UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 000-23125

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0238801**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

12525 Chadron Avenue

Hawthorne, California 90250

(Address of principal executive offices) (Zip Code)

(310) 978-0516

(Registrant s telephone number, including area code)

N/A

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 26, 2017, there were 18,968,450 shares of the registrant s common stock outstanding.

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OSI SYSTEMS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OSI SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share amounts)

	June 30, 2017	September 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 169,650	$ 192,028
Accounts receivable, net	206,526	203,068
Inventories	248,510	271,309
Prepaid expenses and other current assets	28,314	34,425
Total current assets	653,000	700,830
Property and equipment, net	141,539	151,170
Goodwill	242,129	282,656
Intangible assets, net	118,450	145,036
Deferred income taxes	34,897	29,705
Other assets	40,072	42,127
Total assets	$ 1,230,087	$ 1,351,524
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Bank lines of credit	$ 103,000	$ 214,000
Current portion of long-term debt	2,396	2,286
Accounts payable	76,121	86,112
Accrued payroll and related expenses	34,621	31,271
Advances from customers	37,934	34,458
Other accrued expenses and current liabilities	92,062	93,224
Total current liabilities	346,134	461,351
Long-term debt	241,750	243,416
Deferred income taxes	20,681	20,323
Other long-term liabilities	52,309	55,054
Total liabilities	660,874	780,144
Commitments and contingencies (Note 9)		
Stockholders Equity:		
Preferred stock, $0.001 par value authorized, 10,000,000 shares; no shares issued or outstanding		
Common stock, $0.001 par value authorized, 100,000,000 shares; issued and outstanding, 18,689,568 shares at June 30, 2017 and 18,958,834 shares at September 30, 2017	222,529	212,931
Retained earnings	363,872	374,029
Accumulated other comprehensive loss	(17,188)	(15,580)
Total stockholders equity	569,213	571,380
Total liabilities and stockholders equity	$ 1,230,087	$ 1,351,524

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	For the Three Months Ended September 30, 2016	2017
Net revenues:		
Products	$ 153,457	$ 165,653
Services	67,398	91,480
Total net revenues	220,855	257,133
Cost of goods sold:		
Products	113,121	114,180
Services	39,647	51,682
Total cost of goods sold	152,768	165,862
Gross profit	68,087	91,271
Operating expenses:		
Selling, general and administrative	43,553	55,647
Research and development	12,478	15,100
Impairment, restructuring and other charges	9,957	1,130
Total operating expenses	65,988	71,877
Income from operations	2,099	19,394
Interest and other expense, net	(1,158)	(4,249)
Income before income taxes	941	15,145
Provision for income taxes	264	4,988
Net income	$ 677	$ 10,157
Earnings per share:		
Basic	$ 0.04	$ 0.54
Diluted	$ 0.03	$ 0.52
Shares used in per share calculation:		
Basic	18,943	18,778
Diluted	19,591	19,591

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands)

	For the Three Months Ended September 30, 2016	2017
Net income	$ 677	$ 10,157
Other comprehensive income (loss):		
Foreign currency translation adjustment	(801)	1,580
Other	79	28
Other comprehensive income (loss)	$ (722)	$ 1,608
Comprehensive income (loss)	$ (45)	$ 11,765

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2017
Cash flows from operating activities:		
Net income	$ 677	$ 10,157
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	15,426	20,375
Stock based compensation expense	5,830	5,487
Deferred income taxes	98	5,346
Amortization of debt discount and issuance costs		2,098
Impairment charges	5,418	
Other	160	490
Changes in operating assets and liabilities net of business acquisitions:		
Accounts receivable	(11,412)	16,232
Inventories	10,901	(10,098)
Prepaid expenses and other current assets	(3,427)	(8,220)
Accounts payable	(8,791)	6,586
Accrued payroll and related expenses	(5,251)	(5,742)
Advances from customers	(10,469)	(3,484)
Other	(1,018)	(4,120)
Net cash provided by (used in) operating activities	(1,858)	35,107
Cash flows from investing activities:		
Acquisition of property and equipment	(2,806)	(23,719)
Acquisition of businesses, net of cash acquired	(186,861)	(83,632)
Acquisition of intangible and other assets	(1,881)	(1,179)
Net cash used in investing activities	(191,548)	(108,530)
Cash flows from financing activities:		
Net borrowings on bank lines of credit	214,000	111,000
Proceeds from long-term debt	233	118
Payments on long-term debt	(707)	(670)
Proceeds from exercise of stock options and employee stock purchase plan	2,099	3,718
Repurchase of common shares	(2,712)	
Taxes paid related to net share settlement of equity awards	(290)	(18,802)
Net cash provided by financing activities	212,623	95,364
Effect of exchange rate changes on cash	(621)	437
Net increase in cash and cash equivalents	18,596	22,378
Cash and cash equivalents beginning of period	104,370	169,650
Cash and cash equivalents end of period	$ 122,966	$ 192,028
Supplemental disclosure of cash flow information:		
Cash paid, net during the period for:		
Interest	$ 956	$ 2,852
Income taxes	$ 6,022	$ 4,172

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Description of Business

OSI Systems, Inc., together with our subsidiaries, is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. We sell our products in diversified markets, including homeland security, healthcare, defense and aerospace.

We have three reporting segments: (i) Security, providing security inspection systems, turnkey security screening solutions and related services; (ii) Healthcare, providing patient monitoring, diagnostic cardiology, and anesthesia systems, and related services; and (iii) Optoelectronics and Manufacturing, providing specialized electronic components and electronic manufacturing services for the Security and Healthcare divisions as well as to external OEM customers and end users for applications in the defense, aerospace, medical and industrial markets, among others.

