agreement. Welch Allyn is a leading manufacturer of medical diagnostic equipment and offers a diversified portfolio of devices that assess, diagnose, treat, and manage a wide variety of illnesses and diseases. The transaction is expected to close on or prior to October 1, 2015 and will be financed with a combination of new borrowings and Hill-Rom common stock. See the

Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations for further details related to the funding of the acquisition.

4. Goodwill and Indefinite-Lived Intangible Assets

The following summarizes goodwill activity by reportable segment:

	North America	Surgical and Respiratory Care	International	Total
Balances at September 30, 2014:				
Goodwill	$ 390.6	$ 333.5	$ 148.5	$ 872.6
Accumulated impairment losses	(358.1)	-	(114.7)	(472.8)
Goodwill, net at September 30, 2014	32.5	333.5	33.8	399.8
Changes in Goodwill during the period:				
Goodwill related to acquisitions	-	18.4	-	18.4
Currency translation effect	-	(8.8)	(3.1)	(11.9)
Balances at June 30, 2015:				
Goodwill	390.6	343.1	145.4	879.1
Accumulated impairment losses	(358.1)	-	(114.7)	(472.8)
Goodwill, net at June 30, 2015	$ 32.5	$ 343.1	$ 30.7	$ 406.3

As discussed in Note 3, we recorded adjustments to goodwill during fiscal 2015 related to the Trumpf acquisition completed during the fourth quarter of fiscal 2014. We also consolidated an investment made in fiscal 2015 that was determined to be a VIE in which we have a controlling financial interest. The consolidation resulted in $12.1 million of goodwill being recorded within our Surgical and Respiratory Care segment.

As discussed in Note 13, we operate in three reportable business segments. Goodwill impairment testing is performed at the reporting unit level, which is one level below a reportable business segment. We have determined that we have ten reporting units. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and has been reallocated as necessary based on the restructuring of reporting units over time. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill performed during the third quarter of fiscal 2015 and 2014 did not result in any impairments.

A 10 percent reduction in the fair value of any of our reporting units would not result in an impairment charge.

Indefinite-lived intangible assets

We have various indefinite-lived intangible assets representing trade names with a carrying value of $32.9 million at both June 30, 2015 and September 30, 2014. Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or change in circumstances that would more likely than not reduce the fair value of an indefinite-lived intangible asset below its carrying amount. The annual evaluation of indefinite-lived intangible assets performed during the third quarter of fiscal 2015 and 2014 did not result in impairment.

5. Financing Agreements

Total debt consists of the following:

	June 30, 2015	September 30, 2014
Revolving credit facility	$ 360.0	$ 265.0
Term loan current portion	20.0	16.2
Term loan long-term portion	145.0	160.0
Unsecured 7.00% debentures due on February 15, 2024	19.4	19.4
Unsecured 6.75% debentures due on December 15, 2027	29.8	29.8
Other	3.6	1.4
Total debt	577.8	491.8
Less current portion of debt	130.0	126.9
Total long-term debt	$ 447.8	$ 364.9

Prior to May 1, 2015, we had a credit facility that provided for revolving loans of up to $500.0 million, plus a term loan in the aggregate amount of $200.0 million. Borrowings under the credit facility and term loan bore interest at variable rates specified therein, that were less than 2.0 percent.

On May 1, 2015, we entered into an Amended and Restated Credit Agreement (the “Current Credit Facility”) with the lenders named therein, JPMorgan Chase Bank, N.A., as Administrative agent, and each of Citizens Bank, N.A. Bank of America, N.A. and PNC Bank, National Association, as Co-Syndication Agents, which amended and restated our prior credit facility, entered into August 24, 2012. The Current Credit Facility provides for revolving loans outstanding of up to $900.0 million at any time, plus term loans in the current principal amount of $165.0 million. We currently have $360.0 million of outstanding borrowings and undrawn letters of credit of $5.1 million under the revolving loan portion of the Current Credit Facility, leaving $534.9 million of available borrowing capacity.

