

HOLOGIC INC
Form 10-Q
May 02, 2014
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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 March 29, 2014

or

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

For the transition period from _____ to _____

Commission File Number: 1-36214

Hologic, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

04-2902449
(I.R.S. Employer

Identification No.)

35 Crosby Drive,

Bedford, Massachusetts
(Address of principal executive offices)

01730
(Zip Code)

(781) 999-7300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of April 28, 2014, 276,320,003 shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****HOLOGIC, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share data)**

	Three Months Ended		Six Months Ended	
	March 29,	March 30,	March 29,	March 30,
	2014	2013	2014	2013
Revenues:				
Product	\$ 521,135	\$ 516,116	\$ 1,033,517	\$ 1,049,370
Service and other	103,873	96,547	203,939	194,655
	625,008	612,663	1,237,456	1,244,025
Costs of revenues:				
Product	185,724	207,227	362,602	429,554
Amortization of intangible assets	76,883	75,733	153,549	151,020
Impairment of intangible assets	26,567		26,567	
Service and other	53,722	50,377	107,030	102,452
Gross Profit	282,112	279,326	587,708	560,999
Operating expenses:				
Research and development	49,915	49,621	98,584	101,130
Selling and marketing	78,657	88,614	161,914	183,057
General and administrative	62,109	64,233	129,928	118,624
Amortization of intangible assets	29,100	28,667	55,316	57,193
Impairment of intangible assets	522		522	
Contingent consideration compensation expense		29,388		58,874
Contingent consideration fair value adjustments		799		10,839
Gain on sale of intellectual property				(53,884)
Restructuring and divestiture charges	11,559	12,462	29,909	16,395
	231,862	273,874	476,173	492,228
Income from operations	50,250	5,542	111,535	68,771
Interest income	149	207	505	467
Interest expense	(54,449)	(76,049)	(115,739)	(148,130)

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Debt extinguishment loss	(4,437)	(3,247)	(7,377)	(3,247)
Other (expense) income, net	(3,263)	(201)	(2,093)	1,038
Loss before income taxes	(11,750)	(73,748)	(13,169)	(81,101)
Provision (benefit) for income taxes	5,015	(22,644)	8,947	(33,115)
Net loss	\$ (16,765)	\$ (51,104)	\$ (22,116)	\$ (47,986)
Net loss per common share:				
Basic	\$ (0.06)	\$ (0.19)	\$ (0.08)	\$ (0.18)
Diluted	\$ (0.06)	\$ (0.19)	\$ (0.08)	\$ (0.18)
Weighted average number of shares outstanding:				
Basic	274,589	268,175	273,648	267,259
Diluted	274,589	268,175	273,648	267,259

See accompanying notes.

Table of Contents**HOLOGIC, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(Unaudited)****(In thousands)**

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Net loss	\$ (16,765)	\$ (51,104)	\$ (22,116)	\$ (47,986)
Changes in foreign currency translation adjustment	(5,763)	(8,288)	(6,951)	(6,319)
Changes in unrealized holding (losses) gains on available-for-sale securities	(1,048)	2,687	(2,228)	2,130
Changes in pension plans, net of taxes of \$152 for the six months ended March 29, 2014			(615)	
Other comprehensive loss	(6,811)	(5,601)	(9,794)	(4,189)
Comprehensive loss	\$ (23,576)	\$ (56,705)	\$ (31,910)	\$ (52,175)

See accompanying notes.

Table of Contents**HOLOGIC, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except per share data)**

	March 29, 2014	September 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 484,522	\$ 822,490
Restricted cash	5,857	6,914
Accounts receivable, less reserves of \$10,930 and \$8,798, respectively	387,633	409,273
Inventories	310,980	289,363
Deferred income tax assets	34,398	
Prepaid income taxes		44,745
Prepaid expenses and other current assets	41,170	48,361
Other current assets assets held-for-sale		2,997
Total current assets	1,264,560	1,624,143
Property, plant and equipment, net	472,154	491,528
Intangible assets, net	3,667,597	3,906,722
Goodwill	2,809,814	2,814,528
Other assets	148,270	163,902
Total assets	\$ 8,362,395	\$ 9,000,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 89,497	\$ 563,812
Accounts payable	68,197	80,534
Accrued expenses	248,287	271,931
Deferred revenue	144,702	132,319
Deferred income tax liabilities		39,810
Total current liabilities	550,683	1,088,406
Long-term debt, net of current portion	4,183,958	4,242,098
Deferred income tax liabilities	1,450,342	1,535,306
Deferred service obligations long-term	22,458	25,456
Other long-term liabilities	174,851	168,044
Commitments and contingencies (Note 5)		

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Stockholders' equity:

Preferred stock, \$0.01 par value	1,623 shares authorized; 0 shares issued		
Common stock, \$0.01 par value	750,000 shares authorized; 276,236 and 272,036 shares issued, respectively	2,762	2,720
Additional paid-in-capital		5,606,759	5,536,312
Accumulated deficit		(3,640,024)	(3,616,392)
Accumulated other comprehensive income		10,606	20,391
Treasury stock, at cost	219 shares at September 28, 2013		(1,518)
Total stockholders' equity		1,980,103	1,941,513
Total liabilities and stockholders' equity		\$ 8,362,395	\$ 9,000,823

See accompanying notes.

Table of Contents**HOLOGIC, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	Six Months Ended	
	March 29, 2014	March 30, 2013
OPERATING ACTIVITIES		
Net loss	\$ (22,116)	\$ (47,986)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	48,998	46,218
Amortization	208,865	208,213
Non-cash interest expense	35,820	41,387
Stock-based compensation expense	26,098	31,079
Excess tax benefit related to equity awards	(4,134)	(4,437)
Deferred income taxes	(164,788)	(92,502)
Gain on sale of intellectual property		(53,884)
Fair value adjustments to contingent consideration		10,839
Fair value write-up of inventory sold		52,397
Asset impairment charges	33,308	47
Debt extinguishment loss	7,377	3,247
Cost-method equity investment impairment	3,705	1,733
Loss on disposal of property and equipment	3,438	2,198
Other	(744)	1,976
Changes in operating assets and liabilities:		
Accounts receivable	21,544	8,627
Inventories	(23,827)	(3,719)
Prepaid income taxes	44,745	(16,700)
Prepaid expenses and other assets	9,769	1,225
Accounts payable	(12,317)	(12,939)
Accrued expenses and other liabilities	(6,511)	(11,799)
Deferred revenue	9,085	4,308
Net cash provided by operating activities	218,315	169,528
INVESTING ACTIVITIES		
Acquisition of a business		(3,918)
Payment of additional acquisition consideration		(16,808)
Proceeds from sale of business, net of cash transferred	2,431	86,250
Purchase of property and equipment	(19,777)	(25,888)
Increase in equipment under customer usage agreements	(17,964)	(20,955)
Net sales (purchases) of insurance contracts	13,841	(4,000)