Through our Security segment, we provide security screening products and related services globally. These products fall into the following categories: baggage and parcel inspection; cargo and vehicle inspection; hold (checked) baggage screening; people screening; radiation detection; and explosive and narcotics trace detection. In addition to these products, we also provide site design, installation, training and technical support services to our customers. We also provide turnkey security screening solutions, which can include the construction, staffing and long-term operation of security screening checkpoints for our customers.

Through our Healthcare segment, we design, manufacture, market and service patient monitoring, diagnostic cardiology, and anesthesia delivery and ventilation systems, and related supplies and accessories worldwide. These products are used by care providers in critical care, emergency and perioperative areas within hospitals as well as physicians offices, medical clinics and ambulatory surgery centers among other sites.

Through our Optoelectronics and Manufacturing segment, we design, manufacture and market optoelectronic components and provide electronics manufacturing services globally for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostic products, telecommunications, computer peripherals, industrial automation systems, automotive diagnostic systems, and consumer products. This division provides products and services to OEM customers and end users as well as to our Security and Healthcare divisions.

Basis of Presentation

The condensed consolidated financial statements include the accounts of OSI Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded in accordance with SEC rules and regulations applicable to interim unaudited financial statements. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for audited financial statements. In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The results of operations for the three months ended September 30, 2017 are not necessarily indicative of the operating results to be expected for the full 2018 fiscal year or any future periods.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and costs of sales during the reporting period. The most significant of these estimates and assumptions for our company relate to contract revenue, profit and loss recognition, fair values of assets acquired and liabilities assumed in business combinations, market values for inventories reported at lower of cost or net realizable value, stock-based employee compensation expense, income taxes, accrued product warranty costs, and the recoverability, useful lives and valuation of

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recorded amounts of long lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the periods during which they become known. Actual amounts will likely differ from these estimates and could differ materially.

Per Share Computations

We compute basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. We compute diluted earnings per share by dividing net income available to common stockholders by the sum of the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares consist of the shares issuable upon the exercise of stock options and restricted stock unit awards under the treasury stock method. Stock options and stock awards to purchase 0.1 million shares of common stock for each of the three months ended September 30, 2016 and September 30, 2017, respectively, were excluded from the calculation because to include such options and awards would have been antidilutive. Prior to our adoption of ASU 2016-09 in the fourth quarter of fiscal 2017, we included tax benefits in assessing whether equity awards were dilutive and in our calculations of weighted average dilutive shares under the treasury stock method. The underlying equity component of the 1.25% convertible senior notes discussed in Note 6 to the condensed consolidated financial statements will have no impact to diluted earnings per share until the average price of our common stock exceeds the conversion price because the principal amount of the Notes is intended to be settled in cash upon conversion.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30, 2016		2017	
Net income available to common stockholders	$	677	$	10,157
Weighted average shares outstanding basic		18,943		18,778
Dilutive effect of equity awards		648		813
Weighted average shares outstanding diluted		19,591		19,591
Basic earnings per share	$	0.04	$	0.54
Diluted earnings per share	$	0.03	$	0.52

Cash Equivalents

We consider all highly liquid investments purchased with maturities of three months or less as of the acquisition date to be cash equivalents.

Our cash, cash equivalents, and investments totaled $192.0 million at September 30, 2017. Of this amount, approximately 99% was held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were located primarily in Mexico, Malaysia and the United Kingdom, and to a lesser extent in India, Singapore, Germany and China among others. We intend to permanently reinvest a significant portion of our earnings from foreign operations, and we currently do not anticipate that we will need this cash in foreign countries to fund our U.S. operations. In the event that funds from foreign operations are needed to fund operations in the United States and if U.S. taxes have not been previously provided on the related earnings, we would provide for and pay additional U.S. taxes at the time we change our intention with regard to the reinvestment of those earnings.

Fair Value of Financial Instruments

Our financial instruments consist primarily of cash, marketable securities, derivative instruments, accounts receivable, accounts payable and debt instruments. The carrying values of financial instruments, other than long term debt instruments, are representative of their fair values due to their short term maturities. The carrying values of our long term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates available to us.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 category includes assets and liabilities at the quoted prices in active markets for identical assets and liabilities. Level 2 category includes assets and liabilities from observable inputs other than quoted market prices. Level 3 category includes assets and liabilities for which valuation techniques are unobservable and significant to the fair value measurement. There were no assets where Level 3 valuation techniques were used. As further discussed in Note 9 to the condensed consolidated financial statements, our contingent payment obligations related to acquisitions are valued using Level 3 valuation techniques. Such obligations are measured at fair value on a recurring basis.

The fair values of the our financial assets and liabilities as of June 30, 2017 and September 30, 2017 are categorized as follows (in thousands):

	June 30, 2017				September 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:								
Equity securities	$ 254	$	$	$ 254	$ 231	$	$	$ 231
Insurance company contracts		26,940		26,940		29,183		29,183
Interest rate contract		20		20		18		18
Total assets	$ 254	$ 26,960	$	$ 27,214	$ 231	$ 29,201	$	$ 29,432
Liabilities Contingent payment obligations	$	$	$ 11,840	$ 11,840	$	$	$ 13,902	$ 13,902

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Derivative Instruments and Hedging Activity

Our use of derivatives consists of an interest rate swap agreement. The interest rate swap agreement was entered into to improve the predictability of cash flows from interest payments related to variable, LIBOR based debt for the duration of the term loan. The interest rate swap matures in October 2019. The interest rate swap is considered an effective cash flow hedge and, as a result, the net gains or losses on such instrument were reported as a component of Other comprehensive income (loss) in the consolidated financial statements and are reclassified as net income when the hedge transaction settles.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged while assets are used in service and are generally computed using the straight-line method over the estimated useful lives of the assets taking into consideration any estimated salvage value. Amortization of leasehold improvements is calculated on the straight-line method over the shorter of the useful life of the asset or the lease term. Leased capital assets are included in property and equipment. Amortization of property and equipment under capital leases is included with depreciation expense. In the event that property and equipment are idle, as a result of excess capacity or the early termination, non-renewal or reduction in scope of a turnkey screening operation, such assets are assessed for impairment on a periodic basis.

