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HILL-ROM HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

Filed 07/28/17 for the Period Ending 06/30/17

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

FORM 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2017

OR

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

Commission File No. 1-6651

Enhancing Outcomes for Patients and Their Caregivers.™

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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Yes ☑ No ☐

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

Yes ☑ No ☐

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☑

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 – 65,880,728 shares as of July 24, 2017 .

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	
	2017	2016	**2017**	2016
Net Revenue				
Product sales and service	**$ 593.1**	$ 556.0	**$ 1,714.6**	$ 1,650.4
Rental revenue	**96.0**	99.4	**290.8**	298.8
Total revenue	**689.1**	655.4	**2,005.4**	1,949.2
Cost of Revenue				
Cost of goods sold	**311.5**	293.6	**905.6**	896.0
Rental expenses	**46.5**	46.4	**141.7**	142.9
Total cost of revenue	**358.0**	340.0	**1,047.3**	1,038.9
Gross Profit	**331.1**	315.4	**958.1**	910.3
Research and development expenses	**34.9**	33.6	**102.2**	101.5
Selling and administrative expenses	**221.0**	209.9	**652.2**	640.5
Special charges (Note 8)	**34.8**	13.7	**43.7**	31.5
Operating Profit	**40.4**	58.2	**160.0**	136.8
Interest expense	**(23.8)**	(23.0)	**(65.2)**	(68.2)
Investment income and other, net	**(0.5)**	0.1	**(2.1)**	0.6
Income Before Income Taxes	**16.1**	35.3	**92.7**	69.2
Income tax expense (benefit) (Note 9)	**10.4**	(9.7)	**29.5**	(2.2)
Net Income	**5.7**	45.0	**63.2**	71.4
Less: Net loss attributable to noncontrolling interests	**(0.3)**	(0.3)	**(1.0)**	(1.0)
Net Income Attributable to Common Shareholders	**$ 6.0**	$ 45.3	**$ 64.2**	$ 72.4
Net Income Attributable to Common Shareholders per Common Share - Basic	**$ 0.09**	$ 0.69	**$ 0.98**	$ 1.11
Net Income Attributable to Common Shareholders per Common Share - Diluted	**$ 0.09**	$ 0.68	**$ 0.95**	$ 1.09
Dividends per Common Share	**$ 0.18**	$ 0.17	**$ 0.53**	$ 0.50
Average Common Shares Outstanding - Basic (thousands) (Note 10)	**65,795**	65,406	**65,567**	65,300
Average Common Shares Outstanding - Diluted (thousands) (Note 10)	**67,688**	66,552	**67,300**	66,402

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Net Income	**$ 5.7**	$ 45.0	**$ 63.2**	$ 71.4
Other Comprehensive Income, net of tax (Note 7):				
Available-for-sale securities and hedges	**(2.4)**	(3.3)	**7.6**	(5.0)
Foreign currency translation adjustment	**38.1**	(20.1)	**12.6**	(17.7)
Change in pension and postretirement defined benefit plans	**0.6**	0.9	**2.7**	2.2
Total Other Comprehensive Income (Loss), net of tax	**36.3**	(22.5)	**22.9**	(20.5)
Total Comprehensive Income	**42.0**	22.5	**86.1**	50.9
Less: Comprehensive loss attributable to noncontrolling interests	**(0.3)**	(0.3)	**(1.0)**	(1.0)
Total Comprehensive Income Attributable to Common Shareholders	**$ 42.3**	$ 22.8	**$ 87.1**	$ 51.9

See Notes to Condensed Consolidated Financial Statements

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

	June 30, 2017	September 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 243.2**	$ 232.2
Trade accounts receivable, net of allowances (Note 2)	**519.4**	515.1
Inventories (Note 2)	**268.1**	252.0
Other current assets	**80.8**	82.8
Total current assets	**1,111.5**	1,082.1
Property, plant and equipment, net (Note 2)	**354.8**	350.0
Goodwill (Note 4)	**1,751.6**	1,584.4
Other intangible assets and software, net (Note 2)	**1,170.2**	1,143.3
Deferred income taxes (Notes 1 and 9)	**42.7**	43.1
Other assets	**53.3**	59.5
Total Assets	**$ 4,484.1**	$ 4,262.4
LIABILITIES		
Current Liabilities		
Trade accounts payable	**$ 143.5**	$ 136.0
Short-term borrowings (Note 5)	**187.4**	210.1
Accrued compensation	**119.1**	127.0
Accrued product warranties (Note 12)	**26.9**	27.5
Accrued rebates	**39.8**	40.8
Other current liabilities	**116.0**	120.9
Total current liabilities	**632.7**	662.3
Long-term debt (Note 5)	**2,151.5**	1,938.4
Accrued pension and postretirement benefits (Note 6)	**99.6**	99.0
Deferred income taxes (Notes 1 and 9)	**270.2**	287.8
Other long-term liabilities	**38.9**	39.0
Total Liabilities	**3,192.9**	3,026.5
Commitments and Contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Common Stock (Note 2)	**4.4**	4.4
Additional paid-in capital	**587.0**	575.9
Retained earnings	**1,618.7**	1,589.7
Accumulated other comprehensive loss (Note 7)	**(146.2)**	(169.1)
Treasury stock, at cost (Note 2)	**(780.4)**	(773.7)
Total Shareholders' Equity Attributable to Common Shareholders	**1,283.5**	1,227.2
Noncontrolling interests	**7.7**	8.7
Total Shareholders' Equity	**1,291.2**	1,235.9
Total Liabilities and Shareholders' Equity	**$ 4,484.1**	$ 4,262.4

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	
	2017	2016
Operating Activities		
Net income	**$ 63.2**	$ 71.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**60.5**	71.9
Amortization	**15.3**	12.9
Acquisition-related intangible asset amortization	**80.2**	72.1
Provision for deferred income taxes	**(23.3)**	(7.9)
Loss on disposal of property, equipment leased to others, intangible assets, and impairments	**23.5**	1.4
Gain on sale of businesses	**(1.0)**	—
Stock compensation	**17.5**	18.1
Excess tax benefits from employee stock plans	**—**	(1.3)
Change in working capital excluding cash, current debt, acquisitions and dispositions:		
Trade accounts receivable	**13.7**	33.5
Inventories	**(1.8)**	11.8
Other current assets	**13.2**	16.5
Trade accounts payable	**1.0**	(15.3)
Accrued expenses and other liabilities	**(29.9)**	(79.0)
Other, net	**7.6**	(0.7)
Net cash provided by operating activities	**239.7**	205.4
Investing Activities		
Capital expenditures and purchases of intangible assets	**(73.8)**	(60.7)
Proceeds on sale of property and equipment leased to others	**13.7**	1.5
Payment for acquisition of businesses, net of cash acquired	**(311.4)**	—
Proceeds on sale of businesses	**4.5**	0.5
Other	**(2.1)**	(1.6)
Net cash used in investing activities	**(369.1)**	(60.3)
Financing Activities		
Proceeds from borrowings on long-term debt	**300.0**	2.5
Payment of long-term debt	**(54.9)**	(109.9)
Borrowings on Revolving Credit Facility	**108.0**	20.0
Payments on Revolving Credit Facility	**(248.8)**	(20.0)
Borrowings on Securitization Program	**101.3**	—
Payments on Securitization Program	**(14.5)**	—
Debt issuance costs	**(5.1)**	—
Purchase of noncontrolling interest of former joint venture	**—**	(0.4)
Payment of cash dividends	**(34.8)**	(32.6)
Proceeds on exercise of stock options	**17.5**	3.8
Proceeds from stock issuance	**3.5**	2.7
Excess tax benefits from employee stock plans	**—**	1.3
Treasury stock acquired	**(34.3)**	(3.5)
Net cash provided by (used in) financing activities	**137.9**	(136.1)
Effect of exchange rate changes on cash	**2.5**	(2.2)
Net Cash Flows	**11.0**	6.8
Cash and Cash Equivalents:		
At beginning of period	**232.2**	192.8
At end of period	**$ 243.2**	$ 199.6

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)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Unless the context otherwise requires, the terms "Hill-Rom," "the Company," "we," "our," and "us" refer to Hill-Rom Holdings, Inc. and its wholly-owned 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 Hill-Rom's latest Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (" 2016 Form 10-K ") as filed with the United States ("U.S.") Securities and Exchange Commission. The September 30, 2016 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%, 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 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 and such differences could be material. Examples of such estimates include, but are not limited to, income taxes (Notes 1 and 9), accounts receivable reserves (Note 2), accrued warranties (Note 12), the impairment of intangibles and goodwill (Note 4), pension expense (Note 6), and commitments and contingencies (Note 14).

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 are 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 derivatives and investments as either Level 2 or 3 instruments. There have not been significant changes in our classification among assets and liabilities during the fiscal year. Refer to Note 5 for disclosure of our debt instrument and interest rate swap 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

Hill-Rom and its 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, 2017 , we had $36.1 million of valuation allowances on deferred tax assets, on a tax-effected basis, primarily related to state tax credit carryforwards that are not expected to be utilized and foreign operating loss carryforwards and other tax attributes. 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.

Dispositions

During the third quarter of fiscal 2017, we entered into an agreement to sell our Völker business and recorded an after-tax loss of $26.8 million in Special charges, which includes (i) impairment charges of $25.4 million relating mainly to non-cash write-downs of long-lived assets and working capital associated with the Völker brand portfolio; and (ii) transaction related costs of approximately $1.4 million . We do not expect the impairment related to the disposition to be tax deductible. The transaction is subject to certain regulatory approvals and other customary closing conditions. The Völker business is part of our Patient Support Systems segment and we expect to close the transaction and incur additional transaction related costs during our fiscal fourth quarter.

During the first quarter of fiscal 2017, we sold our Architectural Products business for $4.5 million in cash proceeds and recorded an immaterial gain in Investment income and other, net.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation – Stock Compensation (Topic 718), “Improvements to Employee Share-Based Payment Accounting.” During the first quarter of fiscal 2017, we elected to early adopt ASU 2016-09, as permitted. Under ASU 2016-09, the tax effects of stock compensation will be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. Amendments related to accounting for excess tax benefits have been adopted prospectively, resulting in recognition of excess tax benefits against income tax expense rather than additional paid-in capital of $1.3 million and $5.6 million in the three and nine months ended June 30, 2017 . As a result of the adoption, we did not record an adjustment to retained earnings as we did not have net operating loss carryforwards attributable to excess tax benefits on stock compensation that had not been previously recognized to additional paid-in capital. Excess tax benefits for share-based payments are now included as net operating activities rather than net financing activities. The changes have been applied prospectively in accordance with the ASU and prior periods have not been adjusted. Cash paid by an employer when directly withholding shares for tax withholding purposes will continue to be classified as financing activities. We elected not to change our accounting policy for forfeitures. The threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions.

In May 2014, the FASB issued 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 August 2015, the FASB issued ASU 2015-14 which delayed the effective date of the new revenue guidance by one year, while permitting companies to early adopt the new standard as of the original effective date. As a result, the provisions of ASU 2014-09 and subsequent amendments, are effective for us in the first quarter of fiscal 2019 using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a modified retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption. We plan to adopt the new standard effective October 1, 2018 and are

continuing to evaluate the impact of adoption on our Consolidated Financial Statements and the implementation approach to be used.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). From the lessee's perspective, the new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for our first quarter of fiscal 2020. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently in the process of evaluating the impact of the amended guidance on 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 our Consolidated Financial Statements in our 2016 Form 10-K .

Note 2. Supplementary Balance Sheet Information

	June 30, 2017	September 30, 2016
Allowance for possible losses and discounts on trade receivables	**$ 28.2**	$ 26.8
Inventories:		
Finished products	**$ 144.5**	$ 124.2
Raw materials and work in process	**123.6**	127.8
Total inventory	**$ 268.1**	$ 252.0
Accumulated depreciation of property, plant and equipment	**$ 615.9**	$ 611.8
Accumulated amortization of software and other intangible assets	**$ 480.8**	$ 398.3
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	**88,457,634**	88,457,634
Shares outstanding	**65,879,595**	65,705,253
Treasury shares	**22,578,039**	22,752,381

Note 3. Acquisitions

Mortara Instrument

On February 14, 2017, we completed the acquisition of Mortara Instrument, Inc. ("Mortara") for consideration of $330.0 million in cash ($311.2 million , net of cash acquired), primarily financed through a private offering of $300.0 million of senior unsecured notes (see Note 5 of our Condensed Consolidated Financial Statements). Mortara provides a portfolio of diagnostic cardiology devices designed to serve the full continuum of clinical care, from acute care to primary care and clinical research organizations.