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Purchases of mutual funds	(29,732)	
Sales of mutual funds	18,564	
Proceeds from sale of intellectual property		60,000
Purchase of cost-method equity investments		(3,625)
Increase in other assets	(1,932)	(4,951)
Net cash (used in) provided by investing activities	(34,569)	66,105
FINANCING ACTIVITIES		
Repayment of long-term debt	(562,500)	(32,500)
Payment of debt issuance cost	(2,446)	(7,019)
Payment of contingent consideration		(42,433)
Payment of deferred acquisition consideration	(4,965)	
Net proceeds from issuance of common stock pursuant to employee stock plans	53,718	37,623
Excess tax benefit related to equity awards	4,134	4,437
Payment of minimum tax withholdings on net share settlements of equity awards	(9,163)	(9,972)
Net cash used in financing activities	(521,222)	(49,864)
Effect of exchange rate changes on cash and cash equivalents	(492)	(1,203)
Net (decrease) increase in cash and cash equivalents	(337,968)	184,566
Cash and cash equivalents, beginning of period	822,490	560,430
Cash and cash equivalents, end of period	\$ 484,522	\$ 744,996

See accompanying notes.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(all tabular amounts in thousands except per share data)

(1) Basis of Presentation

The consolidated financial statements of Hologic, Inc. (Hologic or the Company) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q and do not include all of the information and disclosures required by U.S. generally accepted accounting principles (GAAP). These financial statements should be read in conjunction with the consolidated financial statements and related notes for the year ended September 28, 2013 included in the Company s Form 10-K filed with the SEC on November 26, 2013. In the opinion of management, the financial statements and notes contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods presented.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management s estimates if past experience or other assumptions do not turn out to be substantially accurate. Operating results for the three and six months ended March 29, 2014 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 27, 2014.

Subsequent Events Consideration

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated as required. There were no material recognized subsequent events recorded in the unaudited consolidated financial statements as of and for the three and six months ended March 29, 2014.

(2) Fair Value Measurements

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company has an equity investment in a publicly-traded company and mutual funds, both of which are valued using quoted market prices, representing Level 1 assets. The Company has a payment obligation to the participants under its Nonqualified Deferred Compensation Plan (DCP). This liability is recorded at fair value based on the underlying value of certain hypothetical investments under the DCP as designated by each participant for their benefit. Since the value of the DCP obligation is based on market prices, the liability is classified within Level 1. In addition, in fiscal 2013, the Company had contingent consideration liabilities related to its acquisitions that were recorded at

fair value and were based on Level 3 inputs (see Note 5(a)).

Assets and liabilities measured and recorded at fair value on a recurring basis consisted of the following at March 29, 2014:

	Fair Value at Reporting Date Using			
	Quoted Prices in		Significant	
	Balance as of	Active Market for	Other	Significant
	March 29,	Identical Assets	Observable	Unobservable
	2014	(Level 1)	Inputs (Level 2)	Inputs (Level 3)
Assets:				
Marketable securities:				
Equity security	\$ 15,859	\$ 15,859	\$	\$
Mutual funds	18,744	18,744		
Total	\$ 34,603	\$ 34,603	\$	\$
Liabilities:				
Deferred compensation liabilities	\$ 40,464	\$ 40,464	\$	\$
Contingent consideration	3,393			3,393
Total	\$ 43,857	\$ 40,464	\$	\$ 3,393

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Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3), which solely consisted of contingent consideration liabilities, were as follows:

	Three Months Ended		Six Months Ended	
	March 29,	March 30,	March 29,	March 30,
	2014	2013	2014	2013
Balance at beginning of period	\$ 3,647	\$ 93,000	\$ 3,780	\$ 86,368
Fair value adjustments		799		10,839
Payments	(254)	(90,172)	(387)	(93,580)
Balance at end of period	\$ 3,393	\$ 3,627	\$ 3,393	\$ 3,627

The contingent consideration liability at March 29, 2014 is related to the Company's acquisition of Interlace Medical, Inc. (Interlace) and represents the remaining amounts withheld from payments made to the former stockholders of Interlace for legal indemnification provisions. As of the end of the second quarter of fiscal 2013, the Interlace contingent liability was no longer being remeasured as the final measurement period lapsed. The withheld amount is being used to pay qualifying legal expenses in connection with the litigation with Smith & Nephew, Inc. (Smith & Nephew) (see Note 5(b)).

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets are comprised of cost-method equity investments and long-lived assets, including property, plant and equipment, intangible assets and goodwill.

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

In the first quarter of fiscal 2014, the Company recorded a \$3.1 million impairment charge to record certain of its buildings at fair value related to the Hitec organic photoconductor manufacturing line shutdown (see Note 3). The Company believes this adjustment falls within Level 3 of the fair value hierarchy.

The Company holds certain cost-method equity investments in non-publicly traded securities aggregating \$8.7 million and \$12.6 million at March 29, 2014 and September 28, 2013, respectively, which are included in other long-term assets on the Company's Consolidated Balance Sheets. These investments are generally carried at cost, less any write-downs for other-than-temporary impairment charges. To determine the fair value of these investments, the

Company uses all available financial information related to the entities, including information based on recent or pending third-party equity investments in these entities. In certain instances, a cost method investment's fair value is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and to do so would be impractical. In the three and six month periods ended March 29, 2014, the Company recorded other-than-temporary impairment charges of \$3.0 million and \$3.7 million, respectively, related to its cost-method equity investments. In the second quarter of fiscal 2013, the Company recorded an other-than-temporary impairment charge of \$1.7 million related to one of these investments. These represent Level 3 measurements.