Goodwill Impairment

Goodwill represents the excess purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination. Goodwill is allocated to our segments based on the nature of the product line of the acquired business. The carrying value of goodwill is not amortized, but is annually tested for impairment during our second quarter and more frequently if there is an indicator of impairment. We assess qualitative factors of each of our three reporting units to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill.

Revenue Recognition

Product Sales. We recognize revenue from sales of products upon shipment when title and risk of loss passes and when terms are fixed and collection is probable. In an instance where terms of a product sale include subjective customer acceptance criteria, revenue is deferred until we have achieved the acceptance criteria unless customer acceptance terms are perfunctory or inconsequential.

Service Revenue. Revenue from services includes after-market services, installation and implementation of products and turnkey security screening services. Generally, revenue from services is recognized when the services are performed.

Revenues from out-of-warranty service maintenance contracts are recognized ratably over the respective terms of such contracts. Deferred revenue for such services arises from payments received from customers for services not yet performed.

Multiple-Deliverable Arrangements. We enter into certain agreements with customers for the sale of capital equipment that contain multiple elements that may include civil works to prepare a site for the installation of equipment, manufacture and delivery of equipment, installation and integration of equipment, training of customer personnel to operate the equipment and after-market service of the equipment. The duration to fulfill each of these deliverables can range from completion in a short amount of time and entirely within a single reporting period to completion over several reporting periods. The general timing of revenue recognition for

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each deliverable may be dependent upon several milestones, including physical delivery of equipment, completion of factory acceptance test, completion of site acceptance test, installation and connectivity of equipment, certification of training of personnel and, in the case of after-market service deliverables, the passage of time (typically evenly over the post-warranty period of the service deliverable).

Multiple-deliverable arrangements require that consideration be allocated to each deliverable based on its relative selling price and recognized as revenue when the revenue recognition criteria for each deliverable has been met. The arrangement is separated into more than one unit of accounting if both of the following criteria are met: (i) the delivered item has value to the customer on a stand-alone basis; and (ii) for an arrangement including a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially within our control. If these criteria are not met, the arrangement is accounted for as one unit of accounting and the recognition of revenue is deferred until delivery is complete or is recognized ratably over the contract period as appropriate. If these criteria are met, consideration is allocated at inception of the arrangement to all deliverables on the basis of the relative selling price. We have generally met these criteria for the multiple-deliverable arrangement as all of the deliverables in our arrangements have stand-alone value in that either the customer can resell that item or another vendor sells that item separately. We typically do not offer a general right of return in regards to our multiple-deliverable arrangements.

The selling price of each deliverable is determined by establishing vendor-specific objective evidence (VSOE), third party evidence (TPE) or best estimate of selling price (BESP) for each delivered item. Generally, either VSOE or TPE is determinable; however, in the few instances where neither VSOE nor TPE is determinable, we utilize our BESP in order to allocate consideration to those deliverables. BESP for our product deliverables is determined by utilizing a weighted average price approach. BESP for our service deliverables is determined primarily by utilizing a cost-plus margin approach, though in some instances average price per hour is used.

We often provide a guarantee to support our performance under multiple-deliverable arrangements. In the event that customers are permitted to terminate such arrangements, the underlying contract typically requires payment for deliverables and reimbursement of costs incurred through the date of termination.

Proportional Performance. In connection with the agreement with the Servicio de Administración Tributaria (SAT) in Mexico, revenue is recognized based upon proportional performance, measured by the actual number of labor hours incurred divided by the total estimated number of labor hours for the project. The impact of changes in the estimated labor hours to service the agreement is reflected in the period during which the change becomes known. In the SAT agreement, customer billings may be submitted for several separate deliverables, including monthly services, activation of services, training of customer personnel and consultation on the design and location of security scanning operations, among others. In the event that payments received from the customer exceed revenue recognition, deferred revenue is recorded.

Critical judgments made by management related to revenue recognition include the determination of whether or not customer acceptance criteria are perfunctory or inconsequential. The determination of whether or not customer acceptance terms are perfunctory or inconsequential impacts the amount and timing of revenue recognition. Concurrent with revenue recognition, we accrue reserves for estimated product return and warranty costs. Critical judgments also include estimates of warranty reserves, which are established based on historical experience and knowledge regarding the product under warranty.

Recent Accounting Updates Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standards update (ASU) amending revenue recognition requirements for multiple deliverable revenue arrangements. This update provides guidance on how revenue is recognized for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The ASU is effective for fiscal years beginning after December 15, 2017 and for interim reporting periods within such fiscal years. Earlier adoption is permitted only for fiscal years beginning after December 15, 2016, including interim reporting periods within such fiscal years. We are in the process of selecting a transition method and our preliminary evaluation of the impact of this ASU indicates that it will not have a material impact on the timing of revenue recognition.

In January 2016, FASB issued an ASU which affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. This guidance retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The guidance also changes the accounting for investments without a readily determinable fair value and that do not qualify for the practical expedient permitted by the guidance to estimate fair value. A policy election can be made for these investments whereby estimated

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fair value may be measured at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within such fiscal years. Early application is permitted. We have not yet adopted this ASU and are currently evaluating the impact it may have on our financial condition and results of operations.

In February 2016, the FASB issued an ASU which affects the accounting for leases. The guidance requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The amendment also will require qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within such fiscal years. Early application is permitted. We have not yet adopted this ASU and are currently evaluating the impact it may have on our financial condition and results of operations.