The results of Mortara are included in the Condensed Consolidated Financial Statements since the date of acquisition. The impact to reported revenue and net income was not significant. The impact to our year to date revenue and net income on an unaudited proforma basis, as if the Mortara acquisition had been consummated at the beginning of our fiscal 2016 year, would not have been significant.

The following summarizes the preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of the Mortara acquisition. During the third quarter of fiscal 2017, we made certain adjustments to the opening balance sheet as of the acquisition date which were insignificant. The fair value of assets acquired and liabilities assumed are still considered to be preliminary and are subject to further adjustments.

	Amount
Trade receivables	$ 16.4
Inventory	21.3
Other current assets	2.8
Property, plant and equipment	18.1
Goodwill	165.5
Trade names (7-year weighted average useful life)	15.8
Customer relationships (8-year useful life)	37.8
Developed technology (7-year useful life)	53.6
Other noncurrent assets	3.8
Current liabilities	(22.6)
Noncurrent liabilities	(1.3)
Total purchase price, net of cash acquired	$ 311.2

Goodwill in connection with the Mortara acquisition was allocated entirely to our Front Line Care segment. The preliminary fair value attributes a majority of the goodwill to the acquired U.S. operations which is deductible for tax purposes.

Tridien Medical

On September 21, 2016, we acquired all of the outstanding shares of Anodyne Medical Device, Inc., known as Tridien Medical ("Tridien") for a purchase price of $26.0 million , net of cash acquired. Tridien develops, manufactures and markets support surfaces and patient positioning devices. We funded the transaction primarily with borrowings under our Senior Secured Revolving Credit Facility ("Revolving Credit Facility"). The preliminary fair value of assets acquired included $10.6 million of working capital consisting primarily of inventories and accounts receivable, $6.7 million of goodwill and $6.3 million of acquisition-related intangible assets. The results of Tridien are included in the Condensed Consolidated Financial Statements since the date of acquisition. Goodwill in connection with the Tridien acquisition was allocated entirely to our Patient Support Systems segment and is not deductible for tax purposes.

During the first quarter of fiscal 2017 , we made certain adjustments to the opening balance sheet as of the acquisition date which were insignificant. These results remain preliminary and are subject to customary true-up provisions in the purchase agreement and other fair value adjustments.

Note 4. Goodwill and Indefinite-Lived Intangible Assets

The following summarizes goodwill activity by reportable segment:

	Patient Support Systems	Front Line Care	Surgical Solutions	Total
Balances at September 30, 2016				
Goodwill	$ 544.1	$ 1,205.5	$ 307.6	$ 2,057.2
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net at September 30, 2016	71.3	1,205.5	307.6	1,584.4
Changes in Goodwill during the period:				
Goodwill related to acquisitions	(1.2)	165.5	—	164.3
Currency translation effect	0.5	1.5	0.9	2.9
Balances at June 30, 2017				
Goodwill	543.4	1,372.5	308.5	2,224.4
Accumulated impairment losses	(472.8)	—	—	(472.8)
Goodwill, net at June 30, 2017	**$ 70.6**	**$ 1,372.5**	**$ 308.5**	**$ 1,751.6**

As discussed in Note 13, we operate in three reportable business segments. Goodwill impairment testing is performed at the reporting unit level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded and is reallocated as necessary based on the restructuring of reporting units over time. Once goodwill is 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 2017 and 2016 did not result in any impairments.

Indefinite-lived intangible assets

We have various indefinite-lived intangible assets representing trade names with a carrying value of $466.9 million as of June 30, 2017 and September 30, 2016 . 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 2017 and 2016 did not result in impairment.

Note 5. Financing Agreements

Total debt consists of the following:

	June 30, 2017	September 30, 2016
Revolving credit facilities	**$ 95.0**	$ 235.8
Current portion of long-term debt	**100.5**	73.2
Senior secured Term Loan A, long-term portion	**1,293.1**	1,372.3
Senior unsecured 5.75% notes due on September 1, 2023	**419.7**	419.1
Senior unsecured 5.00% notes due on February 14, 2025	**295.6**	—
Unsecured 7.00% debentures due on February 15, 2024	**13.6**	13.7
Unsecured 6.75% debentures due on December 15, 2027	**29.6**	29.6
Securitization Program	**86.8**	—
Other	**5.0**	4.8
Total debt	**2,338.9**	2,148.5
Less Short-term borrowings	**187.4**	210.1
Total Long-term debt	**$ 2,151.5**	$ 1,938.4

In May 2017, we entered into a 364 -day $110.0 million accounts receivable securitization program (the "Securitization Program") with certain financial institutions. Under the terms of the Securitization Program, certain of our accounts receivable secure the amounts borrowed and cannot be used to pay our other debts or liabilities. The amount that we may borrow at a given point in time is determined based on the amount of qualifying accounts receivable that are present at such point in time. As of June 30, 2017 , $86.8 million was borrowed under the Securitization Program. Borrowings outstanding under the Securitization Program bear interest at LIBOR plus the applicable margin of 0.675% and are included as a component of Short-term borrowings, while the accounts receivable securing these obligations remain as a component of Trade accounts receivable, net of allowances in our Condensed Consolidated Balance Sheets.

In addition, the agreement governing the Securitization Program contains various customary affirmative and negative covenants, and customary default and termination provisions. As of June 30, 2017 , we were in compliance with these covenants and provisions.

In February 2017, the Company entered into $300.0 million of senior unsecured notes maturing February 2025 for purposes of financing the Mortara acquisition. These notes bear interest at a fixed rate of 5.00% annually . We also have outstanding senior unsecured notes of $425.0 million maturing in September 2023 that bear interest at a fixed rate of 5.75% annually (collectively, the "Senior Notes"). These Senior Notes were issued at par in a private placement offering and are not registered securities on any public market. All of the notes were outstanding as of June 30, 2017 . We are not required to make any mandatory redemption or sinking fund payments with respect to the Senior Notes, other than in certain circumstances such as a change in control or material sale of assets. We may redeem the 5.75% and 5.00% notes prior to maturity, but doing so prior to September 1, 2021 and February 15, 2020 would require payment of a premium on any amounts redeemed, the amount of which varies based on the timing of the redemption. The indentures governing the Senior Notes contain certain covenants which impose limitations on the amount of dividends we may pay and the amount of common shares we may repurchase in the open market, but we do not expect these covenants to affect our current dividend policy or open share repurchase program. The terms of these indentures also impose certain restrictions on the amount and type of additional indebtedness we may obtain in the future, as well as the types of liens and guarantees we may provide.

In September 2016, the Company entered into an amended and restated senior credit agreement ("Senior Credit Agreement") for purposes of refinancing our credit facilities (originally entered into as part of the Welch Allyn acquisition) and funding the payoff of our then outstanding senior secured Term Loan B facility. The Senior Credit Agreement consists of two facilities as follows:

- $1,462.5 million senior secured Term Loan A facility ("TLA Facility"), maturing in September 2021
- Revolving Credit Facility, providing borrowing capacity of up to $700.0 million , maturing in September 2021

The TLA Facility and Revolving Credit Facility (collectively, the "Senior Secured Credit Facilities") bear interest at variable rates which currently approximate 3.0% . These interest rates are based primarily on the London Interbank Offered Rate ("LIBOR"), but under certain conditions could also be based on the U.S. Federal Funds Rate or the U.S. Prime Rate, at our option. The TLA Facility requires minimum principal payments of $73.1 million in fiscal 2017 , $109.7 million in fiscal 2018 , and $146.3 million annually thereafter, with the remaining unpaid principal balance due at maturity. We are able to voluntarily prepay outstanding

loans under the TLA Facility at any time. During the year to date period ended June 30, 2017 , we made required minimum payments of $54.8 million on the TLA Facility.

At June 30, 2017 , there were $95.0 million of borrowings on the Revolving Credit Facility, and available borrowing capacity was $596.9 million after giving effect to $8.1 million of outstanding standby letters of credit. The availability of borrowings under our Revolving Credit Facility is subject to our ability at the time of borrowing to meet certain specified conditions, including compliance with covenants contained in the Senior Credit Agreement.

The Senior Secured Credit Facilities are held with a syndicate of banks, which includes over 30 institutions. Our general corporate assets, including those of our subsidiaries, collateralize these obligations. The amended and restated credit agreement governing these facilities contains financial covenants which specify a maximum secured net leverage ratio and a minimum interest coverage ratio, as such terms are defined in the amended and restated credit agreement. These financial covenants are measured at the end of each fiscal quarter. The required ratios vary providing a gradually decreasing maximum secured net leverage ratio and a gradually increasing minimum interest coverage ratio, as set forth in the table below:

Fiscal Quarter Ended	**Maximum Secured Net Leverage Ratio**	**Minimum Interest Coverage Ratio**
December 31, 2016	4.50x	3.25x
December 31, 2017	4.00x	3.50x
December 31, 2018	3.50x	3.75x
December 31, 2019 and thereafter	3.00x	4.00x

We were in compliance with all financial covenants under our Senior Credit Agreement as of June 30, 2017 .

We are exposed to market risk from fluctuations in interest rates. We sometimes manage our exposure to interest rate fluctuations through the use of interest rate swaps. As of June 30, 2017 , we had nine interest rate swap agreements, with notional amounts of $750.0 million , in aggregate, to hedge the variability of cash flows associated with a portion of the variable interest rate payments for the period December 2016 to September 2021 on the Senior Secured Credit Facilities. The interest rate swaps have effective start dates ranging between December 31, 2016 and September 8, 2020 and were designated as cash flow hedges. At June 30, 2017 , these swaps were in a net asset position with an aggregate fair value of $8.0 million . We classify fair value measurements on our interest rate swaps 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 and Revolving Credit Facility approximate fair value.

The estimated fair values of our long-term debt instruments, including the current portion, are described in the table below:

	June 30, 2017	September 30, 2016
Senior secured Term Loan A	**$ 1,392.9**	$ 1,441.0
Senior unsecured 5.75% notes due on September 1, 2023	**449.6**	454.0
Senior unsecured 5.00% notes due on February 14, 2025	**307.4**	—
Unsecured debentures	**44.9**	45.8
Total debt	**$ 2,194.8**	$ 1,940.8

The estimated fair values of our long-term unsecured debentures were based on observable inputs such as quoted prices in markets that are not active. The estimated fair values of our term loans and the Senior Notes were based on quoted prices for similar liabilities. These fair value measurements are classified as Level 2, as described in Note 1.

Note 6. Retirement and Postretirement Plans

We sponsor five defined benefit retirement plans. Those plans include: 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. All of our plans have a September 30 measurement date. The following table details the components of net pension expense for our defined benefit retirement plans.

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Service cost	**$ 1.4**	$ 1.3	**$ 4.3**	$ 3.8
Interest cost	**2.5**	2.8	**7.4**	8.2
Expected return on plan assets	**(3.7)**	(3.3)	**(11.0)**	(9.8)
Amortization of unrecognized prior service cost, net	**—**	0.1	**0.1**	0.2
Amortization of net loss	**1.5**	1.1	**4.6**	3.4
Net pension expense	**$ 1.7**	$ 2.0	**$ 5.4**	$ 5.8

In addition to defined benefit retirement plans, we also offer two domestic postretirement health care plans, one of which was assumed in the acquisition of Welch Allyn, that provide health care benefits to qualified retirees and their dependents. The plans are closed to new participants and include retiree cost sharing provisions. Annual costs related to these plans are not significant.

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. Our contributions to the plans are based on eligibility and employee contributions. Expense under these plans was $6.7 million and $6.8 million in each of the quarterly periods ended June 30, 2017 and 2016 , and $ 19.8 million and $ 20.1 million in the year to date periods ended June 30, 2017 and 2016 .