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The following chart depicts the level of inputs within the fair value hierarchy used to estimate the fair value of assets measured on a nonrecurring basis for which the Company recorded impairment charges in fiscal 2014:

	Fair Value	Fair Value Measurements Using			Total Gains (Losses)
		Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fiscal 2014:					
Intangible assets	\$ 18,272			\$ 18,272	\$ (27,089)
Property and equipment	1,015			1,015	(1,505)
Buildings	1,388			1,388	(3,132)
Cost-method equity investments	778			778	(3,705)
					\$ (35,431)

Disclosure of Fair Value of Financial Instruments

The Company's financial instruments mainly consist of cash and cash equivalents, accounts receivable, marketable securities, cost-method equity investments, insurance contracts, DCP liability, accounts payable and debt obligations. The carrying amounts of the Company's cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments. The Company's marketable securities are recorded at fair value. The carrying amount of the insurance contracts are recorded at the cash surrender value, as required by U.S. GAAP, which approximates fair value, and the related DCP liability is recorded at fair value. The Company believes the carrying amounts of its cost-method equity investments approximate fair value.

Amounts outstanding under the Company's Credit Agreement of \$2.08 billion aggregate principal are subject to variable rates of interest based on current market rates, and as such, the Company believes the carrying amount of these obligations approximates fair value. The Company's Senior Notes had a fair value of approximately \$1.06 billion as of March 29, 2014 based on their trading price, representing a Level 1 measurement. The fair value of the Company's Convertible Notes is based on the trading prices of the respective notes at the dates noted and represents a Level 1 measurement. Refer to Note 4 for the carrying amounts of the various components of the Company's debt.

The estimated fair values of the Company's Convertible Notes were as follows:

	March 29, 2014	September 28, 2013
2007 Notes	\$	\$ 405,000
2010 Notes	507,800	510,800
2012 Notes	502,800	518,800
2013 Notes	390,900	385,700
	\$ 1,401,500	\$ 1,820,300

As disclosed in Note 4, the Company redeemed the outstanding 2007 Notes in December 2013.

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The Company evaluates its operations for opportunities to improve operational effectiveness and efficiency, including facility and operations consolidation, and to better align expenses with revenues. As a result of these assessments, the Company has undertaken various restructuring actions which are described below. The following table displays charges taken related to restructuring actions in fiscal 2014, 2013 and 2012 and a rollforward of the charges to the accrued balances as of March 29, 2014:

Restructuring and Divestiture Charges	Consolidation of Diagnostics Operations	Closure of Indianapolis Facility	Fiscal 2014 Actions	Fiscal 2013 Actions	Other Operating Cost Reductions	Total
Fiscal 2012 charges:						
Non-cash impairment charge	\$ 585	\$	\$	\$	\$	\$ 585
Purchase orders and other contractual obligations					351	351
Workforce reductions	14,202	879			168	15,249
Facility closure costs					430	430
Other		900				900
Fiscal 2012 restructuring and divestiture charges	\$ 14,787	\$ 1,779	\$	\$	\$ 949	\$ 17,515
Fiscal 2013 charges:						
Workforce reductions	\$ 13,950	\$ 4,805	\$	\$ 11,332	\$ 1,127	\$ 31,214
Facility closure costs		173			377	550
Other		651		42	236	929
Fiscal 2013 restructuring charges	\$ 13,950	\$ 5,629	\$	\$ 11,374	\$ 1,740	\$ 32,693
Divestiture net charges						112
Fiscal 2013 restructuring and divestiture charges						\$ 32,805
Fiscal 2014 charges:						
Workforce reductions	\$ 1,671	\$ 238	\$ 15,948	\$ 932	\$ 7,194	\$ 25,983
Property impairment					3,132	3,132
Facility closure costs		445				445
Other					128	128
Fiscal 2014 restructuring charges	\$ 1,671	\$ 683	\$ 15,948	\$ 932	\$ 10,454	\$ 29,688
Divestiture net charges						221

Fiscal 2014 restructuring and divestiture charges						\$ 29,909
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Rollforward of Accrued Restructuring

Fiscal 2012 charges	\$ 14,787	\$ 1,779	\$	\$	\$ 949	\$ 17,515
Non-cash impairment charges	(585)					(585)
Stock-based compensation	(3,500)					(3,500)
Severance payments	(2,423)				(206)	(2,629)
Other payments					(781)	(781)
Acquired	83					83
Foreign exchange and other adjustments	22				91	113
Balance at September 29, 2012	\$ 8,384	\$ 1,779	\$	\$	\$ 53	\$ 10,216
Fiscal 2013 restructuring charges	\$ 13,950	\$ 5,629		\$ 11,374	\$ 1,740	\$ 32,693
Stock-based compensation	(6,322)			(1,595)		(7,917)
Non-cash impairment charges					(54)	(54)
Severance payments	(13,068)	(3,048)		(4,425)	(897)	(21,438)
Other payments		(566)		(25)	(560)	(1,151)

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Rollforward of Accrued Restructuring	Closure		Fiscal 2014		Fiscal 2013		Other Operating Cost Reductions	Total
	Consolidation of Diagnostics Operations	of Indianapolis Facility	Actions	Actions	Actions	Actions		
Foreign exchange and other adjustments	(2)				(14)		6	(10)
Balance at September 28, 2013	\$ 2,942	\$ 3,794	\$		\$ 5,315		\$ 288	\$ 12,339
Fiscal 2014 restructuring charges	\$ 1,671	\$ 683	\$ 15,948	\$ 932	\$ 10,454		\$ 29,688	
Stock-based compensation			(4,731)	(30)				(4,761)
Non-cash impairment charges							(3,132)	(3,132)
Severance payments	(421)	(3,946)	(6,123)	(4,176)	(1,322)			(15,988)
Other payments		(353)		(9)	(128)			(490)
Foreign exchange and other adjustments					(3)		5	2
Balance at March 29, 2014	\$ 4,192	\$ 178	\$ 5,094	\$ 2,029	\$ 6,165		\$ 17,658	

Consolidation of Diagnostics Operations

In connection with its acquisition of Gen-Probe Incorporated (Gen-Probe), the Company implemented restructuring actions to consolidate its Diagnostics operations, including streamlining product development initiatives, reducing overlapping functional areas in sales, marketing and general and administrative functions, and consolidating manufacturing resources, field services and support. As a result, the Company terminated certain employees from Gen-Probe and its legacy diagnostics business in research and development, sales, marketing, and general and administrative functions. The Company recorded severance and benefit charges in fiscal 2012 of \$13.3 million related to this action pursuant to ASC 420, *Exit or Disposal Cost Obligations* (ASC 420). The majority of these employees ceased working in the fourth quarter of fiscal 2012, and their full severance charge was recorded in the fourth quarter of fiscal 2012. In addition, certain of the terminated Gen-Probe employees had unvested stock options, which were accelerated at termination pursuant to the stock options' original terms. As such, the severance charges in fiscal 2012 include \$3.5 million of stock-based compensation expense. In fiscal 2013, the Company recorded \$10.8 million of severance charges, including \$6.3 million for stock-based compensation. Included in these charges is \$9.7 million recorded in the second quarter of fiscal 2013 related to the termination of certain Gen-Probe executives, including Carl Hull, Gen-Probe's former Chairman, President and Chief Executive Officer. The charge was for the acceleration of certain retention payments and equity awards pursuant to the original terms of the related agreements. No additional charges were recorded in fiscal 2014 under this portion of the action. The Company recorded \$9.7 million and \$10.5 million of severance charges in the three and six months ended March 30, 2013, respectively.