In August 2016, the FASB issued an ASU to address the diverse classifications being applied to cash receipts and payments in the reporting entities cash flow statement. This ASU addresses eight specific cash flow issues to reduce diversity in practice. This ASU is effective for fiscal years beginning after December 15, 2017, including interim reporting periods within such fiscal years. We have not yet adopted this ASU and are currently evaluating the impact it may have on our financial condition and results of operations.

Adoption of ASU 2015-11

Effective July 1, 2017, we adopted ASU 2015-11 Simplifying the Measurement of Inventory. This ASU requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The adoption of this ASU did not have a material impact on our financial condition and results of operations.

2. Business Combinations

Under ASU 805, the acquisition method of accounting requires us to record assets acquired and liabilities assumed in an acquisition at their estimated fair values at the date of acquisition. Any excess of the total estimated purchase price of over the estimated fair value of the assets acquired and liabilities assumed should be recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology, trade names, useful lives and discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding adjustments to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Acquisition of Explosive Trace Detection Business

On July 7, 2017, we completed the acquisition of the global explosive trace detection business (ETD) from Smiths Group plc. We financed the total estimated purchase price of $80.5 million with a combination of cash on hand and borrowings under our existing revolving bank line of credit.

Due to the timing and complexity of the transaction, we are in the process of finalizing our valuation of the assets acquired and liabilities assumed. As of September 30, 2017, the final valuation of certain assets and liabilities of ETD are preliminary in nature as they are awaiting the conclusion of the valuation of certain assets by a third party, resolution of accurately carving out certain assets and liabilities from the prior owners of the business and final determination of the working capital adjustment on the purchase price. As a result, the ETD acquisition could necessitate the use of the full one year measurement period to establish the fair values of assets and liabilities as of the acquisition date, including intangible assets, goodwill, accounts receivable, inventory, deferred revenue, property and equipment, contractual obligations, income tax obligations, and certain reserves. Any potential adjustments made could be material in relation to these preliminary values below:

Cash and cash equivalents	$	4
Accounts receivable		12,359
Inventories		12,269
Property and equipment		1,594
Intangible assets		30,040
Other long-term assets		303
Accounts payable		(3,070)
Accrued payroll and related expenses		(2,450)
Deferred revenues current		(2,068)
Accrued warranties		(1,260)
Other accrued expenses and current liabilities		(1,018)
Net assets acquired		46,703
Goodwill		33,764
Total consideration	$	80,467

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The goodwill is largely attributable to expected growth and the assembled workforce of the ETD business.

Intangible assets are recorded at estimated fair value, as determined by management based on available information, which includes a preliminary valuation prepared by an independent third party. The fair value attributed to the intangible assets acquired was based on preliminary estimates, assumptions and other information compiled by management, including independent valuations that utilized established valuation techniques. The value attributed to goodwill and intangible assets is not deductible for income tax purposes. The following table summarizes the fair value of acquired identifiable intangible assets as of the acquisition date (amounts in thousands):

	Weighted Average Lives		Fair Value
Amortizable assets:			
Developed technology	10 years	$	13,220
Customer relationships/backlog	7 years		16,420
Total amortizable assets			29,640
Non-amortizable asset IPR&D			400
Total intangible assets		$	30,040

The condensed consolidated statements of operations include $21.7 million of revenue and $4.0 million of pre-tax income from ETD for the period from July 8, 2017 to September 30, 2017.

The following unaudited pro forma results are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results which may occur in the future. The following unaudited pro forma results of operations assume the ETD acquisition had occurred on July 1, 2016 (in thousands):

	Three Months Ended September 30,			
		2016		2017
Revenues	$	236,752	$	257,133
Income from operations	$	4,441	$	19,394

Significant pro forma adjustments incorporated into the pro forma results above include the recognition of additional amortization expense related to acquired intangible assets. In addition, the pro forma results for the three months ended September 30, 2016 were carved out from the operations of the business when it was owned by its former parent. As a result, these carve-out results have been prepared from the historical accounts of its former parent, and include revenues and expenses specifically identified to ETD, and allocations of certain overhead expenses.

Acquisition of American Science and Engineering

On September 9, 2016, we acquired by merger 100 percent ownership of American Science and Engineering, Inc. (AS&E), a leading provider of detection solutions for advanced cargo, parcel, and personnel inspection. AS&E s operations are included in our Security division. We financed the total purchase price of $266 million with a combination of cash on hand and borrowing under our existing revolving bank line of credit, and also issued restricted stock units (RSUs) of the Company to replace RSUs previously issued by AS&E. Immediately following the close of the acquisition, we used $69 million of AS&E s existing cash on hand to pay down the revolving bank line of credit. The valuation of the estimated fair value of the assets acquired and liabilities assumed as a result of this business combination has been finalized, and there were no adjustments to these values during the three months ended September 30, 2017.

The assets acquired and the liabilities assumed by us in the acquisition, reconciled to total purchase consideration are as follows (in thousands):

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Current assets	$	138,747
Intangible assets		74,800
Other long term assets		5,538
Current liabilities		(42,111)
Long-term liabilities		(26,809)
Net assets acquired		150,165
Goodwill		115,838
Total consideration	$	266,003

Other Acquisitions

During the three months ended September 30, 2017, the Company (through our Security division) also completed an acquisition of a technology company. The acquisition was financed with cash on hand and determined to be immaterial by management.