Note 7. Other Comprehensive Income (Loss)

The following table represents the changes in accumulated other comprehensive loss by component:

Quarter Ended June 30, 2017

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	$ (3.5)	$ (0.2)	$ (3.7)	$ 1.3	$ (2.4)	$ 6.9	$ (2.4)	$ 4.5
Foreign currency translation adjustment	37.1	1.0	38.1	—	38.1	(140.7)	38.1	(102.6)
Change in pension and postretirement defined benefit plans	(0.5)	1.5	1.0	(0.4)	0.6	(48.7)	0.6	(48.1)
Total	$ 33.1	$ 2.3	$ 35.4	$ 0.9	$ 36.3	$ (182.5)	$ 36.3	$ (146.2)

Quarter Ended June 30, 2016

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	$ (5.5)	$ 0.4	$ (5.1)	$ 1.8	$ (3.3)	$ (1.7)	$ (3.3)	$ (5.0)
Foreign currency translation adjustment	(20.1)	—	(20.1)	—	(20.1)	(90.4)	(20.1)	(110.5)
Change in pension and postretirement defined benefit plans	—	1.1	1.1	(0.2)	0.9	(46.7)	0.9	(45.8)
Total	$ (25.6)	$ 1.5	$ (24.1)	$ 1.6	$ (22.5)	$ (138.8)	$ (22.5)	$ (161.3)

Year to Date Ended June 30, 2017

	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	$ 13.1	$ (0.9)	$ 12.2	$ (4.6)	$ 7.6	$ (3.1)	$ 7.6	$ 4.5
Foreign currency translation adjustment	11.6	1.0	12.6	—	12.6	(115.2)	12.6	(102.6)
Change in pension and postretirement defined benefit plans	(0.1)	4.4	4.3	(1.6)	2.7	(50.8)	2.7	(48.1)
Total	$ 24.6	$ 4.5	$ 29.1	$ (6.2)	$ 22.9	$ (169.1)	$ 22.9	$ (146.2)

	Year to Date Ended June 30, 2016							
	Other comprehensive income (loss)					Accumulated other comprehensive income (loss)		
	Prior to reclassification	Reclassification from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance
Available-for-sale securities and hedges	$ (8.1)	$ 0.4	$ (7.7)	$ 2.7	$ (5.0)	$ —	$ (5.0)	$ (5.0)
Foreign currency translation adjustment	(17.7)	—	(17.7)	—	(17.7)	(92.8)	(17.7)	(110.5)
Change in pension and postretirement defined benefit plans	—	3.2	3.2	(1.0)	2.2	(48.0)	2.2	(45.8)
Total	$ (25.8)	$ 3.6	$ (22.2)	$ 1.7	$ (20.5)	$ (140.8)	$ (20.5)	$ (161.3)

The following table represents the items reclassified out of accumulated other comprehensive loss and the related tax effects:

	Quarter Ended June 30					
	2017			2016		
	Amount reclassified	**Tax effect**	**Net of tax**	Amount reclassified	Tax effect	Net of tax
Available-for-sale securities and hedges (a)	**$ (0.2)**	**$ —**	**$ (0.2)**	$ 0.4	$ (0.2)	$ 0.2
Foreign currency translation adjustment (b)	**$ 1.0**	**$ —**	**$ 1.0**	$ —	$ —	$ —
Change in pension and postretirement defined benefit plans (c)	**$ 1.5**	**$ (0.5)**	**$ 1.0**	$ 1.1	$ (0.2)	$ 0.9

	Year to Date Ended June 30					
	2017			2016		
	Amount reclassified	**Tax effect**	**Net of tax**	Amount reclassified	Tax effect	Net of tax
Available-for-sale securities and hedges (a)	**$ (0.9)**	**$ 0.2**	**$ (0.7)**	$ 0.4	$ (0.2)	$ 0.2
Foreign currency translation adjustment (b)	**$ 1.0**	**$ —**	**$ 1.0**	$ —	$ —	$ —
Change in pension and postretirement defined benefit plans (c)	**$ 4.4**	**$ (1.6)**	**$ 2.8**	$ 3.2	$ (1.0)	$ 2.2

(a) Reclassified from accumulated other comprehensive income (loss) into Investment income and other, net .
(b) Reclassified from accumulated other comprehensive income (loss) into Special charges.
(c) Reclassified from accumulated other comprehensive income (loss) into Cost of goods sold and Selling and administrative expenses . These components are included in the computation of net periodic pension expense.

Note 8. Special Charges

In connection with various organizational changes to improve our business alignment and cost structure, we recognized special charges of $ 34.8 million and $ 13.7 million for the quarters ended June 30, 2017 and 2016 , and $ 43.7 million and $ 31.5 million for the year to date periods ended June 30, 2017 and 2016 . These charges are summarized as follows:

Dispositions

During the third quarter of fiscal 2017, we entered into an agreement to sell our Völker business and recorded an after-tax loss of $26.8 million in Special charges, which includes (i) impairment charges of $25.4 million relating mainly to non-cash write-downs

of long-lived assets and working capital associated with the Völker brand portfolio; and (ii) transaction related costs of approximately $1.4 million .

During the first quarter of fiscal 2017, we sold our Architectural Products business and recorded special charges of $1.1 million , primarily related to severance .

Integration and Business Realignment
We recently acquired Mortara and Tridien and initiated integration activities to optimize the available synergies of our combined company. Additionally, with the acquisition of Welch Allyn in September 2015, we initiated plans to realign our business structure to facilitate the integration, take full advantage of available synergies, and position our existing businesses to capitalize on opportunities for growth. We also incurred costs, including severance and benefit costs, associated with other business realignment and integration activities. During the quarter and year to date periods ended June 30, 2017 , we incurred total integration and business realignment charges of approximately $3.1 million and $ 5.4 million , of which $1.8 million and $3.2 million were severance and benefit costs. These amounts compare to charges of $4.4 million and $ 15.2 million during the quarter and year to date periods ended June 30, 2016 . We continue to evaluate additional actions related to integration and business realignment and expect additional special charges to be incurred. However, it is not practicable to estimate the amount of these future expected costs until such time as the evaluations are complete .

Site Consolidation
In the third quarter of fiscal 2015, we initiated a plan to streamline our operations and simplify our supply chain by consolidating certain manufacturing and distribution operations (“Site Consolidation”). As part of this action, we have announced the closure of five sites. During the quarter and year to date periods ended June 30, 2017 , we recorded total charges of $4.9 million and $14.7 million , related to these efforts, of which $0.4 million and $2.1 million were severance and benefit costs. These amounts compare to charges of $8.1 million and $ 12.0 million , during the quarter and year to date periods ended June 30, 2016 .

During the second quarter of fiscal 2017, we sold our Charleston property for $6.1 million in cash proceeds and recorded a gain of $5.2 million .

Since the inception of the Site Consolidation program through June 30, 2017 , we have recognized aggregate special charges of $29.9 million . We continue to evaluate our facilities footprint and expect to incur additional costs with respect to other actions in the future, however, it is not practicable to estimate the amount of these future expected costs until such time as the evaluations are complete .

2014 Global Transformation
During the second quarter of fiscal 2014, we announced a global transformation program focused on improving our cost structure. The domestic portion of this action was completed in fiscal 2015. Part of this program included reducing our European manufacturing capacity and streamlining our global operations by, among other things, executing a back office process transformation program in Europe. The restructuring in Europe is complete and, for the year to date period ended June 30, 2017 , resulted in charges of $0.9 million for severance and benefit costs, legal and professional fees, temporary labor, project management, and other administrative functions. These amounts compare to charges of $1.2 million and $ 4.3 million in the prior year third quarter and year to date periods ended June 30, 2016 . Since the inception of the 2014 global transformation program through June 30, 2017 , we have recognized aggregate special charges of $43.6 million . We do not expect to incur further costs related to this action.

For all accrued severance and other benefit charges described above, we record restructuring reserves within other current liabilities. The reserve activity for severance and other benefits during the year to date period ended June 30, 2017 was as follows:

Balance at September 30, 2016	$	14.7
Expenses		7.3
Cash Payments		(10.4)
Reversals		(0.8)
Balance at June 30, 2017	**$**	**10.8**

Note 9. Income Taxes

The effective tax rate for the quarter and year to date periods ended June 30, 2017 was 64.6% and 31.8% compared to (27.5)% and (3.2)% for the comparable periods in the prior year. The effective tax rates for the current year are higher than the comparable periods in fiscal 2016 due primarily to the difference in the amount of discrete tax benefits recognized in each period. The tax rates for the quarter and year to date periods were unfavorably impacted by the non-deductible impairment loss related to the agreement to sell our Völker business compared to the large favorable tax benefit of $18.8 million in the prior year related to the release of the valuation allowance on our deferred tax assets in France. The current year to date period also includes period tax benefits of $5.0 million primarily related to the adoption of the ASU 2016-09, as discussed in Note 1, partially offset by the expense to revalue the deferred tax assets due to the law change that reduced the future corporate income tax rate in France. The comparable prior year period included period tax benefits of $21.6 million primarily related to the release of the valuation allowance on our deferred tax assets in France and the retroactive reinstatement of the research credit.

In December 2016, the French parliament approved the Finance Act for 2017 and the Amended Finance Act for 2016 (the Finance Acts). The tax portion of the bill progressively reduces the corporate income tax rate from 33.3% to 28.0% . The Finance Acts were effective December 30, 2016.

On December 18, 2015, former President Obama signed into law a combined tax and government funding bill (H.R. 2029). The tax portion of the bill, the Protecting Americans from Tax Hikes Act (the PATH Act), extended and made permanent several lapsed business incentives that impact our business, including the extension of bonus depreciation as well as the retroactive and permanent extension of the research tax credit. The research credit had previously expired effective December 31, 2014.

Note 10. Earnings per Common Share

Basic earnings per share is calculated based upon the weighted average number of outstanding common shares for the period, plus the effect of deferred vested shares. Diluted earnings per share is calculated consistent with the basic earnings per share calculation plus the effect of dilutive unissued common shares related to stock-based employee compensation programs. For all periods presented, anti-dilutive stock options were excluded from the calculation of diluted earnings per share. Cumulative treasury stock acquired, less cumulative shares reissued, have been excluded in determining the average number of shares outstanding.

Earnings per share are calculated as follows (share information in thousands):

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Net income attributable to common shareholders	**$ 6.0**	$ 45.3	**$ 64.2**	$ 72.4
Average shares outstanding - Basic	**65,795**	65,406	**65,567**	65,300
Add potential effect of exercise of stock options and other unvested equity awards	**1,893**	1,146	**1,733**	1,102
Average shares outstanding - Diluted	**67,688**	66,552	**67,300**	66,402
Net income attributable to common shareholders per common share - Basic	**$ 0.09**	$ 0.69	**$ 0.98**	$ 1.11
Net income attributable to common shareholders per common share - Diluted	**$ 0.09**	$ 0.68	**$ 0.95**	$ 1.09
Shares with anti-dilutive effect excluded from the computation of Diluted EPS	**2**	557	**225**	502

Note 11. Common Stock

The stock-based compensation cost that was charged against income, net of tax, for all plans was $3.4 million and $3.8 million in the quarterly periods ended June 30, 2017 and 2016 , and $ 11.1 million and $ 11.5 million in the year to date periods ended June 30, 2017 and 2016 .

During the first quarter of fiscal 2017 , we purchased 0.6 million shares of our common stock for $30.0 million in the open market, leaving $34.7 million of shares available for purchase under a $190 million share repurchase program approved by the Board of Directors in September 2013, which does not have an expiration date.

Note 12. Guarantees

We routinely grant limited warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year, however, certain components and products have substantially longer warranty periods. We recognize a reserve with respect to these obligations at the time of product sale, with subsequent warranty claims recorded directly against the reserve. The amount of the warranty reserve is determined based on historical trend experience for the covered products. For more significant warranty-related matters which might require a broad-based correction, separate reserves are established when such events are identified and the cost of correction can be reasonably estimated.