In addition, the Company is in the process of moving its legacy molecular diagnostics operations from Madison, Wisconsin to Gen-Probe's facilities in San Diego, California. This transfer is expected to be finalized by the end of fiscal 2014 and, as a result, many of the employees in Madison will be terminated. The Company is recording severance and benefit charges pursuant to ASC 420 and estimates the total severance and benefits charge to be approximately \$7.3 million, which is being recorded ratably over the estimated service period of the affected employees. The Company recorded \$0.9 million and \$1.7 million in the three and six months ended March 29, 2014, respectively, and \$1.0 million and \$2.0 million in the three and six months ended March 30, 2013, respectively. In fiscal 2013 and 2012, the Company recorded \$3.2 million and \$0.9 million, respectively, for severance and benefits related to this action.

Closure of Indianapolis Facility

In the fourth quarter of fiscal 2012, the Company finalized its decision to transfer production of the majority of its interventional breast products, which are included within the Breast Health reporting segment, from its Indianapolis, Indiana facility to its facility in Costa Rica. The transfer was completed in the first quarter of fiscal 2014, and the termination of employees at the Indianapolis location was completed. The Company recorded severance and benefit charges pursuant to ASC 420 and the total severance and benefits charge under this action was \$5.9 million, which was recorded ratably over the required service period of the affected employees. The Company recorded severance and benefits charges of \$0.2 million in the first quarter of fiscal 2014. The Company recorded severance and benefit charges of \$1.5 million and \$3.0 million in the three and six months ended March 30, 2013, respectively. In fiscal 2013 and 2012, the Company recorded \$4.8 million and \$0.9 million, respectively, for severance and benefits related to this action. In addition, the Company recorded charges of \$0.4 million in the first quarter of fiscal 2014 related to the termination of its lease and remaining lease payments as of the cease-use date. The Company also recorded miscellaneous charges of \$0.8 million in fiscal 2013 and \$0.9 million in fiscal 2012 for amounts owed to the state of Indiana for employment credits. This action is complete and no additional charges will be recorded.

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Fiscal 2014 Actions

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

On December 6, 2013, Stephen P. MacMillan was appointed as President, Chief Executive Officer and a director of the Company. The employment of John W. Cumming, the Company's prior President and Chief Executive Officer, terminated upon Mr. MacMillan's appointment. The Company provided separation benefits to Mr. Cumming pursuant to his employment letter dated July 18, 2013 resulting in a charge of \$6.6 million in the first quarter of fiscal 2014, which included \$4.4 million of stock-based compensation related to the acceleration of all of Mr. Cumming's outstanding equity awards in accordance with the existing terms of Mr. Cumming's share based payment arrangements. An additional \$0.2 million was recorded in the second quarter of fiscal 2014.

In the second quarter of fiscal 2014, the Company terminated certain executives and employees and recorded severance and benefit charges of \$3.0 million pursuant to ASC 712.

Fiscal 2013 Actions

During the third quarter of fiscal 2013, the Company implemented a cost reduction initiative comprised of reducing headcount and evaluating research projects and operating costs. In connection with this plan, the Company terminated certain employees on a worldwide basis. The Company primarily recorded severance and benefit charges pursuant to ASC 420, and the total severance and benefits charge was \$5.4 million related to this plan. For those employees who continued to be employed beyond the minimum retention period, charges were recorded ratably over the estimated service period of the affected employees. The Company recorded severance and benefit charges of \$0.2 million and \$0.9 million in the three and six months ended March 29, 2014, respectively. The Company recorded \$4.6 million of severance and benefit charges in the second half of fiscal 2013 related to this action.

During the fourth quarter of fiscal 2013, Robert A. Cascella resigned as the Company's President and Chief Executive Officer and as a member of the Board of Directors of the Company, and effective at the same time, Mr. Cumming was appointed as the Company's President and Chief Executive Officer. In connection with this management change, additional headcount reductions were implemented. As a result of this action, the Company recorded \$6.8 million in the fourth quarter of fiscal 2013 for severance and benefits charges. All employees were notified prior to September 28, 2013 and primarily ceased employment in the fourth quarter of fiscal 2013. The severance and benefit charges were recorded pursuant to ASC 712 for those employees with contractual arrangements and under ASC 420 for the remainder of the affected employees. In addition to the acceleration of stock options pursuant to the stock options' original terms for certain employees, the Company also modified the terms of equity awards to certain employees resulting in aggregate stock-based compensation charges of \$1.4 million recorded in the fourth quarter of fiscal 2013.

Other Operating Cost Reductions:

Hitec-Imaging Organic Photoconductor Manufacturing Line Shut-down

In the fourth quarter of fiscal 2013, in connection with the Company's cost reduction initiatives, the Company decided to shut-down its Hitec-Imaging organic photoconductor manufacturing line located in Germany. This production line is included within the Breast Health segment. As a result, the Company terminated certain employees, primarily in manufacturing, in fiscal 2014. During the first quarter of fiscal 2014, the Company completed its negotiations with the local Works Council to determine severance benefits for the approximately 95 affected employees. The Company is recording severance and benefit charges pursuant to ASC 420 and estimates the severance and related charges will be approximately \$9.1 million. The Company recorded charges of \$7.3 million in the second quarter of fiscal 2014 in connection with terminating these employees. Additional charges will be recorded in fiscal 2014 and 2015 based on the terms of the benefit arrangements to certain employees.

In the first quarter of fiscal 2014, the Company recorded an impairment charge of \$3.1 million to record certain buildings at this location in Germany to their estimated fair value. This charge is included within restructuring and divestiture charges.

Consolidation of Selenium Panel Coating Production

During the third quarter of fiscal 2012, the Company finalized its decision to consolidate its Selenium panel coating process and transfer the production line to its Newark, Delaware facility from its Hitec-Imaging German subsidiary. This production line is included within the Breast Health segment. The transfer was completed in the fourth quarter of fiscal 2013. In connection with this consolidation plan, the Company terminated certain employees, primarily manufacturing personnel. Severance charges were recorded pursuant to ASC 420. The termination communications began in January 2013 and the Company recorded severance charges of \$0.6 million in the second quarter of fiscal 2013. In connection with this action, the Company recorded severance charges of \$1.1 million in fiscal 2013.