3. Balance Sheet Details

The following tables provide details of selected balance sheet accounts (in thousands):

		June 30, 2017		September 30, 2017
Accounts receivable	$	216,089	$	213,164
Less allowance for doubtful accounts		(9,563)		(10,096)
Total	$	206,526	$	203,068

		June 30, 2017		September 30, 2017
Raw materials	$	129,645	$	134,391
Work-in-process		65,454		67,412
Finished goods				

(iv) mortgages securing debt owing to any guarantor or any Restricted Subsidiary by any Restricted Subsidiary or any guarantor;

(v) mortgages on assets held by banks to secure amounts due to such banks in the ordinary course of business and certain statutory and other mortgages incurred in the ordinary course of business or imposed by law;

(vi) mortgages on property in favor of the United Kingdom, Canada, the United States or The Netherlands or any political subdivision of any thereof, or any department, agency or other instrumentality of any thereof, to secure partial, progress, advance or other payments pursuant to the provisions of any contract or statute;

(vii) mortgages existing at the date of the execution of the Indenture;

(viii) mortgages incurred in connection with engaging in leveraged or single investor lease transactions;

(ix) mortgages on property, shares of stock or indebtedness of a corporation existing at the time such corporation is merged into or consolidated or amalgamated with Unilever N.V., Unilever PLC or a Restricted Subsidiary or at the time of a sale, lease or other disposition of the properties of a corporation as an entirety or substantially as an entirety to Unilever N.V., Unilever PLC or a Restricted Subsidiary;

(x) mortgages on property incurred or assumed in connection with the issuance of revenue bonds, the interest on which is exempt from United States Federal income taxation pursuant to Section 103 of the United States Internal Revenue Code, as amended from time to time; and

(xi) extensions, renewals or replacements (or successive extensions, renewals or replacements) in whole or in part of any mortgage referred to in the foregoing clauses (i) through (x) inclusive.

Notwithstanding the foregoing, Unilever N.V. and Unilever PLC may, and they may permit a Restricted Subsidiary to, issue, assume or guarantee debt secured by mortgages not excepted in the foregoing clauses (i) through (xi) inclusive without equally and ratably securing the guarantees; *provided, however,* that the aggregate principal amount of all such debt then outstanding, plus the principal amount of such debt then being issued, assumed or guaranteed, and the aggregate amount of the Attributable Debt (as defined below) in respect of sale and leaseback transactions (with the exception of Attributable Debt which is excluded pursuant to clauses (i) through (iv) inclusive described under "Limitations on Sales and Leasebacks" below), shall not exceed 10% of Capital Employed (as defined below).

Limitations on Sales and Leasebacks

The Indenture provides that Unilever N.V. and Unilever PLC will not, and will not permit any Restricted Subsidiary to, enter into any transaction with any person for the leasing by Unilever N.V. or Unilever PLC or a Restricted Subsidiary of any Principal Property, the acquisition or the completion of construction and commencement of full operation, whichever is later, of which has occurred more than 120 days prior thereto, which Principal Property has been or is to be sold or transferred by Unilever N.V. or Unilever PLC or such Restricted Subsidiary to that person in contemplation of such leasing unless, after giving effect thereto, the aggregate amount of all Attributable Debt with respect to all such transactions plus all debt secured by mortgages on Principal Properties (with the exception of debt which is excluded pursuant to clauses (i) through (xi) inclusive described under "Limitation on Liens" above) would not exceed 10% of Capital Employed. This covenant shall not apply to, and there

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shall be excluded from Attributable Debt in any computation under such restriction or under "Limitation on Liens" above, Attributable Debt with respect to any sale and leaseback transaction if:

(i) the lease in such sale and leaseback transaction is for a term of not more than three years;

(ii) Unilever N.V., Unilever PLC or the relevant Restricted Subsidiary, as the case may be, shall apply or cause to be applied an amount in cash equal to the greater of the net proceeds of such sale or transfer or the fair value (as determined by the Board of Directors of Unilever N.V. and Unilever PLC) of such Principal Property to the retirement (other than any mandatory retirement or by way of payment at maturity), within 120 days of the effective date of any such arrangement, of debt of Unilever N.V., Unilever PLC or Restricted Subsidiaries (other than debt owed by any Subsidiary), which by its terms matures more than 12 months after the date of the creation of such debt, or shall apply such proceeds to investment in other Principal Properties within a period not exceeding 12 months prior or subsequent to any such arrangement;

(iii) such sale and leaseback transaction is entered into between any guarantor and a Restricted Subsidiary or between Restricted Subsidiaries or between guarantors; or

(iv) Unilever N.V., Unilever PLC or a Restricted Subsidiary would be entitled to incur a mortgage on such Principal Property pursuant to clauses (i) through (xi) inclusive described under "Limitation on Liens" above, securing debt without equally and ratably securing the guarantees.

Subordination of Debt Securities

The prospectus supplement for any applicable series of guaranteed debt securities will provide that the guaranteed debt securities of such series will be expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt (as defined below) of the issuer of such series (whether Unilever N.V. or UCC), and the obligations of each guarantor of such series evidenced by the guarantees will be expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the guarantor.

In the event and during the continuation of any default in the payment of any Senior Debt of the issuer continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt (unless and until such event shall have been cured or waived or shall have ceased to exist), no payments on account of principal, premium, if any, or interest if any, on the subordinated debt securities or sums payable with respect to the conversion, if applicable, of such subordinated debt securities may be made by the issuer pursuant to the subordinated debt securities.

In the event and during the continuation of any default in the payment of any Senior Debt of any guarantor continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt (unless and until such event shall have been cured or waived or shall have ceased to exist), no payments on account of principal, premium, if any, or interest, if any, on the subordinated debt securities or sums payable with respect to the conversion, if applicable, of such subordinated debt securities may be made by the guarantor pursuant to its guarantee with respect thereto.

Upon any payment or distribution of the assets of the issuer (Unilever N.V. or UCC, as applicable) or the assets of any guarantor to creditors upon dissolution or winding-up or total or partial liquidation or reorganization, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings for the issuer or the guarantor, the holders of the Senior Debt of the issuer or the Senior Debt of the guarantor, as the case may be, will be entitled to receive payment in full of all amounts due thereon before any payment is made by the issuer or the guarantor, as the case may be, on account of principal, premium, if any, or interest, if any, on the subordinated debt securities or sums payable with respect to the conversion, if applicable, of such subordinated debt securities.