A reconciliation of changes in the warranty reserve for the periods covered in this report is as follows:

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Balance at beginning of period	**$ 27.4**	$ 28.8	**$ 27.5**	$ 32.1
Provision for warranties during the period	**4.0**	3.5	**10.3**	11.3
Warranty reserves acquired	**—**	—	**1.9**	—
Warranty claims during the period	**(4.5)**	(5.3)	**(12.8)**	(16.4)
Balance at end of period	**$ 26.9**	$ 27.0	**$ 26.9**	$ 27.0

In the normal course of business, we enter into various other guarantees and indemnities in our relationships with suppliers, service providers, customers, business partners and others. Examples of these arrangements would include guarantees of product performance, indemnifications to service providers and indemnifications of our actions to business partners. These guarantees and indemnifications have not historically had, nor do we expect them to have, a material impact on our financial condition or results of operations, although indemnifications associated with our actions generally have no dollar limitations.

In conjunction with our acquisition and divestiture activities, we have entered into select guarantees and indemnifications of performance with respect to the fulfillment of commitments under applicable purchase and sale agreements. The arrangements generally indemnify the buyer or seller for damages associated with breach of contract, inaccuracies in representations and warranties surviving the closing date and satisfaction of liabilities and commitments retained under the applicable contract. With respect to sale transactions, we also routinely enter into non-competition agreements for varying periods of time. Guarantees and indemnifications with respect to acquisition and divestiture activities, if triggered, could have a materially adverse impact on our financial condition and results of operations.

Note 13. Segment Reporting

We disclose segment information that is consistent with the way in which management operates and views the business. During our first quarter of fiscal 2017, we changed our segment reporting to reflect changes in our organizational structure and management's operation and view of the business. We combined the prior year North America Patient Support Systems segment and International Patient Support Systems segment into a new segment called Patient Support Systems. Our new Patient Support Systems segment also includes an additional component of global marketing spend that was previously unallocated. The prior year segment information included in this Form 10-Q has been updated to reflect these changes. Our revised operating structure contains the following reporting segments:

- ***Patient Support Systems*** – globally sells and rents our specialty frames and surfaces and mobility solutions, as well as our clinical workflow solutions.
- ***Front Line Care*** – globally sells and rents respiratory care products, and sells medical diagnostic equipment and a diversified portfolio of devices that assess, diagnose, treat, and manage a wide variety of illnesses and diseases.
- ***Surgical Solutions*** – globally sells products that improve surgical safety and efficiency in the operating room including tables, lights, pendants, positioning devices and various other safety and accessory products.

Under our revised segments, our performance within each reportable segment continues to be measured on a divisional income basis before non-allocated operating and administrative costs, litigation, special charges, acquisition and integration costs, acquisition-related intangible asset amortization, and other unusual events . Divisional income generally represents the division’s gross profit less its direct operating costs along with an allocation of manufacturing and distribution costs, research and development and certain corporate functional expenses.

Non-allocated operating costs, administrative costs, and other includes functional expenses that support the entire organization such as administration, finance, legal and human resources, expenses associated with strategic developments, acquisition-related intangible asset amortization, and other events that are not indicative of operating trends. We exclude such amounts from divisional income to allow management to evaluate and understand divisional operating trends. The chief operating decision maker does not receive any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Revenue:				
Patient Support Systems	**$ 354.7**	$ 361.0	**$ 1,052.8**	$ 1,054.9
Front Line Care	**227.1**	192.7	**639.9**	598.2
Surgical Solutions	**107.3**	101.7	**312.7**	296.1
Total revenue	**$ 689.1**	$ 655.4	**$ 2,005.4**	$ 1,949.2
Divisional income:				
Patient Support Systems	**$ 62.8**	$ 65.0	**$ 174.1**	$ 168.0
Front Line Care	**56.4**	47.5	**160.3**	143.2
Surgical Solutions	**8.7**	10.6	**26.0**	30.9
Other operating costs:				
Non-allocated operating costs, administrative costs, and other	**52.7**	51.2	**156.7**	173.8
Special charges	**34.8**	13.7	**43.7**	31.5
Operating profit	**40.4**	58.2	**160.0**	136.8
Interest expense	**(23.8)**	(23.0)	**(65.2)**	(68.2)
Investment income and other, net	**(0.5)**	0.1	**(2.1)**	0.6
Income before income taxes	**$ 16.1**	$ 35.3	**$ 92.7**	$ 69.2

Note 14. Commitments and Contingencies

General

We are subject to various claims and contingencies arising out of the normal course of business, including those relating to governmental investigations and proceedings, commercial transactions, product liability, employee related matters, antitrust, safety, health, taxes, environmental and other matters. Litigation is subject to many uncertainties and the outcome of individual litigated matters is not predictable with assurance. It is possible that some litigation matters for which reserves have not been established could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on our financial condition, results of operations, and cash flows.

Self Insurance

We are also involved in other possible claims, including product and general liability, workers’ compensation, auto liability and employment related matters. Such claims in the United States have deductibles and self-insured retentions ranging from $25 thousand to $1.0 million per occurrence or per claim, depending upon the type of coverage and policy period. International deductibles and self-insured retentions are lower. We are also generally self-insured up to certain stop-loss limits for certain employee health benefits, including medical, drug and dental. Our policy is to estimate reserves based upon a number of factors including known claims, estimated incurred but not reported claims and outside actuarial analysis, which are based on historical

information along with certain assumptions about future events. Such estimated reserves are classified as Other Current Liabilities and Other Long-Term Liabilities within the Condensed Consolidated Balance Sheets.

Universal Hospital Services, Inc. Litigation

On January 13, 2015, Universal Hospital Services, Inc. filed a complaint against us in the United States District Court for the Western District of Texas. The plaintiff alleges, among other things, that we engaged in certain customer contracting practices in violation of state and federal antitrust laws. The plaintiff also has asserted claims for tortious interference with business relationships. The plaintiff seeks injunctive relief and money damages in an unspecified amount. No trial date has been set. We believe that the allegations are without merit and intend to defend this matter vigorously.

Note 15. Subsequent Events

On July 18, 2017, we entered into a confidential settlement agreement with Stryker Corporation, resolving alleged infringement of certain Hill-Rom patents covering proprietary communications networks whereby Stryker Corporation agreed to pay the Company $15.1 million .

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors That May Affect Future Results

Certain statements in this Quarterly Report on Form 10-Q contain forward-looking statements, within the meanings of the Private Securities Litigation Reform Act of 1995, regarding our future plans, objectives, beliefs, expectations, representations and projections.

Forward-looking statements are not guarantees of future performance, and our actual results could differ materially from those set forth in any forward-looking statements. For a more in depth discussion of factors that could cause actual results to differ from those contained in forward-looking statements, see the discussions under the heading “Risk Factors” in our previously filed most recent Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (“ 2016 Form 10-K ”) as well as the discussions in this “Management’s Discussion and Analysis”. We assume no obligation to update or revise any forward-looking statements.

Overview

The following discussion and analysis should be read in conjunction with the accompanying interim financial statements and our 2016 Form 10-K .

Hill-Rom Holdings, Inc. (“we,” “us,” or “our”) is a leading global medical technology company with more than 10,000 employees worldwide. We partner with health care providers in more than 100 countries, across all care settings, by focusing on patient care solutions that improve clinical and economic outcomes in five core areas: Advancing Mobility, Wound Care and Prevention, Patient Monitoring and Diagnostics, Surgical Safety and Efficiency and Respiratory Health. Hill-Rom's people, products, and programs work towards one mission: Every day, around the world, we enhance outcomes for patients and their caregivers.

Use of Non-GAAP Financial Measures

The accompanying Condensed Consolidated Financial Statements, including the related notes, are presented in accordance with accounting principles generally accepted in the U.S. (“GAAP”). We routinely provide gross margin, operating margin and earnings per share results on an adjusted basis because the Company’s management believes these measures contribute to an understanding of our financial performance, provide additional analytical tools to understand our results from core operations and reveal underlying trends. These measures exclude strategic developments, acquisition and integration costs, special charges or other unusual events. The Company also excludes expenses associated with the amortization of intangible assets associated with prior business acquisitions. These adjustments are made to allow investors to evaluate and understand operating trends excluding the non-cash impact of acquired intangible amortization on operating income and earnings per share.

Management uses these measures internally for planning, forecasting and evaluating the performance of the business. Investors should consider non-GAAP measures in addition to, not as a substitute for, or as superior to, measures of financial performance prepared in accordance with GAAP.

In addition, we present certain results on a constant currency basis. Constant currency information compares results between periods as if foreign currency exchange rates had remained consistent period-over-period. We monitor sales performance on a constant currency basis that eliminates the positive or negative effects that result from translating international sales into U.S. dollars. We calculate constant currency by applying the foreign currency exchange rate for the prior period to the local currency results for the current period. We believe that evaluating growth in net revenue on a constant currency basis provides an additional and meaningful assessment to both management and investors.

Results of Operations

In this section, we provide an overview of our results of operations. We disclose segment information that is consistent with the way in which management operates and views the business. During our first quarter of fiscal 2017, we changed our segment reporting to reflect changes in our organizational structure and management’s operation and view of the business. We combined the prior year North America Patient Support Systems segment and International Patient Support Systems segment into a new segment called Patient Support Systems. The prior year segment information included in this Form 10-Q has been updated to reflect these changes. Our revised operating structure contains the following reporting segments:

- ***Patient Support Systems*** **–** globally sells and rents our specialty frames and surfaces and mobility solutions, as well as our clinical workflow solutions.
- ***Front Line Care*** **–** globally sells and rents respiratory care products, and sells medical diagnostic equipment and a diversified portfolio of devices that assess, diagnose, treat, and manage a wide variety of illnesses and diseases.
- ***Surgical Solutions*** **–** globally sells products that improve surgical safety and efficiency in the operating room including tables, lights, pendants, positioning devices and various other safety and accessory products.

Net Revenue

	Quarter Ended June 30				U.S.	OUS	
	2017	2016	Change As Reported	Constant Currency	Change As Reported	Change As Reported	Constant Currency
Revenue:							
Product sales and service	**$ 593.1**	$ 556.0	6.7 %	7.6 %	6.1 %	7.8 %	10.5 %
Rental revenue	**96.0**	99.4	(3.4)%	(2.9)%	(2.4)%	(11.0)%	(6.8)%
Total revenue	**$ 689.1**	$ 655.4	5.1 %	6.0 %	4.4 %	6.8 %	9.5 %
Revenue:							
Patient Support Systems	**$ 354.7**	$ 361.0	(1.7)%	(1.1)%	(1.4)%	(2.5)%	(0.2)%
Front Line Care	**227.1**	192.7	17.9 %	18.8 %	17.0 %	20.2 %	23.6 %
Surgical Solutions	**107.3**	101.7	5.5 %	7.0 %	— %	11.5 %	14.6 %
Total revenue	**$ 689.1**	$ 655.4	5.1 %	6.0 %	4.4 %	6.8 %	9.5 %

OUS - Outside of the U.S.

	Year to Date Ended June 30				U.S.	OUS	
	2017	2016	Change As Reported	Constant Currency	Change As Reported	Change As Reported	Constant Currency
Revenue:							
Product sales and service	**$ 1,714.6**	$ 1,650.4	3.9 %	4.8 %	5.1 %	1.7 %	4.3 %
Rental revenue	**290.8**	298.8	(2.7)%	(2.1)%	(1.8)%	(9.3)%	(4.8)%
Total revenue	**$ 2,005.4**	$ 1,949.2	2.9 %	3.8 %	3.7 %	1.0 %	3.8 %
Revenue:							
Patient Support Systems	**$ 1,052.8**	$ 1,054.9	(0.2)%	0.5 %	1.1 %	(3.4)%	(0.8)%
Front Line Care	**639.9**	598.2	7.0 %	7.6 %	7.2 %	6.3 %	8.4 %
Surgical Solutions	**312.7**	296.1	5.6 %	7.5 %	7.4 %	3.8 %	7.5 %
Total revenue	**$ 2,005.4**	$ 1,949.2	2.9 %	3.8 %	3.7 %	1.0 %	3.8 %

OUS - Outside of the U.S.