Table of Contents**Divestitures**

In the fourth quarter of fiscal 2013, the Company designated the assets of its Elucigene product line as assets held-for-sale, and recorded a charge of \$0.7 million to record the assets at fair value. In the first quarter of fiscal 2014, the Company finalized the sale of the assets for \$2.8 million, resulting in additional charges of \$0.2 million for the six months ended March 29, 2014. At September 28, 2013, assets held-for-sale consisted of inventory and certain equipment valued at \$2.4 million and goodwill of \$0.6 million.

The Company completed the sale of its Lifecodes business and recorded a net gain of \$0.9 million in the second quarter of fiscal 2013. For the year ended September 28, 2013, the Company recorded a charge of \$0.3 million related to the disposition of certain other assets held-for-sale.

(4) Borrowings and Credit Arrangements

The Company's borrowings consisted of the following:

	March 29, 2014	September 28, 2013
Current debt obligations, net of debt discount:		
Term Loan A	\$ 74,628	\$ 49,713
Term Loan B	14,869	113,966
Convertible Notes		400,133
Total current debt obligations	89,497	563,812
Long-term debt obligations, net of debt discount:		
Term Loan A	845,782	894,834
Term Loan B	1,127,581	1,159,272
Senior Notes	1,000,000	1,000,000
Convertible Notes	1,210,595	1,187,992
Total long-term debt obligations	4,183,958	4,242,098
Total debt obligations	\$ 4,273,455	\$ 4,805,910

Credit Agreement

On October 31, 2013, the Company voluntarily pre-paid \$100.0 million of its Term Loan B facility, which was reflected in current debt obligations as of September 28, 2013. Pursuant to ASC 470, *Debt* (ASC 470), the Company recorded a debt extinguishment loss of \$2.9 million in the first quarter of fiscal 2014 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to this voluntary prepayment.

On February 26, 2014, the Company, the Guarantors, Goldman Sachs, and the Lenders entered into Refinancing Amendment No. 3 to the credit and guaranty agreement among the parties (as amended, the *Credit Agreement*). The Refinancing Amendment No. 3 refinanced the Company's existing senior secured tranche B term loan facility (the

Existing Term Loan B) with a new senior secured tranche B term loan facility (the New Term Loan B) with an issue price of 99.875% of the principal amount of the Existing Term Loan B (subject also to the prepayment referenced below). This amendment resulted in a 50 basis point reduction in the interest rate on the New Term Loan B as of the Refinancing Amendment No. 3 closing date. Amounts outstanding under the New Term Loan B will bear interest, at the Company's option: (A) at the Base Rate, with a floor of 1.75%, plus 1.50% per annum, or (B) at the Adjusted Eurodollar Rate (i.e., the Libor rate), with a floor of 0.75% plus 2.50% per annum. In addition, the Company voluntarily prepaid \$25.0 million of the New Term Loan B.

Pursuant to ASC 470, the accounting for this refinancing is required to be evaluated on a creditor-by-creditor basis to determine whether each transaction should be accounted for as a modification or extinguishment. Certain creditors under the Credit Agreement did not participate in this refinancing transaction and ceased being creditors of the Company, and certain creditors reduced their positions. As a result, the Company recorded a debt extinguishment loss of \$4.4 million in the second quarter of fiscal 2014 to write-off the pro-rata amount of unamortized debt discount and deferred issuance costs related to these creditors. For the remainder of the creditors, this transaction has been accounted for as a modification because the present value of the cash flows on a creditor-by-creditor basis between the two debt instruments was less than 10%. Pursuant to ASC 470, subtopic 50-40, third-party costs of \$1.0 million related to this transaction were expensed.

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Borrowings outstanding under the Credit Agreement for the three and six months ended March 29, 2014 had weighted-average interest rates of 2.96% and 3.01%, respectively. The interest rates on the outstanding Term Loan A and Term Loan B borrowings at March 29, 2014 were 2.15% and 3.25%, respectively. Interest expense under the Credit Agreement totaled \$19.2 million and \$39.6 million for the three and six months ended March 29, 2014, respectively, which includes non-cash interest expense of \$3.2 million and \$6.5 million, respectively, related to the amortization of the deferred financing costs and accretion of the debt discount. Interest expense totaled \$28.5 million and \$58.6 million for the three and six months ended March 30, 2013, respectively, which includes non-cash interest expense of \$4.1 million and \$7.8 million related to the amortization of the deferred financing costs and accretion of the debt discount.

In the second quarter of fiscal 2013, the Company executed Refinancing Amendment No. 1 to the Credit Agreement which reduced the interest rate on the Term Loan A facility. Consistent with the accounting treatment noted above for Refinancing Amendment No. 3, in connection with this transaction, the Company recorded a debt extinguishment loss of \$3.2 million and expensed \$2.4 million of third-party costs to interest expense.

Senior Notes

The Company's 6.25% senior notes due 2020 (the Senior Notes) mature on August 1, 2020 and bear interest at the rate of 6.25% per year, payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2013. The Company recorded interest expense of \$16.0 million and \$32.0 million in both the three and six month periods ended March 29, 2014 and March 30, 2013, respectively, which includes non-cash interest expense of \$0.4 million and \$0.8 million in both the three and six month periods ended March 29, 2014 and March 30, 2013, respectively, related to the amortization of the deferred financing costs.

Convertible Notes

On November 14, 2013, the Company announced that it had issued a notice of redemption to the holders of its 2.00% Convertible Senior Notes due 2037 (2007 Notes) to redeem any 2007 Notes outstanding on December 18, 2013 at a redemption price payable in cash equal to 100% of the principal amount of the 2007 Notes plus accrued and unpaid interest to, but not including, December 18, 2013. Holders of the 2007 Notes also had the option of putting the 2007 Notes to the Company as of December 13, 2013. The 2007 Notes were redeemed at their par value aggregating \$405.0 million. Under ASC 470, the derecognition of the 2007 Notes did not result in a gain or loss as the fair value of the liability component of the 2007 Notes was determined to be equal to the consideration paid to redeem the 2007 Notes, and as a result, no value was allocated to the reacquisition of the conversion option.