All revolving loans under the Current Credit Facility mature May 1, 2020. The term loans will continue to amortize so that $40.0 million of the remaining principal will be repaid through August 24, 2017, with the balance due at such date.

Borrowings under the Current Credit Facility bear interest based on a margin (which varies dependent upon the Company’s credit rating) over certain pre-defined index rates, selected at the Company’s option that are currently less than 2 percent. The Current Credit Facility is guaranteed by several fully owned subsidiaries of the Company. The Current Credit Facility contains terms and conditions, events of default, and customary covenants, including requiring that (1) the Company maintain a ratio of Consolidated Indebtedness to Consolidated EBITDA of not more than 3.50:1.0; and (2) a ratio of Consolidated EBITDA to interest expense of not less than 3.00:1.0. We are in compliance with all of our debt covenants as of June 30, 2015.

Unsecured debentures outstanding at June 30, 2015 have fixed rates of interest. We have deferred gains included in the amounts above from the termination of previous interest rate swap agreements, and those deferred gains amounted to less than $1.0 million at both June 30, 2015 and September 30, 2014. The deferred gains are being amortized and recognized as a reduction of interest expense over the remaining term of the related debt through 2024, and as a result, the effective interest rates on that debt have been and will continue to be lower than the stated interest rates.

We have trade finance credit lines and uncommitted letter of credit facilities. These lines are associated with the normal course of business and we had $1.3 million of outstanding standby letters of credit as of June 30, 2015.

We are exposed to market risk from fluctuations in interest rates. The Company sometimes manages its exposure to interest rate fluctuations through the use of interest rate swaps (cash flow hedges). As of June 30, 2015, we had one interest rate swap agreement with a notional amount of $115.0 million to hedge the variability of cash flows associated with a portion of the term loan variable interest rate payments for the period of January 2014 to August 2017. The interest rate swap has been designated as a cash flow hedge. The interest rate swap fair value was a $0.4 million liability as of June 30, 2015 and an asset of $0.2 million as of September 30, 2014. The fair value measurement for our interest rate swap is classified as Level 2, as described in Note 1.

The fair value of our debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. The book values of our short-term debt instruments approximate fair value. The estimated fair values of our long-term unsecured debentures were $55.5 million at both June 30, 2015 and September 30, 2014, and were based on observable inputs such as quoted prices in markets that are not active. The estimated fair value of our term loan was $164.4 million and $175.2 million at June 30, 2015 and September 30, 2014 based on quoted prices for similar liabilities as of those dates. The fair value measurements for both our long-term unsecured debentures and our term loan were classified as Level 2, as described in Note 1.

In conjunction with the pending acquisition of Welch Allyn, as outlined in Note 3, we intend to refinance our debt. See the Liquidity and Capital Resources section of Management's Discussion and Analysis of Financial Condition and Results of Operations for further details.

6. Retirement and Postretirement Plans

We sponsor five defined benefit retirement plans: a master defined benefit retirement plan, a nonqualified supplemental executive defined benefit retirement plan and three defined benefit retirement plans covering employees in Germany and France. Benefits for such plans are based primarily on years of service and the employee's level of compensation during specific periods of employment. We contribute funds to trusts as necessary to provide for current service and for any unfunded projected future benefit obligation over a reasonable period of time for our funded plans. All of our plans have an annual measurement date of September 30. The following table includes the components of net pension expense for our defined benefit plans.

	Quarter Ended June 30		Year to Date Ended June 30	
	2015	2014	2015	2014
Service cost	$1.4	$1.2	$ 4.1	$ 3.7
Interest cost	3.7	3.6	11.1	10.8
Expected return on plan assets	(4.3)	(4.2)	(12.8)	(12.6)
Amortization of unrecognized prior service cost, net	0.2	0.2	0.5	0.5
Amortization of net loss	1.3	0.8	4.0	2.4
Net pension expense	2.3	1.6	6.9	4.8
Special termination benefits	-	-	-	2.4
Net pension expense	$2.3	$1.6	$ 6.9	$ 7.2

We also sponsor a domestic postretirement health care plan that provides health care benefits to qualified retirees and dependents until eligible for Medicare. Annual costs related to the domestic postretirement health care plan are not significant.