Consolidated Revenue

Product sales and service revenue increased 6.7% and 3.9% on a reported basis or 7.6% and 4.8% on a constant currency basis for the three and nine months ended June 30, 2017 , primarily due to growth in our Front Line Care and Surgical Solutions segments during both periods as well as our acquisition of Mortara in February 2017. This growth was partially offset by declines from businesses we recently divested or are in the process of divesting within our Patient Support Systems segment.

Rental revenue decreased 3.4% and 2.7% on a reported basis or 2.9% and 2.1% on a constant currency basis for the three and nine months ended June 30, 2017 , primarily due to volume declines.

Business Segment Revenue

Patient Support Systems revenue decreased 1.7% and 0.2% on a reported basis or decreased 1.1% and increased 0.5% on a constant currency basis for the three and nine months ended June 30, 2017 compared to the prior year. Both periods were impacted by lower revenue from businesses we recently divested or are in the process of divesting. Excluding the impact of these completed and planned divestitures from all periods, revenue grew by approximately 2% and 3% for the three and nine months ended June 30, 2017 .

Front Line Care revenue increased 17.9% and 7.0% on a reported basis and 18.8% and 7.6% on a constant currency basis for the three and nine months ended June 30, 2017 compared to the prior year, primarily due to strong second and third quarter growth in the U.S. and OUS regions from our Welch Allyn business, as well as additional revenue from our Mortara acquisition in February 2017.

Surgical Solutions revenue increased 5.5% and 5.6% on a reported basis and 7.0% and 7.5% on a constant currency basis for the three and nine months ended June 30, 2017 compared to the prior year, mainly due to strong OUS growth across most regions and new product growth in the U.S.

Gross Profit

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Gross Profit				
Product sales and service	**$ 281.6**	$ 262.4	**$ 809.0**	$ 754.4
Percent of Related Revenue	***47.5%***	*47.2%*	***47.2%***	*45.7%*
Rental	**49.5**	53.0	**149.1**	155.9
Percent of Related Revenue	***51.6%***	*53.3%*	***51.3%***	*52.2%*
Total Gross Profit	**$ 331.1**	$ 315.4	**$ 958.1**	$ 910.3
Percent of Total Revenue	***48.0%***	*48.1%*	***47.8%***	*46.7%*

Product sales and service gross margin remained relatively flat for the three months ended June 30, 2017 and increased 150 basis points for the nine months ended June 30, 2017 . The prior year included an impact of $19.5 million for the inventory step-up associated with the Welch Allyn acquisition compared to the current year impact of $2.7 million for inventory step-up associated with the Mortara acquisition. Excluding these items, product sales and service gross margin increased 60 basis points for the three and nine months ended June 30, 2017 , primarily due to product mix and supply chain improvements.

Rental gross margin decreased 170 and 90 basis points for the three and nine months ended June 30, 2017 compared to the prior year due to reduced leverage of our fleet and field service infrastructure driven by lower revenue.

Operating Expenses

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Research and development expenses	**$ 34.9**	$ 33.6	**$ 102.2**	$ 101.5
Percent of Total Revenue	***5.1%***	*5.1%*	***5.1%***	*5.2%*
Selling and administrative expenses	**$ 221.0**	$ 209.9	**$ 652.2**	$ 640.5
Percent of Total Revenue	***32.1%***	*32.0%*	***32.5%***	*32.9%*

Research and development expenses increased 3.9% and 0.7% for the three and nine months ended June 30, 2017 compared to the prior year, primarily due to timing of projects. As a percentage of revenue, research and development expenses have been consistent during all periods.

As a percentage of total revenue, selling and administrative expenses increased during the quarter to date period and decreased during the year to date period compared to the prior year. Selling and administrative expenses include acquisition-related intangible asset amortization and acquisition and integration costs of $33.8 million and $99.0 million for the three and nine months ended June 30, 2017 and $27.6 million and $86.3 million for the three and nine months ended June 30, 2016 . Excluding these items, selling and administrative expenses decreased 60 and 80 basis points as a percentage of revenue as a result of disciplined cost management for the quarter and year to date periods.

Business Segment Divisional Income

	Quarter Ended June 30		Change As Reported	Year to Date Ended June 30		Change As Reported
	2017	2016		**2017**	2016	
Divisional income:						
Patient Support Systems	**$ 62.8**	$ 65.0	(3.4)%	**$ 174.1**	$ 168.0	3.6 %
Front Line Care	**56.4**	47.5	18.7 %	**160.3**	143.2	11.9 %
Surgical Solutions	**8.7**	10.6	(17.9)%	**26.0**	30.9	(15.9)%

Refer to Note 13 of our Condensed Consolidated Financial Statements for a description of how divisional income is determined.

Patient Support Systems divisional income decreased 3.4% for the three months ended June 30, 2017 compared to the prior year, primarily due to lower rental margins. Patient Support Systems divisional income increased 3.6% for the nine months ended June 30, 2017 primarily due to lower operating expenses and an increase in margins from product mix and supply chain improvements.

Front Line Care divisional income increased 18.7% and 11.9% for the three and nine months ended June 30, 2017 compared to the prior year as a result of our Mortara acquisition and higher margins from supply chain improvements.

Surgical Solutions divisional income decreased 17.9% and 15.9% for the three and nine months ended June 30, 2017 compared to the prior year, primarily due to increased operating expenses and lower margins due to increases in supply chain costs.

Special Charges and Other

	Quarter Ended June 30		Year to Date Ended June 30	
	2017	2016	**2017**	2016
Special charges	**$ 34.8**	$ 13.7	**$ 43.7**	$ 31.5
Interest expense	**$ (23.8)**	$ (23.0)	**$ (65.2)**	$ (68.2)
Investment income and other, net	**$ (0.5)**	$ 0.1	**$ (2.1)**	$ 0.6

In connection with various organizational changes to improve our business alignment and cost structure, we recognized special charges of $ 34.8 million and $ 13.7 million for the quarters ended June 30, 2017 and 2016 , and $ 43.7 million and $ 31.5 million for the year to date periods ended June 30, 2017 and 2016 . These charges relate to the initiatives described in Note 8 of our Condensed Consolidated Financial Statements.

Interest expense was higher in the quarter ended June 30, 2017 primarily due to the interest expense on our private offering of $300.0 million of senior unsecured notes in connection with the Mortara acquisition. Interest expense was lower in the year to date period ended June 30, 2017 mainly due to the improved terms under our prior year amendment to our Senior Credit Agreement. See Note 5 of our Condensed Consolidated Financial Statements for additional information.

GAAP and Adjusted Earnings

Operating margin, income before income taxes, income tax expense, and earnings attributable to common shareholders per diluted share are summarized in the table below. GAAP amounts are adjusted for certain items to aid management in evaluating the performance of the business. Income tax expense is computed by applying a blended statutory tax rate based on the jurisdictional mix of the respective before tax adjustment.

	Quarter Ended June 30, 2017				Quarter Ended June 30, 2016			
	Operating Margin [1]	**Income Before Income Taxes**	**Income Tax Expense**	**Diluted EPS**	Operating Margin	Income Before Income Taxes	Income Tax Expense	Diluted EPS
GAAP Basis	**5.9%**	**$ 16.1**	**$ 10.4**	**$ 0.09**	8.9%	$ 35.3	$ (9.7)	$ 0.68
Adjustments:								
Acquisition and integration costs	**0.9%**	**5.9**	**2.4**	**0.05**	0.5%	3.5	0.7	0.04
Acquisition-related intangible asset amortization	**4.1%**	**28.1**	**9.4**	**0.28**	3.7%	24.1	8.2	0.24
Litigation settlements and expenses	**0.2%**	**1.6**	**0.6**	**0.02**	—%	—	—	—
Special charges	**5.1%**	**34.8**	**2.7**	**0.47**	2.1%	13.7	4.7	0.13
Foreign valuation allowance	**—%**	**—**	**—**	**—**	—%	—	18.8	(0.28)
Adjusted Basis	**16.1%**	**$ 86.5**	**$ 25.5**	**$ 0.91**	15.2%	$ 76.6	$ 22.7	$ 0.81

[1] Total does not add due to rounding

	Year to Date Ended June 30, 2017				Year to Date Ended June 30, 2016			
	Operating Margin	**Income Before Income Taxes**	**Income Tax Expense**	**Diluted EPS [1]**	Operating Margin [1]	Income Before Income Taxes	Income Tax Expense	Diluted EPS [1]
GAAP Basis	**8.0%**	**$ 92.7**	**$ 29.5**	**$ 0.95**	7.0%	$ 69.2	$ (2.2)	$ 1.09
Adjustments:								
Acquisition and integration costs	**1.0%**	**19.1**	**8.0**	**0.17**	1.7%	33.7	9.7	0.36
Acquisition-related intangible asset amortization	**4.0%**	**80.2**	**26.7**	**0.79**	3.7%	72.1	24.7	0.71
Field corrective actions	**—%**	**0.5**	**(0.1)**	**0.01**	—%	0.1	(0.1)	—
Litigation settlements and expenses	**0.1%**	**2.5**	**0.9**	**0.02**	—%	—	—	—
Special charges	**2.2%**	**43.7**	**5.5**	**0.57**	1.6%	31.5	10.5	0.32
Foreign tax law change	**—%**	**—**	**(2.2)**	**0.03**	—%	—	—	—
Foreign valuation allowance	**—%**	**—**	**—**	**—**	—%	—	18.8	(0.28)
Gain on disposition	**—%**	**(1.0)**	**(0.4)**	**(0.01)**	—%	—	—	—
Adjusted Basis	**15.3%**	**$ 237.7**	**$ 67.9**	**$ 2.54**	14.1%	$ 206.6	$ 61.4	$ 2.20

[1] Total does not add due to rounding

The effective tax rate for the quarter and year to date periods ended June 30, 2017 was 64.6% and 31.8% compared to (27.5)% and (3.2)% for the comparable periods in the prior year. The effective tax rates for the current year are higher than the comparable periods in fiscal 2016 due primarily to the difference in the amount of discrete tax benefits recognized in each period. The tax rates for the quarter and year to date periods were unfavorably impacted by the non-deductible impairment loss related to the agreement to sell our Völker business compared to the large favorable tax benefit of $18.8 million in the prior year related to the

release of the valuation allowance on our deferred tax assets in France. The current year to date period also includes period tax benefits of $5.0 million primarily related to the adoption of the ASU 2016-09, as discussed in Note 1, partially offset by the expense to revalue the deferred tax assets due to the law change that reduced the future corporate income tax rate in France. The comparable prior year period included period tax benefits of $21.6 million primarily related to the release of the valuation allowance on our deferred tax assets in France and the retroactive reinstatement of the research credit.

The adjusted effective tax rates for the three and nine months ended June 30, 2017 was 29.5% and 28.6% compared to 29.6% and 29.7% for the comparable period in the prior year. The lower adjusted tax rates in both comparable periods is due primarily to period tax items related to the adoption of ASU 2016-09.

Diluted earnings per share decreased 86.8% and 12.8% on a reported basis and increased 12.3% and 15.5% on an adjusted basis for the three and nine months ended June 30, 2017 .

Liquidity and Capital Resources

	Year to Date Ended June 30	
	2017	2016
Cash Flows Provided By (Used In):		
Operating activities	**$ 239.7**	$ 205.4
Investing activities	**(369.1)**	(60.3)
Financing activities	**137.9**	(136.1)
Effect of exchange rate changes on cash	**2.5**	(2.2)
Increase in Cash and Cash Equivalents	**$ 11.0**	$ 6.8

Operating Activities

Cash provided by operating activities increased $34.3 million compared to the prior year due primarily to changes in working capital activities. Cash provided by operating activities was driven primarily by net income, adjusted for the non-cash effects of depreciation, amortization, the impairment of our Völker business and stock compensation expense, along with the collections of high year-end receivables. These sources of cash were partially offset by the payout of performance-based compensation related to our 2016 fiscal year and other working capital activities.

Investing Activities

Cash used in investing activities increased $308.8 million compared to the prior year, primarily due to our acquisition of Mortara in the second quarter of fiscal 2017, partially offset by proceeds on the sale of property, plant and equipment and our Architectural Products business. See Note 3 of our Condensed Consolidated Financial Statements for additional information on our acquisition of Mortara.