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By reason of such subordination, in the event of the insolvency of the issuer (Unilever N.V. or UCC, as applicable) or any guarantor, holders of the subordinated debt securities may recover less, ratably, and holders of Senior Debt may recover more, ratably, than other creditors of the issuer or creditors of any guarantor.

The term "Senior Debt," when used with reference to the issuer or any guarantor, will be defined in the Indenture to mean the principal of, premium, if any, and interest, if any, which is due and payable on:

(a) all indebtedness of the issuer or all indebtedness of the guarantor, as the case may be (other than the subordinated debt securities or the guarantees), whether outstanding on the date of execution of the Indenture or thereafter created, incurred or assumed, which

(i) is for money borrowed,

(ii) is evidenced by a note, debenture, bond or similar instrument, whether or not for money borrowed,

(iii) constitutes obligations under any agreement to lease, or any lease of, any real or personal property which are required to be capitalized on the balance sheet of lessee in accordance with generally accepted United Kingdom and Dutch accounting principles applicable in the preparation of the most recent audited financial statements of the issuer or the most recent audited financial statements of the guarantor or made as part of any sale and leaseback transaction to which we are a party or the guarantor is a party, or

(iv) constitutes purchase money indebtedness;

(b) any indebtedness of

others of the kinds described in the preceding clause (a) for the payment of which the issuer or the guarantor, as the case may be, are responsible or liable as guarantor or otherwise; and

(c) amendments, renewals, extensions and refundings of any such indebtedness;

unless in any instrument or instruments evidencing or securing such indebtedness or pursuant to which the same is outstanding, or in any such amendment, renewal, extension or refunding, it is provided that such indebtedness is subordinate to all other indebtedness of the issuer or the indebtedness of the guarantor, as the case may be, or that such indebtedness is not superior in right of payment to the subordinated debt securities or the guarantees; *provided, however,* that Senior Debt shall not be deemed to include any obligation of the issuer (Unilever N.V. or UCC, as applicable) or any guarantor to any Subsidiary or to Unilever N.V. or Unilever PLC.

The Indenture does not limit the amount of Senior Debt which the issuer (Unilever N.V. or UCC, as applicable) may issue, or that may be issued by either issuer or any guarantor.

Conversion

The prospectus supplement for each series of guaranteed debt securities will provide whether the securities are convertible and, if so, the conversion price and terms.

Glossary

"*Attributable Debt"* means, as to any particular lease under which Unilever N.V., Unilever PLC or any Restricted Subsidiary is at any time liable as lessee and at any date as of which the amount thereof is to be determined, the total net obligations of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) discounted as provided in the Indenture.

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"Capital Employed" means the combined capital and reserves, outside interests in group companies, creditors due after more than one year and provisions for liabilities and charges, as shown on our combined consolidated balance sheet as published in the most recent Annual Accounts of Unilever PLC and Unilever N.V. (as defined in the Indenture).

"Principal Property" means any manufacturing or processing plant or warehouse located in the United States, Canada or the United Kingdom, owned or leased by Unilever N.V., Unilever PLC or any Restricted Subsidiary, other than (i) any such property which, in the opinion of the Board of Directors of Unilever N.V. and Unilever PLC, is not of material importance to the total business conducted by Unilever N.V. and Unilever PLC and their Subsidiaries and associated companies, or (ii) any portion of such property which, in the opinion of the Board of Directors of Unilever N.V. and Unilever PLC, is not of material importance to the use or operation of such property.

"Restricted Subsidiary" means any Subsidiary (i) substantially all the property of which is located, and substantially all the operations of which are conducted, in the United States, Canada or the United Kingdom, and (ii) which owns or leases a Principal Property.

"Subsidiary" means any corporation which qualifies to be included as a group company of either Unilever N.V. or Unilever PLC in the combined consolidated balance sheet of Unilever N.V. and Unilever PLC and their respective Subsidiaries as published in the most recent Annual Accounts of Unilever PLC and Unilever N.V.

Modification of the Indenture

UCC, Unilever N.V., Unilever PLC, UNUS and the Trustee may modify and amend the Indenture, with the consent of the holders of not less than $66^2/_3$% in aggregate principal amount of the outstanding securities of all series under the Indenture which are affected by the modification or amendment (voting as one class); *provided*, however, that no such modification or amendment may, without the consent of the holder of each such outstanding security of any series affected thereby, among other things:

(a) change the stated maturity date of the principal of or any installment of interest on such security;

(b)

reduce the principal amount of, or the rate or rates of any interest on, any such security or any premium payable upon the redemption thereof or any sinking fund or analogous payment with respect thereto, or reduce the amount of the principal of a discounted debt security that would be due and payable upon a declaration of acceleration of the maturity thereof or upon the redemption thereof,

(c) change the currency

of payment of principal of or any premium or interest on any such security;

(d) impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof;

(e) reduce the above-stated percentage of holders of securities necessary to modify or amend the Indenture;

(f) modify the foregoing requirements or reduce the percentage of outstanding securities of any series necessary to waive any past default to less than a majority; or

(g) change in any manner materially adverse to the interests of the holders of such securities the terms and conditions of the obligations of any guarantor regarding the due and punctual payment of the principal thereof, and premium, if any, and interest, if any, thereon or the sinking fund or analogous payments, if any, with respect to such securities.

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UCC, Unilever N.V., Unilever PLC, UNUS and the trustee may also amend the Indenture in certain circumstances without the consent of the holders of the debt securities to evidence the succession of another corporation to UCC, Unilever N.V., Unilever PLC or UNUS, as the case may be, or the replacement of the trustee with respect to the debt securities of one or more series and for certain other purposes.