In April, 2015, we offered all terminated vested participants of our domestic master defined benefit retirement plan an option to receive a lump sum cash payout in lieu of their right to future periodic benefit payments under the plan upon their retirement. The election window has closed, with initial participant elections received, and we anticipate the lump sum payments to be made in September 2015. Based on the voluntary elections of participants during the window, we expect to incur a non-cash settlement charge of $7 to $10 million in the fourth quarter of fiscal 2015 with respect to this action. The amount of the charge may vary due to possible changes in discount rates and asset returns before the measurement date, which will occur once the settlements are paid.

During the second quarter of fiscal 2014, we initiated a domestic early retirement program, which offered certain special termination benefits relating to our pension and postretirement health care plans. This program and the related special termination benefits resulted in a non-cash charge of $4.5 million, $2.4 million of which related to our master defined benefit retirement plan and $2.1 million for our postretirement health care plan. During the third and fourth quarters of fiscal 2014, we reversed a cumulative $1.3 million of the $2.1 million postretirement health care plan charge as certain participants elected alternative coverage separate from the postretirement health care plan. The employee elections were not known until the third and fourth quarters of fiscal 2014. Refer to Note 8 for more details.

We have defined contribution savings plans that cover substantially all U.S. employees and certain non-U.S. employees. The general purpose of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on eligibility and employee contributions. Expense under these plans was $4.6 million and $4.1 million in each of the quarterly periods ended June 30, 2015 and 2014; and $12.6 million and $11.5 million in the year to date periods ended June 30, 2015 and 2014.

7. Other Comprehensive Income

The following tables describe the changes in accumulated other comprehensive loss by component:

	Quarter Ended June 30, 2015							
	Other comprehensive income (loss)					Accumulated other comprehensive loss		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and currency hedges	$ 0.2	$ -	$ 0.2	$ (0.1)	$ 0.1	$ (0.6)	$ 0.1	$ (0.5)
Foreign currency translation adjustment	19.4	-	19.4	-	19.4	(104.8)	19.4	(85.4)
Change in pension and postretirement defined benefit plans	-	1.4	1.4	(0.6)	0.8	(38.1)	0.8	(37.3)
Total	$ 19.6	$ 1.4	$ 21.0	$ (0.7)	$ 20.3	$ (143.5)	$ 20.3	$ (123.2)

	Quarter Ended June 30, 2014							
	Other comprehensive income (loss)					Accumulated other comprehensive loss		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and currency hedges	$ (0.7)	$ -	$ (0.7)	$ 0.2	$ (0.5)	$ (0.1)	$ (0.5)	$ (0.6)
Foreign currency translation adjustment	1.1	-	1.1	-	1.1	1.0	1.1	2.1
Change in pension and postretirement defined benefit plans	-	1.0	1.0	(0.4)	0.6	(29.7)	0.6	(29.1)
Total	$ 0.4	$ 1.0	$ 1.4	$ (0.2)	$ 1.2	$ (28.8)	$ 1.2	$ (27.6)

	Year to Date Ended June 30, 2015							
	Other comprehensive income (loss)					Accumulated other comprehensive loss		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and currency hedges	$ (0.8)	$ -	$ (0.8)	$ 0.3	$ (0.5)	$ -	$ (0.5)	$ (0.5)
Foreign currency translation adjustment	(51.2)	-	(51.2)	-	(51.2)	(34.2)	(51.2)	(85.4)
Change in pension and postretirement defined benefit plans	0.1	4.1	4.2	(1.6)				