Financing Activities

Cash provided by financing activities increased $274.0 million primarily due to our private offering of $300.0 million of senior unsecured notes and lower debt repayments compared to the prior year, partially offset by $30.0 million of share repurchases in the open market during the first quarter of fiscal 2017. During the year to date period, payments of long term debt totaled $54.9 million , while net borrowings decreased $140.8 million on our Revolving Credit Facility and increased $86.8 million on our Securitization Program. See Note 5 of our Condensed Consolidated Financial Statements for additional information on our financing agreements.

Other Liquidity Matters

In addition to the discussion of our financing agreements detailed in Note 5 of our Condensed Consolidated Financial Statements, our primary pension plan invests in a variety of equity and debt securities. At September 30, 2016 , our latest measurement date, our pension plans were underfunded by approximately $80.1 million . Based on our current funded status, we are not required to make any contributions to our primary pension plan in fiscal 2017.

We intend to continue to pay quarterly cash dividends comparable to those paid in the periods covered by these financial statements. However, the declaration and payment of dividends by us will be subject to the sole discretion of our Board and will depend upon many factors, including our financial condition, earnings, capital requirements, covenants associated with debt obligations, legal requirements, and other factors deemed relevant by our Board.

Over the long term, we intend to continue to pursue inorganic growth in certain areas of our business, but the timing, size or success of any acquisition effort and the related potential capital commitments cannot be predicted.

During the first quarter of fiscal 2017 , we purchased 0.6 million shares of our common stock for $30.0 million in the open market, leaving $34.7 million of shares available for purchase under a $190 million share repurchase program approved by the Board of Directors in September 2013, which does not have an expiration date. Repurchases may be made on the open market or via private transactions. There are no plans to terminate this program in the future, but we do not expect to make additional purchases in fiscal 2017.

We believe that cash on hand and cash generated from operations, along with amounts available under our Revolving Credit Facility and Securitization Program, will be sufficient to fund operations, working capital needs, capital expenditure requirements, and financing obligations for at least the next twelve months. However, disruption and volatility in the credit markets could impede our access to capital. Our $700.0 million Revolving Credit Facility is with a syndicate of banks, which we believe reduces our exposure to any one institution and would still leave us with significant borrowing capacity in the event that any one of the institutions within the group is unable to comply with the terms of our amended and restated credit agreement.

As of June 30, 2017 , approximately 70.9% of our cash and cash equivalents were held by our foreign subsidiaries. Portions of this may be subject to U.S. income taxation if repatriated to the U.S., however, because cash and cash equivalents held by our foreign subsidiaries are largely used for operating needs outside the U.S. we have no need to repatriate this cash for other uses. We believe that cash on hand and cash generated from operations, along with amounts available under our Revolving Credit Facility and Securitization Program, will be sufficient to fund operations, working capital needs, capital expenditure requirements and financing obligations.

Contractual Obligations and Contingent Liabilities and Commitments

There have not been any significant changes since September 30, 2016 impacting our contractual obligations and contingent liabilities and commitments other than the changes described in Note 5 of our Condensed Consolidated Financial Statements.

Critical Accounting Policies

Our accounting policies require management to make significant estimates and assumptions using information available at the time the estimates are made. Such estimates and assumptions significantly affect various reported amounts of assets, liabilities, revenue, and expenses. If future experience differs materially from these estimates and assumptions, our results of operations and financial condition could be affected. A detailed description of our accounting policies is included in Note 1 of our Condensed Consolidated Financial Statements and the Critical Accounting Policies Section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Form 10-K . There have been no material changes to such policies since September 30, 2016 .

For a further summary of certain accounting policies and estimates and recently issued accounting pronouncements applicable to us, see Note 1 of our Condensed Consolidated Financial Statements in this Form 10-Q.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to various market risks, including fluctuations in interest rates, collection risk associated with our accounts and notes receivable portfolio and variability in currency exchange rates. We have established policies, procedures, and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are subject to variability in foreign currency exchange rates in our international operations. Exposure to this variability is periodically managed primarily through the use of natural hedges, whereby funding obligations and assets are both managed in the local currency. We, from time-to-time, enter into currency exchange agreements to manage our exposure arising from fluctuating exchange rates related to specific and forecasted transactions. We operate this program pursuant to documented corporate risk management policies and do not enter into derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an appropriate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currencies.

Our currency risk consists primarily of foreign currency denominated firm commitments and forecasted foreign currency denominated intercompany and third-party transactions. At June 30, 2017 , the notional amount of open foreign exchange contracts was $17.8 million . These contracts were in a net liability position with an aggregate fair value of $0.7 million . The maximum length of time over which we hedge transaction exposures is generally 15 months. Derivative gains/(losses), initially reported as a component of Accumulated Other Comprehensive Loss, are reclassified to earnings in the period when the transaction affects earnings.

We are exposed to market risk from fluctuations in interest rates. We sometimes manage our exposure to interest rate fluctuations through the use of interest rate swaps (cash flow hedges). As of June 30, 2017 , we had nine interest rate swap agreements, with notional amounts of $750.0 million , in aggregate, to hedge the variability of cash flows associated with a portion of the variable interest rate payments for the period December 2016 to September 2021 on the Senior Secured Credit Facilities. The interest rate swaps have effective start dates ranging between December 31, 2016 and September 8, 2020 and were designated as cash flow hedges. At June 30, 2017 , these swaps were in a net asset position with an aggregate fair value of $8.0 million . We classify fair value measurements on our interest rate swaps as Level 2, as described in Note 1.

For additional information on market risks related to our pension plan assets, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2016 Form 10-K .

Item 4. CONTROLS AND PROCEDURES

Our management, with the supervision and participation of our President and Chief Executive Officer and our Senior Vice President and Chief Financial Officer (the “Certifying Officers”), has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017 . Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and such information is accumulated and communicated to management, including our Certifying Officers and our Board of Directors, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective as of June 30, 2017 .

There have been no other changes to our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recent completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to Note 14 of our Condensed Consolidated Financial Statements in this Form 10-Q for further information on our legal proceedings.

Item 1A. RISK FACTORS

For information regarding the risks we face, see the discussion under “Item 1A. Risk Factors” in our 2016 Form 10-K for the year ended September 30, 2016 . There have been no material changes to the risk factors described in that report.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (2)
April 1, 2017 - April 30, 2017	307	$ 70.39	—	$ 34.7
May 1, 2017 - May 31, 2017	6,956	$ 73.98	—	$ 34.7
June 1, 2017 - June 30, 2017	1,683	$ 79.38	—	$ 34.7
Total	8,946		—	

(1) Shares purchased during the quarter ended June 30, 2017 were in connection with employee payroll tax withholding for restricted and deferred stock distributions.

(2) In September 2013, the Board approved an expansion of its previously announced share repurchase authorization to a total of $190.0 million. As of June 30, 2017 , a cumulative total of $155.3 million has been used under this existing authorization. The plan does not have an expiration date and currently there are no plans to terminate this program in the future. However, we do not expect to make additional purchases under this program in fiscal 2017.

Item 6. EXHIBITS

A. Exhibits

10.1*	Addendum to Employment Agreement between HR Europe B.V. and Francisco Canal Vega, dated July 20, 2017 (addendum to employment contract dated August 27, 2015 between HR Europe B.V. and Francisco Canal Vega)
10.2	Loan and Security Agreement dated as of May 5, 2017, by and among Hill-Rom Finance Company LLC, as borrower, the lenders and group agents from time to time party thereto, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrative agent, and Hill-Rom Company, Inc., as initial servicer (incorporated herein by reference to Exhibit 10.1 to the Form 8-K dated May 5, 2017)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensatory plan or arrangement

SIGNATURES

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

HILL-ROM HOLDINGS, INC.
(Registrant)

DATE: July 28, 2017	By:	/s/ Steven J. Strobel
	Name:	Steven J. Strobel
	Title:	Senior Vice President and Chief Financial Officer (duly authorized officer and principal financial officer)

ADDENDUM TO EMPLOYMENT AGREEMENT

THE UNDERSIGNED:

1. **HR Europe B.V.** , a private limited liability company, having its registered office at Hoogoorddreef 15, geb. Amerika, 7e etage, 1101BA Amsterdam, The Netherlands, (" **HR Europe** "), in this matter duly represented by Etienne Claessens, VP Human Resources International.

   and

   Mr. Francisco Canal Vega , residing at Roemer Visscherstraat 34 H
   1054 EZ Amsterdam, the Netherlands (" **Director** ").

HR Europe and Director may be referred to hereinafter individually as a " **Party** " and jointly as the " **Parties** ".

WHEREAS:

A. The Director is employed by HR Europe since October 1, 2015 for an indefinite period of time;

B. The Director is Managing Director pursuant to the Company's Articles of Association of HR Europe since October 15, 2015, as well as of several other legal entities within the Hill-Rom group of companies;

C. Effective June 13, 2017 the Director has been promoted to the position of Senior Vice President and President Global Surgical Solutions (GSS) and has become a member of the Executive Leadership Team;

D. An employment contract dated August 27, 2015 is in place between parties, (hereinafter the " **Agreement** ");

E. Parties agree to alter the Agreement due to the Director's promotion in accordance with this Addendum (the " **Addendum** ").

HAVE AGREED AS FOLLOWS:

Article 1: Position and place of work

1.1 As of June 13, 2017 the Director fulfills the position of Senior Vice President and President Global Surgical Solutions (GSS) and is member of the Executive Leadership Team. The Director will report directly to the Chief Executive Officer of Hill-Rom in Chicago.

1.2 The Director will perform his work at the Hill-Rom office at Benzstrasse 26, 82178 Puchheim, Germany and will be required to travel substantially and work on location at various Hill-Rom offices in Europe and the United States of America.

Article 2: Remuneration

2.1 The Director is entitled to an annual base salary of € 375.000,- gross, including 8% holiday allowance, on a 12 month basis. The salary will be subject to Dutch tax and social security withholdings requirements and paid in twelve equal installments.

2.2 The Director will continue to be eligible to participate in the Company's Short-Term Incentive Compensation (STIC) Program with an increased target of 70% of the base gross annual salary. STIC payout is based on achievement of Hill-Rom's financial objectives as well as the Director's individual performance objectives. For fiscal year 2017, the Director's STIC payout will be based on a combination of the STIC target of 40% of the base gross annual salary until June 13, 2017 and the increased STIC target of 70% of the base gross

annual salary as of June 13, 2017, with the increased STIC target taking effect on June 13, 2017. The Director must be employed on the date of payout in order to receive the payment under the STIC Program.

2.3 The Director will continue to be eligible to participate in the Company's Long Term Incentive (LTI) Program with an increased target of 175% of the base gross annual salary. The increased LTI target of 175% will be effective with the November, 2017 annual award. Annual awards will be based on the individual performance of the Director and are subject to CEO and Board approval.

2.4 The Director is entitled to a Promotion Equity Award of $100,000 and will receive a one-time award of shares of Restricted Stock Units (RSUs) of Hill-Rom Holdings, Inc. subject to the terms and conditions of the stock award agreement. The number of shares was determined based on the stock price on June 6, 2017, the effective date of the award. This award will fully vest on the day following the third anniversary of the effective date of the award.

2.5 The Director shall be entitled to a maximum reimbursement of $3,000 per calendar year for tax consultation and preparation services.

Article 3: Pension

3.1 The Director will continue to participate in the pension scheme of HR Europe and HR Europe will pay the Director the amount of € 26,500 annual to ensure internal equity with Director's ELT cohort. The method an timing of the payments will be determined after consultation with a local tax advisor on an annual basis

Article 4: Post contractual restraints

4.1 The post contractual restraints as adopted in the Agreement, including Article 11: Confidentiality and Article 12: Non-Competition, will continue to apply and remain in full force.

Article 5: Miscellaneous

5.1 All other terms and conditions of the Agreement will remain in force.

5.2 This Addendum is governed by Dutch law.

Drawn up in 2 originals and signed on July 17, 2017, each Party acknowledging having received one signed copy of this Agreement.