Events of Default

The following are defined as Events of Default with respect to securities of any series outstanding under the Indenture (unless otherwise stated in the related prospectus supplement):

(a) failure to pay at maturity the principal of, or premium, if any, on any security of such series outstanding under the Indenture;

(b) failure to pay any interest or any additional interest on any security of such series outstanding under the Indenture when due continued for 30 days;

(c) failure to deposit any sinking fund or analogous payment with respect to such series when and as due or beyond any applicable period of grace;

(d) failure to perform any other covenant of UCC, Unilever N.V., Unilever PLC or UNUS (other than a covenant expressly included in the Indenture solely for the benefit of a series other than such series), continued for 90 days after written notice; and

(e) certain events in bankruptcy, insolvency or reorganization of UCC, Unilever N.V. or Unilever PLC.

If an Event of Default shall occur and be continuing, the Trustee in its discretion may proceed to protect and enforce its rights and those of the holders of such series of securities. If an Event of Default shall occur and be continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the outstanding securities of such series (or of all affected series in the case of defaults under clauses (d) and (e) above (voting as one class)) may accelerate the maturity of all such outstanding securities of such series by written notice. The holders of not less than a majority in aggregate principal amount of outstanding securities of such series (or of all such affected series in the case of defaults under clauses (d) and (e) above (voting as one class), as the case may be) under the Indenture may waive any past default under the Indenture, except, among other things, a default in the payment of principal, premium, if any, or interest, if any. The holders of not less than a majority in aggregate principal amount of outstanding securities of any series (or of all such affected series in the case of defaults under clauses (d) and (e) above (voting as one class), as the case may be) may rescind a declaration of acceleration of securities of such series but only if all Events of Default have been remedied and all payments due (other than those due as a result of acceleration) have been made. Since each series of guaranteed debt securities will be independent of each other series, a default with respect to one series of guaranteed debt securities will not in itself necessarily result in the acceleration of the maturity of a different series of guaranteed debt securities.

UCC, Unilever N.V., Unilever PLC and UNUS are required to furnish to the Trustee annually a statement as to performance or fulfillment of covenants, agreements or conditions in the Indenture or a statement as to the nature of any default.

Consolidation, Merger and Sale of Assets

UCC, Unilever N.V., Unilever PLC and UNUS may, without the consent of the holders of any of the securities outstanding under the Indenture, consolidate or amalgamate with, merge into any other

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corporation or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation if:

(i) in the case of UCC or Unilever N.V., as the case may be, the successor corporation is organized under the laws of the United States or The Netherlands, respectively, and the successor corporation assumes the obligations of UCC or Unilever N.V., as the case may be, on the securities issued under the Indenture;

(ii) in the case of Unilever N.V., Unilever PLC or UNUS, the successor corporation assumes the obligations of Unilever N.V., Unilever PLC or UNUS, as the case may be, on the guarantees and under the Indenture and, in the case of UNUS, if such successor corporation is not organized under the laws of the United States, agrees to make payments under the guarantees free of any deduction or withholding for or on account of taxes, levies, imposts and charges of the country of incorporation (or any political subdivision or taxing authority therein), subject to certain exceptions;

(iii) immediately after giving effect thereto, no Event of Default, and no event which, after giving of notice or lapse of time, would become an Event of Default, shall have occurred and be continuing; and

(iv) certain other conditions are met.

Unilever N.V., Unilever PLC or UNUS or any of their respective Subsidiaries may, subject to certain restrictions, assume the obligations of any of UCC or Unilever N.V. as obligor under the securities issued under the Indenture.

Defeasance and Discharge

The Indenture provides that UCC, Unilever N.V., Unilever PLC and UNUS, at the option of UCC, Unilever N.V., Unilever PLC or UNUS, as the case may be:

(a) will be discharged from any and all obligations in respect of any series of guaranteed debt securities and the guarantees relating to such series (except for certain obligations to register the transfer or exchange of guaranteed debt securities of such series, replace stolen, lost or mutilated guaranteed debt securities of such series and maintain paying agencies), or

(b) need not comply with certain restrictive covenants of the Indenture (including those described under "Limitation on Liens" and "Limitations on Sales and Leasebacks" above),

if in each case, UCC or Unilever N.V., as the case may be, irrevocably deposits with the Trustee, in trust, (i) in the case of guaranteed debt securities of such series denominated in U.S. dollars, money and/or U.S. government obligations or (ii) in the case of guaranteed debt securities of such series denominated in a foreign currency (other than a basket currency, as defined in the Indenture), money and/or foreign government securities in the same foreign currency, which through the payment of interest thereon and principal thereof in accordance with their terms will provide money in an amount in cash sufficient to pay all the principal of (including any mandatory sinking fund or analogous payments), and any premium and interest on, the guaranteed debt securities of such series not later than one day before the dates such payments are due in accordance with the terms of the guaranteed debt securities of such series.

In the case of a discharge pursuant to clause (a) above, UCC or Unilever N.V., as the case may be, is required to deliver to the Trustee either an opinion of counsel to the effect that the holders of guaranteed debt securities of such series will not recognize income, gain or loss for United States Federal income tax purposes as a result of such deposit and related defeasance and will be subject to United States Federal income tax in the same manner and at the same times as would have been the

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case if such deposit and related defeasance had not been exercised or a ruling to such effect received from or published by the United States Internal Revenue Service.

In the event we exercise our option pursuant to clause (b) above, UCC or Unilever N.V., as the case may be, will deliver to the Trustee an opinion of counsel to the effect that the holders of guaranteed debt securities of such series will not recognize income, gain or loss for United States Federal income tax purposes as a result of such deposit and related defeasance and will be subject to United States Federal income tax in the same manner and at the same times as would have been the case if such deposit and related defeasance had not been exercised.