Interest expense under the Convertible Notes is as follows:

	Three Months Ended		Six Months Ended	
	March 29,	March 30,	March 29,	March 30,
	2014	2013	2014	2013
Amortization of debt discount	\$ 8,341	\$ 13,621	\$ 19,887	\$ 29,265
Amortization of deferred financing costs	413	790	1,063	1,698
Principal accretion	3,810	1,789	7,584	1,789
Non-cash interest expense	12,564	16,200	28,534	32,752
2.00% accrued interest	4,751	8,616	12,870	17,226

\$ 17,315 \$ 24,816 \$ 41,404 \$ 49,978

(5) Commitments and Contingencies

(a) Contingent Earn-Out Payments

In connection with certain of its acquisitions, the Company incurred obligations to make contingent earn-out payments tied to performance criteria, principally revenue growth of the acquired businesses over a specified period.

In the first quarter of fiscal 2013, the Company made its final contingent consideration payment of \$16.8 million to the former shareholders of Adiana, Inc., which was net of amounts withheld for qualifying legal costs, and its final contingent consideration payment of \$3.4 million to the former shareholders of Sentinelle Medical Inc.

In connection with the Company's acquisition of Interlace in fiscal 2011, the Company had an obligation to the former Interlace stockholders to make contingent payments over a two-year period. Pursuant to ASC 805, *Business Combinations*, the Company recorded its estimate of the fair value of the contingent consideration liability based on future revenue projections of the Interlace

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business. The final measurement period ended during the second quarter of fiscal 2013, resulting in a contingent consideration liability of \$93.8 million. Of this amount, \$86.9 million was paid to the former Interlace stockholders in the second quarter of fiscal 2013. The remainder was withheld for legal indemnification provisions and is being used to pay qualifying legal expenses. At March 29, 2014, the Company had accrued \$3.4 million.

In connection with the Company's acquisition of TCT International Co., Ltd. (TCT) in June 2011, the Company had an obligation to certain of the former TCT shareholders, based on future employment, to make contingent payments over a two year period. These earnouts were recorded as compensation expense ratably over the required service periods. The second and final earn-out period was completed in the third quarter of fiscal 2013, and the Company paid \$87.4 million of this earn-out in the fourth quarter of fiscal 2013. The remaining \$31.1 million of this earn-out was paid in the first quarter of fiscal 2014.

There was no contingent consideration expense recorded in the first six months of fiscal 2014. A summary of amounts recorded to the Consolidated Statements of Operations is as follows:

Statement of Operations Line Item	3 Months Ended March 30, 2013	Interlace	TCT	Total
Contingent consideration compensation expense		\$	\$ 29,388	\$ 29,388
Contingent consideration fair value adjustments		799		799
		\$ 799	\$ 29,388	\$ 30,187

Statement of Operations Line Item	6 Months Ended March 30, 2013	Interlace	TCT	Total
Contingent consideration compensation expense		\$	\$ 58,874	\$ 58,874
Contingent consideration fair value adjustments		10,839		10,839
		\$ 10,839	\$ 58,874	\$ 69,713

(b) Litigation and Related Matters

On June 9, 2010, Smith & Nephew filed suit against Interlace, which the Company acquired on January 6, 2011, in the United States District Court for the District of Massachusetts. The complaint alleged that the Interlace MyoSure hysteroscopic tissue removal device infringed U.S. patent 7,226,459. On November 22, 2011, Smith & Nephew filed suit against the Company in the United States District Court for the District of Massachusetts. The complaint alleged that use of the MyoSure hysteroscopic tissue removal system infringed U.S. patent 8,061,359. Both complaints sought permanent injunctive relief and unspecified damages. On September 4, 2012, following a two week trial, the jury returned a verdict of infringement of both the 459 and 359 patents and assessed damages of \$4.0 million. A bench trial regarding the Company's assertion of inequitable conduct on the part of Smith & Nephew with regard to the 359 patent was held on December 9, 2012 and oral arguments on the issue of inequitable conduct were presented on February 27, 2013. On June 27, 2013, the Court denied the Company's motions related to inequitable conduct and allowed Smith & Nephew's request for injunction, but ordered that enforcement of the injunction be stayed until final resolution, including appeal, of the current re-examinations of both patents at the United States Patent and Trademark Office (USPTO). The Court also rejected the jury's damage award and ordered the parties to identify a mechanism for

resolving the damages issue. On September 12, 2013, a status conference was held, and the Court invited the parties to submit briefs on the relevance of recent activity in the re-examinations at the USPTO. A hearing on this topic was held on October 29, 2013, and the parties are awaiting the Court's ruling. The Company intends to file post-trial motions seeking to reverse the jury's verdict. On January 14, 2014, the USPTO issued a final decision that the claims of the 459 patent asserted as part of the litigation are not patentable. The re-examination of the 359 patent is on-going. It is expected that patentability decisions made by the USPTO for both patents will proceed to appeal. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

On March 6, 2012, Enzo Life Sciences, Inc. (Enzo) filed suit against the Company in the United States District Court for the District of Delaware. The complaint alleged that certain of the Company's molecular diagnostics products, including without limitation products based on its proprietary Invader chemistry, such as Cervista HPV HR and Cervista HPV 16/18, infringe Enzo's U.S. patent 6,992,180. The complaint seeks permanent injunctive relief and unspecified damages. The Company was formally served with the complaint on July 3, 2012, and a trial is tentatively scheduled for the fall of 2015. In January 2012, Enzo filed suit against Gen-Probe in the United States District Court for the District of Delaware. The Gen-Probe complaint alleged that certain of Gen-Probe's diagnostics products, including products that incorporate Gen-Probe's patented HPA technology, such as the Aptima Combo 2 and Aptima HPV assays, infringe Enzo's U.S. patent 6,992,180. On September 30, 2013, Enzo amended its list of accused products to include Prodesse, MilliPROBE, PACE and Proclex assays. The complaint seeks permanent injunctive relief and unspecified damages, and a trial is tentatively scheduled for the fall of 2015. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or a range of estimates, of potential losses.

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On October 29, 2013, the Interlace stockholder representatives filed a complaint in the Delaware Court of Chancery alleging breach of contract for issues related to the payment of contingent consideration under the Interlace acquisition agreement, and are seeking \$14.7 million in additional payments. The Company believes that Interlace has been paid all amounts due under the acquisition agreement and the claims are without merit. The Company is currently preparing its answer to the complaint. At this time, the Company is unable to reasonably assess the ultimate outcome of this case or determine an estimate, or range of estimates, of potential losses.