For HR Europe B.V.:	
/s/Etienne Claessens	/s/Francisco Canal Vega
Etienne Claessens	Francisco Canal Vega

<u>DIRECTOR'S EMPLOYMENT CONTRACT</u>

<u>THE UNDERSIGNED</u> :

HR Europe B.V. , a private limited liability company, having its registered office at
Gustav Mahlerplein 93-95, 1082 MS Amsterdam, The Netherlands, represented by its authorized representative Etienne Claessens, acting as VP HR International (the ' **Employer** ');

and

Mr. F. Canal , residing at Calle Cóndor 3, 28232 Las Rozas de Madrid, Spain (the ' **Director** ');

Hereinafter jointly referred to as ' **Parties** ';

<u>WHEREAS</u> :

- The Employer is - briefly stated - engaged in the healthcare industry including, but not limited to, the design, manufacturing, sales, service and rental of hospital beds and stretchers, hospital furniture, medical-related architectural products, specialty sleep surfaces (including therapeutic surfaces), air clearing devices, biomedical and asset management services, as well as other medical-related accessories, devices, products and services;
- The Employer is willing to employ the Director as a Managing Director (" *statutair directeur"*) and the Director desires to be employed by the Employer in such capacity based upon the terms and conditions set forth in this Director's Employment Contract;
- The Director will officially be appointed as Managing Director of the Employer by shareholders resolution in accordance with the articles of association of the Employer;
- In the course of the employment contemplated under this Director's Employment Contract it will be necessary for the Director to acquire and maintain knowledge of certain trade secrets and other confidential and proprietary information regarding the Employer as well as any of its parent, subsidiary and/or affiliated entities (hereinafter jointly referred to as the " **Companies** ");
- Parties acknowledge and agree that the execution of this Director's Employment Contract is necessary to memorialize the terms and conditions of their employment relationship as well as safeguard against the unauthorized disclosure or use of the Employer's confidential information and to otherwise preserve the goodwill and ongoing business value of the Employer;
- Now therefore, in consideration of the Director's employment, the Employer's willingness to disclose certain confidential and proprietary information to the Director and the mutual covenants contained herein as well as other good and valuable consideration, the receipt of which is hereby acknowledged, Parties agree as follows;

<u>THE PARTIES HAVE AGREED AS FOLLOWS</u> :

<u>Article 1: Commencement, Term and Notice</u>

1. The Director's Employment Contract will commence on **October 1st, 2015** and is entered into for an indefinite period of time.

2. The Director may terminate the Director's Employment Contract subject to **two months** of notice, and the Employer may terminate the Director's Employment Contract subject to **four months** of notice. Notice may be given only in writing, taking effect from the end of the calendar month.

3. In the event that the Employer terminates the contract by giving notice for reasons other than an urgent reason, (" *ontslag op staande voet wegens een dringende reden* ") within the meaning of article 7:678 of the Dutch Civil Code, the Director will be entitled to his customary benefits during his notice period, as well as a prorated STIC bonus at target in replacement of any other STIC entitlement, to be paid out in the month following the termination date.

4. The Director will be entitled to a lump sum severance payment equal to the amount of four gross most recent monthly basic salaries (within the meaning of clause 4 paragraph 1 of this employment agreement) (the " **Severance Payment** ") if:
   i) the employment agreement is terminated upon the initiative of the Employer other than a) for urgent cause within the meaning of article 7:678 of the Dutch Civil Code, b) in case of illness of more than two years, or c) in case of eligibility for old-age pension act benefits ("AOW-uitkering"); and
   ii) the Director is appointed as Managing Director (" *statutair directeur* ") by the general meeting of shareholders of the Employer and is still a Managing Director as per the termination date; and
   iii) the Director will grant the Employer full and final release and discharge of all outstanding obligations under the employment agreement and the termination thereof.

   The Severance Payment is deemed to include any entitlement to the statutory transition allowance (" *transitievergoeding* "). If upon the termination date, the transition allowance exceeds the amount of Severance Payment, the Director will only be entitled to the transition allowance and will not be entitled to the Severance Payment or any other additional payment. The Severance Payment will be paid out in the month following the termination date.

5. The Director's Employment Contract will end in any event without notice being required on the day as per which the Director will be eligible for old-age pension act benefits (" *AOW-uitkering* ").

Article 2: Position

1. The Director will hold the position of Managing Director (" *statutair directeur* ") of the Employer, with the title of **President Europe** . The Director will report to the **SVP & President International** of Employer's parent company, Hill-Rom Holdings, Inc.

2. In the position of Managing Director, the Director will be entrusted with the management of the Employer (in the broad sense of the word). The Director will in his position of Managing Director act in accordance with the obligations arising from this employment agreement, the articles of association of the Employer and Dutch law.

3. The Director is obliged to do or refrain from doing all that managing directors in similar positions should do or should refrain from doing. The Director will devote himself, his time and his energy to promoting the interest of the Employer and its subsidiaries and affiliates, without prejudice to any other duties and responsibilities which may be reasonably required by the Employer within the general scope of the Director's employment. The Director will perform his duties responsibly and with full commitment in accordance with the instructions and directions given on behalf of the Employer.

4. The Director covenants that he will also perform duties other than those that are considered his usual duties, if such performance may be reasonably expected from him.

5. The Director will be required to perform work for a company affiliated with the Employer, should the Employer so demand.

Article 3: Working Hours and Workplace

1. The work week will run from Monday to Friday. The working hours amount to 40 hours a week.

2. The Director will perform his work at the Employer's office in Amsterdam, The Netherlands. The Director also undertakes to perform work at a location other than this location if he can reasonably be expected to do so and the interests of both the Employer and the Director will be taken into account in this process.

3. The Director covenants that, at the Employer's request, he will work overtime outside the normal working hours whenever a proper performance of his duties so require. No remuneration will be paid for overtime work.

4. Commuting time does not qualify for remuneration, irrespective of whether such commuting time took place during overtime or during working hours.

Article 4: Salary and Benefits

1. The Director will receive a gross basic monthly salary of **€ 25,077.16** on the basis of a 40-hour working week (excluding holiday allowance). The Director's annual base gross salary will amount to **EUR 325,000** (three hundred twenty five thousand euro), including 8% holiday allowance, on a 12 months basis. The Director will be eligible for a merit increase as per January 1 st, 2016, and on an annual basis thereafter.

2. The annual gross basic annual salary includes 8% holiday allowance, which will be paid out every year in the month of May.

3. The Director will participate in the applicable short and long term incentive compensation schemes currently in force, as may be amended from time to time. The granting of the bonus is at the Employer's discretion. The Director can in no event lay claim to incentive compensation that has not yet been granted. The granting of incentive compensation in any given year or during several years will not create a precedent for any subsequent years. The tax and social security consequences of participation in the short and long term incentive compensation schemes will be at the Director's expense.

    - The Director will be eligible for an annual short term incentive compensation award, calculated on a yearly defined pool, linked to the global performances of our group. Based upon a 100% IC pool and the full achievement of the Director's individual assignment, the Director's bonus target will represent 40% of his annual base salary. The Director is not entitled to payment of any amount of bonus if at the time of payment he is no longer employed by the Employer and/or disciplinary measures have been taken against the Director, including but not limited to a suspension or a penalty.

    - The Director will be eligible for an annual long term incentive compensation award which at target is 40 % of his annual base salary. The award is subject to approval by the CEO and Board of Directors. Within 30 days of the Director's long term incentive grant, he will be provided with a Hill-Rom Holdings, lnc. stock award agreement providing additional details regarding his award.

4. The Director will be eligible for professional income tax filing support service by a provider selected by the Employer, during the first year of joining the Employer, i.e. 2015

5. The Director will be eligible for relocation support in line with the Employer's relocation policy guidelines

Article 5: Expense Allowance and Car

1. The Employer will reimburse the Director for expenses directly related to the performance of his work in accordance with the Employer's Business Expense Reimbursement Policy, but only insofar as that reimbursement may be provided tax free and premium free pursuant to the tax and social security legislation in force at any given time. The Employer's Business Expense Reimbursement Policy may be unilaterally amended by the Employer from time to time in accordance with Dutch law.

2. A statement of expenses must be submitted to the Employer prior to the end of the month following the month in which the expenses were incurred. Expenses can be claimed upon submission of the original receipt(s), specifying the business-related reason for which they were incurred. The Employer will reimburse the expenses within one month after the Director has claimed them, provided that the statement of expenses is sufficiently itemized, accompanied by the original receipt(s) and approved by the Employer.

3. The Employer will provide the Director with a company lease car, or equally valued transportation allowance, of EUR 1,390.00 gross per month during the term of this Director's Employment Contract. The Director may use the car for private purposes within reasonable limits. The tax consequences of the private use of the car are for the

account of the Director and the Director explicitly indemnifies the Employer in this respect. The Employer will calculate the tax "addition" (" *bijtelling"*) in accordance with relevant Dutch tax rules and adds this amount to the Director's gross salary.

4. Upon relocation, the Employer will provide the Director with a net housing allowance of EUR 2,000.00 per month during the term of this Director's Employment Contract.

Article 6: Telephone and Computer

1. The Employer will place at the Director's disposal a mobile phone and laptop, meant for business purposes and reasonable private use.

Article 7: Pension

1. The Director will participate in the Employer's pension scheme. The provisions of the Employer's pension scheme are laid down in the pension regulations. The Director will receive a copy of the pension regulations upon request. By signing this Director's Employment Contract, the Director acknowledges to be familiar with and agrees to the Employer's pension scheme and will comply with all obligations arising from such scheme.

2. The Director's contribution to the pensionable earnings will be withheld from the Director's gross salary.

3. The Employer has the right to unilaterally amend the provisions of the pension agreement if the amendment is of such importance to the interests of the Employer that any possible interest of the Director that might be harmed by the amendment should in all reasonableness be superseded.

Article 8: Vacation

1. The Director will be entitled to twenty five (25) vacation days each calendar year, on the basis of a 40-hour working week. If the Director performed work during only a part of the year, the number of vacation days will be calculated proportionately.

2. The Director must timely inform the SVP & President International, in writing, of his wishes with respect to the beginning and end of his vacation period.

3. The Director will be required to take vacation days as much as possible in the year in which they are accrued.

Article 9: Illness and Occupational Disability

1. If the Director is unable to perform the agreed work due to illness, he will be obliged to inform the Employer thereof before 9.00 a.m. on the first day of illness, stating the reasons, the expected period of illness and the correct address at which he can be reached during that period. As soon as the Director knows on what day he will be able to resume work, he will inform the Employer thereof immediately.

2. If the Director is unfit to perform the agreed work due to illness, he will remain entitled to continued payment of wages for a maximum period of 104 weeks or up to the date of termination of the Director's Employment Contract if that date is earlier, on the basis of the following conditions:
   - during the first 52 weeks of illness, the Director remains entitled to 100% of the most recent gross basic salary;
   - as of the 53 rd week up to and including the 104 th week of illness, the Director remains entitled to 70% of the most recent gross basic salary.

3. The Director will not be entitled to continued payment of wages during the aforementioned period if he caused the illness intentionally, if the illness ensued from an infirmity about which he gave the Employer false information when he entered into the Director's Employment Contract, if he causes an obstruction of or delay in the recovery process, or if the Director refuses to perform other suitable work for the Employer or another (possibly affiliated)

employer despite being able to perform that work.

4. The Employer will be entitled to suspend continued wage payments pursuant to Article 9.1 if the Director does not comply with the Employer's reasonable instructions, issued in writing, concerning the provision of information that the Employer requires in order to establish the Director's right to payment of wages.

5. If the Director's occupational disability ensues from an event for which another is liable, the Director must immediately provide the Employer with all of the relevant information and do everything in his power to enable the Employer to exercise its right of recourse within the meaning of Section 6:107a of the Dutch Civil Code (" *Burgerlijk Wetboek"*).

Article 10: Health Insurance

1. In accordance with the Dutch Health Care Insurance Act (" *Zorgverzekeringswet"*), the Employer will pay the Dutch Tax and Customs Administration on behalf of the Director the income-related contribution fixed by the government each year.