If the Trustee or paying agent is unable to apply any money, U.S. government obligations and/or foreign government securities deposited in trust by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority located within the United States and having jurisdiction in the premises, enjoining, restraining or otherwise prohibiting such application (including any such order or judgment requiring the payment of money, U.S. government obligations and/or foreign government securities to UCC or Unilever N.V., as the case may be), the obligations of UCC, Unilever N.V., Unilever PLC and UNUS under the Indenture, the guaranteed debt securities of such series and the guarantees relating to such guaranteed debt securities will be revived and reinstated as though no such deposit had occurred, until such time as the Trustee or paying agent is permitted to apply all such money, U.S. government obligations and/or foreign government securities to payments of the principal of or any premium and interest on the guaranteed debt securities of such series. If any issuer or any guarantor makes any payment of principal of or any interest on any guaranteed debt securities of such series because of any such reinstatement of obligations, the issuer or the guarantor will be subrogated to the rights of the holders of the guaranteed debt securities of such series to receive such payment from the money, U.S. government obligations and/or foreign government securities held by the Trustee.

Governing Law

New York law will govern the Indenture and the guaranteed debt securities.

Concerning the Trustee

The Bank of New York Mellon is Trustee under the Indenture. Unilever N.V., Unilever PLC and UNUS and certain of their respective Subsidiaries maintain deposit accounts and conduct other banking transactions with The Bank of New York Mellon and its affiliates in the ordinary course of their respective businesses.

Pursuant to the Trust Indenture Act, should a default occur with respect to either the guaranteed debt securities constituting Senior Debt of the issuer or any guarantor or subordinated guaranteed debt securities, The Bank of New York Mellon would be required to resign as Trustee with respect to the guaranteed debt securities constituting Senior Debt or the subordinated guaranteed debt securities under the Indenture within 90 days of such default unless such default were cured, duly waived or otherwise eliminated.

The trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders pursuant to the Indenture, unless such holders shall have offered to the trustee security or indemnity satisfactory to the trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

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PLAN OF DISTRIBUTION

We may sell the guaranteed debt securities in and outside the United States (i) through underwriters or dealers, (ii) directly to purchasers or (iii) through agents. The prospectus supplement will include the following information:

(a) the terms of the offering;

(b) the names of any underwriters or agents;

(c) the purchase price of the securities from us;

(d) the net proceeds to us from the sale of the securities;

(e) any delayed delivery arrangements;

(f) any underwriting discounts and

other items constituting underwriters' compensation;

(g) any initial public offering price; and

(h) any discounts or concessions allowed or reallowed or paid to dealers.

Sale Through Underwriters or Dealers

If we use underwriters in the sale, the underwriters will acquire the guaranteed debt securities for their own account. The underwriters may resell the securities from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer securities to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. Unless we inform you otherwise in the prospectus supplement, the obligations of the underwriters to purchase the securities will be subject to certain conditions, and the underwriters will be obligated to purchase all the offered securities if they purchase any of them. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers.

During and after an offering through underwriters, the underwriters may purchase and sell the guaranteed debt securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers for the offered securities sold for their account may be reclaimed by the syndicate if such offered securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered securities, which may be higher than the price that might otherwise prevail in the open market. If commenced, these activities may be discontinued at any time.

If we use dealers in the sale of the guaranteed debt securities, we will sell the securities to them as principals. They may then resell those securities to the public at varying prices determined by the dealers at the time of resale. We will include in the prospectus supplement the names of the dealers and the terms of the transaction.

Direct Sales and Sales Through Agents

We may sell the guaranteed debt securities directly. In this case, no underwriters or agents would be involved. We may also sell the guaranteed debt securities through agents we designate from time to time. In the prospectus supplement, we will name any agent involved in the offer or sale of the offered securities, and we will describe any commissions payable by us to the agent. Unless we inform you

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otherwise in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment.

We may sell the guaranteed debt securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act of 1933 with respect to any sale of those securities. We will describe the terms of any such sales in the prospectus supplement.

Delayed Delivery Contracts

If we so indicate in the prospectus supplement, we may authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase guaranteed debt securities from us at the public offering price under delayed delivery contracts. These contracts would provide for payment and delivery on a specified date in the future. The contracts would be subject only to those conditions described in the prospectus supplement. The prospectus supplement will describe the commission payable for solicitation of those contracts.

General Information

We may have agreements with the agents, dealers and underwriters to indemnify them against certain civil liabilities, including liabilities under the Securities Act of 1933, or to contribute with respect to payments that the agents, dealers or underwriters may be required to make. Agents, dealers and underwriters may be customers of, engage in transactions with or perform services for us in the ordinary course of their businesses.

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LEGAL MATTERS

The validity of the guaranteed debt securities, the guarantees and the Ordinary Shares €0.16 deliverable upon conversion of the guaranteed debt securities in respect of which this Prospectus is being delivered will be passed upon for Unilever by Linklaters LLP, One Silk Street,
London EC2Y 8HQ, United Kingdom, including with respect to certain matters of New York, English and Dutch law.

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EXPERTS

The consolidated financial statements as of December 31, 2015 and 2016 and for each of the years in the three-year period ended December 31, 2016 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2016 have been incorporated by reference herein in reliance upon the report of KPMG Accountants N.V., and KPMG LLP, independent registered public accounting firms, incorporated by reference herein, and upon the authority of said firms as experts in accounting and auditing.

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Unilever Capital Corporation

$500,000,000 3.000% Senior Notes due 2022
$500,000,000 3.250% Senior Notes due 2024
$500,000,000 3.500% Senior Notes due 2028

Payment of Principal, Premium, if any, and Interest Guaranteed Jointly, Severally Fully and Unconditionally by

Unilever N.V., Unilever PLC and Unilever United States, Inc.

PROSPECTUS SUPPLEMENT

September 4, 2018