The Company is a party to various other legal proceedings and claims arising out of the ordinary course of its business. The Company believes that except for those described above there are no other proceedings or claims pending against it of which the ultimate resolution would have a material adverse effect on its financial condition or results of operations. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, *Contingencies*. Legal costs are expensed as incurred.

(6) Sale of Makena

In fiscal 2008, the Company sold the rights of its Makena (formerly Gestiva) pharmaceutical product to K-V Pharmaceutical Company (KV) upon FDA approval of the then pending Makena new drug application. The Company executed certain amendments to this agreement that resulted in an increase in the total sales price to \$199.5 million and a change in the timing of when payments were due to the Company. On February 3, 2011, the Company received FDA approval of Makena, and all rights to Makena were transferred to KV. The Company had received scheduled payments as required under the agreement until August 2012 when KV and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court. At that time, additional payments were still owed to the Company, and in December 2012 the Company and KV executed a settlement agreement, which released KV from all claims in consideration of a \$60.0 million payment. The Company recorded this amount in the first quarter of fiscal 2013, net of certain costs, resulting in a gain of \$53.9 million. The Company will receive no further payments from KV.

(7) Marketable Securities

The following reconciles the cost basis to the fair market value of the Company's equity security that is classified as available-for-sale:

Period Ended:	Cost	Gross Unrealized		Gross Unrealized	Fair Value
		Gains	Losses		
March 29, 2014	\$ 5,931	\$ 9,928	\$		\$ 15,859
September 28, 2013	\$ 5,931	\$ 12,156	\$		\$ 18,087

(8) Net Loss Per Share

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

Three Months Ended		Six Months Ended	
March 29,	March 30,	March 29,	March 30,
2014	2013	2014	2013

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Basic weighted average common shares outstanding	274,589	268,175	273,648	267,259
Weighted average common stock equivalents from assumed exercise of stock options and restricted stock units				

Diluted weighted average common shares outstanding	274,589	268,175	273,648	267,259
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Weighted-average anti-dilutive shares related to:

Outstanding stock options	7,950	8,081	7,575	9,104
Restricted stock units	517	1,037	733	1,059

As more fully discussed in Note 4, the Company has outstanding Convertible Notes. The Company's policy is to net share settle its Convertible Notes, and any conversion premium, at the Company's option, may be satisfied by issuing shares of common stock, cash or a combination of shares and cash. For all periods presented, shares potentially issuable for the conversion premium of the Convertible Notes were excluded from the calculation of earnings per share as their effect would have been anti-dilutive.

Table of Contents**(9) Stock-Based Compensation**

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

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Cost of revenues	\$ 2,133	\$ 1,723	\$ 3,643	\$ 3,557
Research and development	2,224	2,015	4,097	3,883
Selling and marketing	2,352	2,567	4,101	4,768
General and administrative	5,663	5,739	9,496	11,680
Restructuring and divestiture		6,969	4,761	7,191
	\$ 12,372	\$ 19,013	\$ 26,098	\$ 31,079

The Company granted approximately 2.2 million stock options during the six months ended March 29, 2014 and March 30, 2013 with weighted-average exercise prices of \$21.85 and \$19.91, respectively. There were 11.1 million options outstanding at March 29, 2014 with a weighted-average exercise price of \$19.89.

The Company uses a binomial model to determine the fair value of its stock options. The weighted-average assumptions utilized to value these stock options are indicated in the following table:

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Risk-free interest rate	1.3%	0.5%	1.2%	0.5%
Expected volatility	41.4%	43.7%	41.4%	43.7%
Expected life (in years)	4.5	4.4	4.4	4.4
Dividend yield				
Weighted average fair value of options granted	\$ 7.82	\$ 5.83	\$ 7.65	\$ 6.99

The Company granted approximately 2.3 million and 1.9 million restricted stock units (RSUs) during the six months ended March 29, 2014 and March 30, 2013, respectively, with weighted-average grant date fair values of \$21.53 and \$19.86, respectively. As of March 29, 2014, there were 4.1 million unvested RSUs outstanding with a weighted-average grant date fair value of \$20.29. The Company granted approximately 0.4 million performance stock units (PSUs) in the first quarter of fiscal 2014 to members of its senior management team, which have a weighted-average grant date fair value of \$21.77. Each recipient of the PSUs is eligible to receive between zero and 200% of the target number of shares of the Company's common stock at the end of three years provided the Company's defined Return on Invested Capital metrics are achieved. The Company is recognizing compensation expense ratably over the required service period based on its estimate that it is probable the targeted number of shares will vest. If there is a change in the estimate of the number of shares that are probable of vesting, the Company will cumulatively adjust compensation expense in the period that the change in estimate is made.

In connection with appointing its new President and Chief Executive Officer in December 2013, the Company granted approximately 0.1 million market stock units (MSUs). The MSUs vest in three separate tranches in an amount of 1/3rd

of the total amount of the award based on the Company's stock price meeting certain defined average stock prices for consecutive 30 trading day periods. These MSUs were valued at an average of \$18.65 using the Monte Carlo simulation model and each tranche has its own derived service period. The Company is recognizing compensation expense under the accelerated method as prescribed by ASC 718, *Compensation-Stock Compensation* (ASC 718). In addition, per the terms of his employment agreement, the Company granted 0.2 million RSUs to match Mr. MacMillan's purchase of 0.2 million shares of the Company's common stock on the open market. The RSUs cliff vest three years from the date of grant, and the Company is accounting for this grant as a liability award pursuant to ASC 718 because this RSU award contains an additional vesting condition (the requirement that Mr. MacMillan retain the matching shares during the vesting period) that is not service, performance or market based.

At March 29, 2014, there was \$32.2 million and \$79.6 million of unrecognized compensation expense related to stock options and stock units (comprised of RSUs, MSUs and PSUs), respectively, to be recognized over a weighted-average period of 3.4 years and 3.0 years, respectively.