Article 11: Confidentiality

1. Other than for the benefit of the Employer within the scope of the normal work, the Director may neither during the term of the Director's Employment Contract nor after its termination inform any third party in any form, directly or indirectly, of any particulars concerning or related to the business conducted by the Employer or its affiliated companies, regardless of whether such information includes any reference to its confidential nature or ownership and regardless of how the Director learned of the particulars.

2. Other than for the benefit of the Employer within the scope of the normal work, the Director may also not copy, compile, merge, assemble or process information, products or systems of the Employer or disassemble, reproduce or decompile the source code of the computer software that is included in those products or systems or otherwise available on the Employer's premises or attempt to deduce the source code of such software in any other manner.

3. Notwithstanding the provisions of Section 7:650(3), (4) and (5) of the Dutch Civil Code, if the Director violates the confidentiality clause contained in Articles 14.1 and 14.2, he will forfeit to the Employer an immediately due and payable penalty of EUR 30,000.00 for each violation as well as a penalty of EUR 2,000.00 for each day that the violation continues, without prejudice to the Employer's right to claim specific performance of the Director's Employment Contract in addition to that penalty and full compensation instead of that penalty.

Article 12: Non-Competition

1. For a period of 12 months after the termination of the Director's Employment Contract (or day or notice in case the Employer terminates the agreement), the Director may not, without the Employer's prior written consent, alone or with others, whether or not for consideration, in any way whatsoever:

   a. perform work that competes with the business operations of the Employer or its group companies;
   b. perform work for any business that competes with the Employer or its group companies; examples of such direct competitors are (but not limited to) Linet, Arjo Huntleigh, Stiegelmeyer, Paramount, Stryker, Handicare, Wissner, Guldmann, Heinicare, Remedica, and Etac;
   c. Article 12.1.b explicitly aims at those parts of the business of any of these, or other, organizations that directly or indirectly compete with the business operations of the Employer at the time of the termination.
   d. incorporate, conduct or cause the conduct of a business that competes with the Employer or its group companies or take any interest in such business;
   e. maintain contact with or perform work for or with business relations of the Employer or its group companies, regardless of whether such contact is maintained or work is performed directly or indirectly or at the Director's own expense or at the expense of third parties; 'business relations' are all natural persons with whom and legal entities with which the Employer or its group companies maintained business

relations at any given time during the 12-month period preceding the termination of the Director's Employment Contract;

f. induce employees or contractors of the Employer or its group companies, either directly or indirectly, to terminate their Director's Employment Contract or contract for services with the Employer or its group companies; or

g. with respect to contracts between the Employer or its group companies and suppliers to supply goods or services: directly or indirectly thwart the supply of such goods or services or induce a supplier, either directly or indirectly, to discontinue or refuse the supply of such goods or services to the Employer or its group companies;

2. Notwithstanding the provisions of Section 7:650(3), (4) and (5) of the Dutch Civil Code, if the Director violates the non-competition clause contained in paragraph 1 of this article, he will forfeit to the Employer an immediately due and payable penalty of EUR 30,000.00 for each violation as well as a penalty of EUR 2,000.00 for each day that the violation continues, without prejudice to the Employer's right to claim specific performance of the Director's Employment Contract in addition to that penalty and full compensation instead of that penalty.

3. When the duration of the employment is less than 12 months, the non-competition period after the termination, referred to in the first sentence of that article, will be equal to the duration of the Director's Employment Contract in months.

4. During the first four months of the period during which the Director is bound to the prohibition of competition within the meaning of clause 12 paragraph 1, under a, b, c and d of this employment agreement (the " **Prohibition Period** "), the Employer will pay to the Director a compensation equal to 100 percent (100%) of the Director's most recent gross monthly basic salary (within the meaning of clause 4 paragraph 1 of this employment agreement) (the " **Compensation** "). The Compensation will be paid to the Director in four equal instalments at the end of every month.

   Any income earned by the Director through employment or other activities or any state benefits to which the Director is or can be entitled during the Prohibition Period, will be deducted from the Compensation. The Director will provide the Employer with any and all information concerning such income and/or state benefits.

Article 13: Sideline

1. During the term of the Director's Employment Contract, the Director must refrain from undertaking or holding any sidelines or additional posts, such as committee work, or managerial or other activities for associations, foundations or other organizations of an idealistic, cultural, sporting, political or other nature, whether or not for consideration, without the Employer's prior written consent, regardless of whether the Employer is either partly or fully aware of such activities. This will be limited to payable sidelines or posts, or if these sidelines or additional posts obstruct the Director's work for the Employer.

2. Without prejudice to the foregoing clause, Employer consents to the fact that the Director currently holds and may continue to hold the external positions attached to this contract (see Annex A), under the condition that all costs associated with these positions are not for the account of Employer and that these positions do not obstruct the Director's work for the Employer

Article 14: Personal Data Protection

1. The Employer will be entitled to process personal data relating to the Director within the framework of performing the Director's Employment Contract and/or provisions ensuing from or in relation to the employment relationship.

2. The Employer uses the Director's personal data for the purpose of its personnel and payroll records and to comply with its statutory obligations, including but not limited to withholding wage tax and social security contributions, to maintain and improve effective personnel records, including payroll records and compliance with statutory obligations, to administer Director benefits, including insurance and pension provisions, and to administer programs

and schemes with respect to training and development, job assessment, compensation, planning and organization.

3. For these purposes and to comply with its statutory obligations, the Employer may also transfer the Director's personal data to third parties and other companies of the Employer located in countries inside and outside the European Union. If applicable, the Employer will apply for the required permits and notify the data processing to the relevant authorities.

4. The Employer will process the personal data in a proper and careful manner. Furthermore, the Employer will take appropriate technical and organizational measures to sufficiently safeguard personal data and to preserve the confidential nature of the Director's personal data, regardless of whether such data are processed in Europe, the United States or elsewhere.

5. The Director will be entitled to contact the Employer with a reasonable request to review, correct, supplement, delete or block his personal data. Furthermore, the Director will notify the Employer of any changes in his personal data in a timely fashion.

6. In accordance with the Dutch Personal Data Protection Act ("Wet *Bescherming Persoonsgegevens* "), the Employer will not store the personal data for longer than is necessary for the purposes of the processing.

Article 15: Company documents and company equipment

1. The Director will be obliged to observe due care in handling any company documents, in any form whatsoever, and any company equipment made available to him. 'Company equipment' includes in any event the access pass/key, laptop, mobile phone and credit card.

2. Upon termination of the Director's Employment Contract, the Director will be obliged to return all company documents and company equipment to the Employer in good condition. Furthermore, the Director will be obliged to return such company property should the Employer so demand, for example in the event that he does not perform work due to occupational disability or has been placed in non-active service.

Article 16: Intellectual Property Rights

1. All intellectual property rights, including but not limited to patent rights, design rights, copyrights, neighboring rights, database rights, trademark rights, chip rights, trade name rights and Know-How (as defined in paragraph 2 of this article), ensuing in the Netherlands or abroad, during the term of this Director's Employment Contract or after its termination, from the work performed by the Director under this Director's Employment Contract (the 'Intellectual Property Rights') will exclusively vest in the Employer.

2. 'Know-How' is defined as any and all trade secrets, secret formulas, inventions, designs, standards, technical and other data or information, processes, methods, draft materials and business methods and any and all related information, knowledge, details, commercial practices and improvements.

3. Insofar as any Intellectual Property Rights are not vested in the Employer by operation of law, the Director covenants that he will transfer to the Employer, should the Employer so demand, and, insofar as possible, hereby transfers those rights to the Employer, which transfer is hereby accepted by the Employer.

4. Insofar as any Intellectual Property Rights are incapable of being transferred from the Director to the Employer, the Director hereby grants the Employer the exclusive, royalty-free, worldwide, perpetual right, with the right to grant sublicenses, to use those Intellectual Property Rights in the broadest sense, which right is hereby accepted by the Employer.

5. Insofar as any personal rights vest in the Director and insofar as permitted by law, the Director hereby waives all of his personal rights, including but not limited to the right to have one's name stated pursuant to the Dutch Copyright Act of 1912 (*Auteurswet 1912*).

6. The Director will promptly disclose to the Employer all works, inventions, results, information and Intellectual Property Rights that ensue from his work under this Director's Employment Contract and/or that are in any way relevant to the creation, protection and/or enforcement of the Intellectual Property Rights.

7. During the term of this Director's Employment Contract and after its termination, the Director will perform all acts that are necessary to register the Intellectual Property Rights in the Employer's name with any competent authority in the world.

8. If the Director is unable to provide the cooperation referred to in paragraphs 3 and 7 of this article for any reason, he hereby grants the Employer an irrevocable power of attorney to represent him with respect to the transfer and registration of the Intellectual Property Rights referred to in paragraphs 3 and 7 of this article, respectively.

9. The Director acknowledges that his salary includes reasonable compensation for the loss of intellectual property rights.

10. The Director may not use the Intellectual Property Rights or the ensuing results for any purpose other than the performance of his work under this Director's Employment Contract.

11. The Director guarantees that the results of his work and/or activities under this Director's Employment Contract do not infringe upon any rights (including intellectual property rights) of third parties and that they are not unlawful vis-à-vis third parties in any other manner. The Director will indemnify the Employer against any and all damage and costs ensuing from claims brought by third parties in that respect.

12. The Employer will not be liable for damage incurred by the Director in connection with the Employer's use of inventions, designs, works, programs, documents, data, names, signs, Know-How, materials or other achievements that the Director discloses to the Employer during the term of this Director's Employment Contract and that (i) fall outside of the scope of this Director's Employment Contract or (ii) were created or developed prior to the conclusion of this Director's Employment Contract.

13. If this Director's Employment Contract is terminated, the Articles governing the Intellectual Property Rights set out above will remain in effect after the termination of the Director's Employment Contract.

Article 17: Applicable Collective Bargaining Agreement (*CAO*)

1. This Director's Employment Contract will not be governed by the provisions of any Collective Bargaining Agreement.

Article 18: Amendment to Employment Conditions

1. In accordance with Section 7:613 of the Dutch Civil Code, the Employer will be authorized to unilaterally amend the conditions contained in this Director's Employment Contract if and insofar as it has a weighty interest in doing so that is of such a nature that the Director's interests, insofar as they are harmed by the amendment, in all reasonableness and fairness must yield to the Employer's interest.

Article 19: Applicable Law

1. This Director's Employment Contract will be governed by Dutch law.

Signed in duplicate originals on Aug. 27, 2015

/s/ Etienne Claessens	/s/Francisco Canal
Etienne Claessens	**Francisco Canal**
VP HR International	

ANNEX A Permitted Positions

With reference to clause 13.2 of the Director's Employment Contract between HR Europe B.V. and Mr. F. Canal, the following positions are permitted:

Organization name: Maverick consulting
Legal form: S.L
Product / service: Software and service, specializing in the control and management of large and complex work forces
Location: Spain
Role: Board Member, one of the majority shareholders

Organization name: Aglaris
Legal form: S.L
Product / service: R&D company dedicated to the development of systems for the standardization and optimization of cell culture (bio-reactors, culture media and software
Location: Spain
Role: Member of the Advisory Board (not an investor)

Signed in duplicate originals on 27 Aug, 2015

/s/ Etienne Claessens /s/Francisco Canal
Etienne Claessens **Francisco Canal**
VP HR International

EXHIBIT 31.1

CERTIFICATIONS

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John J. Greisch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hill-Rom Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ John J. Greisch

John J. Greisch
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Steven J. Strobel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hill-Rom Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2017

/s/ Steven J. Strobel

Steven J. Strobel
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Hill-Rom Holdings, Inc. (the "Corporation") on Form 10-Q for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J. Greisch, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ John J. Greisch
John J. Greisch
President and Chief Executive Officer

July 28, 2017

A signed original of this written statement required by Section 906 has been provided to Hill-Rom Holdings, Inc. and will be retained by Hill-Rom Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Hill-Rom Holdings, Inc. (the "Corporation") on Form 10-Q for the period ending June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven J. Strobel, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Steven J. Strobel
Steven J. Strobel
Senior Vice President and Chief Financial Officer

July 28, 2017

A signed original of this written statement required by Section 906 has been provided to Hill-Rom Holdings, Inc. and will be retained by Hill-Rom Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.