Table of Contents**(10) Other Balance Sheet Information**

	March 29, 2014	September 28, 2013
Inventories		
Raw materials	\$ 117,356	\$ 115,575
Work-in-process	59,635	51,171
Finished goods	133,989	122,617
	\$ 310,980	\$ 289,363
Property, plant and equipment		
Equipment and software	\$ 334,178	\$ 318,473
Equipment under customer usage agreements	282,177	275,696
Building and improvements	173,930	171,469
Leasehold improvements	62,734	68,159
Land	51,662	51,633
Furniture and fixtures	16,972	22,628
	921,653	908,058
Less accumulated depreciation and amortization	(449,499)	(416,530)
	\$ 472,154	\$ 491,528

(11) Business Segments and Geographic Information

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

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Identifiable assets for the four principal operating segments consist of inventories, intangible assets, goodwill, and property, plant and equipment. The Company fully allocates depreciation expense to its four reportable segments. The Company has presented all other identifiable assets as corporate assets. There were no intersegment revenues during the three and six months ended March 29, 2014 and March 30, 2013. Segment information is as follows:

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Total revenues:				
Diagnostics	\$ 290,802	\$ 296,507	\$ 576,568	\$ 602,423
Breast Health	238,705	220,058	465,196	440,866
GYN Surgical	72,043	73,692	150,897	154,601
Skeletal Health	23,458	22,406	44,795	46,135
	\$ 625,008	\$ 612,663	\$ 1,237,456	\$ 1,244,025
Operating income (loss):				
Diagnostics	\$ 15,243	\$ (46,978)	\$ 19,997	\$ (32,683)
Breast Health	25,818	47,892	69,667	92,837
GYN Surgical	6,579	2,241	17,702	2,863
Skeletal Health	2,610	2,387	4,169	5,754
	\$ 50,250	\$ 5,542	\$ 111,535	\$ 68,771
Depreciation and amortization:				
Diagnostics	\$ 94,612	\$ 89,402	\$ 186,798	\$ 180,944
Breast Health	9,163	10,124	18,524	20,054
GYN Surgical	26,042	26,524	52,088	53,003
Skeletal Health	227	226	453	430
	\$ 130,044	\$ 126,276	\$ 257,863	\$ 254,431
Capital expenditures:				
Diagnostics	\$ 14,841	\$ 13,464	\$ 25,097	\$ 27,318
Breast Health	2,275	5,910	4,080	9,490
GYN Surgical	2,194	2,171	3,980	4,916
Skeletal Health	40	28	182	206
Corporate	2,006	2,823	4,402	4,913
	\$ 21,356	\$ 24,396	\$ 37,741	\$ 46,843

**March 29,
2014**

**September 28,
2013**

Identifiable assets:		
Diagnostics	\$ 4,528,340	\$ 4,667,942
Breast Health	877,923	932,206
GYN Surgical	1,802,207	1,849,518
Skeletal Health	33,369	33,508
Corporate	1,120,556	1,517,649
	\$ 8,362,395	\$ 9,000,823

The Company had no customers with balances greater than 10% of accounts receivable as of March 29, 2014 or September 28, 2013, or any customer that represented greater than 10% of consolidated revenues during the three and six months ended March 29, 2014 and March 30, 2013.

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

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Revenues by geography as a percentage of total revenues were as follows:

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
United States	74%	75%	74%	74%
Europe	15%	12%	15%	14%
Asia-Pacific	7%	9%	7%	8%
All others	4%	4%	4%	4%
	100%	100%	100%	100%

(12) Income Taxes

In accordance with ASC 740, *Income Taxes* (ASC 740), each interim period is considered integral to the annual period and tax expense is measured using an estimated annual effective tax rate. An entity is required to record income tax expense each quarter based on its annual effective tax rate estimated for the full fiscal year and use that rate to provide for income taxes on a current year-to-date basis, adjusted for discrete taxable events that occur during the interim period. If, however, the entity is unable to reliably estimate its annual effective tax rate, then the actual effective tax rate for the year-to-date may be the best annual effective tax rate estimate. For the six months ended March 30, 2013, the Company determined that it was unable to make a reliable annual effective tax rate estimate due to the rate sensitivity as it related to its forecasted fiscal 2013 results. Therefore, the Company recorded a tax benefit for the six months ended March 30, 2013 based on the effective rate for the six months ended March 30, 2013.

The Company's effective tax rate for the three and six month periods ended March 29, 2014 was a provision of 42.7% and 67.9%, respectively, on pre-tax losses, compared to a benefit of 30.7% and 40.8%, respectively, on pre-tax losses for the corresponding periods in the prior year. For the three and six months ended March 29, 2014, the effective tax rate differed from the statutory rate primarily due to unbenefited foreign losses. For the three months ended March 30, 2013, the tax rate benefit was less than the statutory rate primarily due to non-deductible contingent consideration expense related to TCT and Interlace, partially offset by the effect of the retroactively reinstated Federal research tax credit in the second quarter of fiscal 2013 and the domestic production activities deduction benefit. For the six months ended March 30, 2013, the tax rate benefit was higher than the statutory rate primarily due to a \$19.0 million valuation allowance release related to capital losses which were utilized to offset capital gains generated during the year and the effect of the retroactively reinstated Federal Research tax credit in the second quarter of fiscal 2013, partially offset by non-deductible contingent consideration expense related to TCT and Interlace.

The Internal Revenue Service is examining the Company's fiscal year 2011 consolidated federal income tax return and Gen-Probe's consolidated federal income tax returns for calendar years 2010 through the 2012 acquisition date.

(13) Goodwill and Intangible Assets*Goodwill*

A rollforward of goodwill activity by reportable segment from September 28, 2013 to March 29, 2014 is as follows:

	Diagnostics	Breast Health	GYN Surgical	Skeletal Health	Total
Balance at September 28, 2013	\$ 1,153,554	\$ 636,365	\$ 1,016,456	\$ 8,153	\$ 2,814,528
Disposition of a portion of a reporting unit	(221)				(221)
Tax adjustments	(323)				(323)
Foreign currency and other	(571)	(3,292)	(316)	9	(4,170)
Balance at March 29, 2014	\$ 1,152,439	\$ 633,073	\$ 1,016,140	\$ 8,162	\$ 2,809,814

Table of Contents*Intangible Assets*

Intangible assets consisted of the following:

Description	As of March 29, 2014		As of September 28, 2013	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Developed technology	\$ 3,969,132	\$ 1,237,076	\$ 4,008,947	\$ 1,094,435
In-process research and development	23,000		24,000	
Customer relationships and contracts	1,101,860	340,541	1,101,870	296,481
Trade names	236,846	92,183	238,103	81,844
Patents	13,452	8,762	13,026	8,495
Business licenses	2,607	738	2,647	616
Non-competition agreements			296	296
	\$ 5,346,897	\$ 1,679,300	\$ 5,388,889	\$ 1,482,167

The Company recorded impairment charges of \$26.6 million and \$0.5 million to developed technology and trade names, respectively, in the second quarter of fiscal 2014. In addition, the Company periodically re-evaluates the lives of its definite-lived intangible assets, and in the second quarter of fiscal 2014 shortened the life of certain corporate trade names, which will be phased out.

The estimated remaining amortization expense as of March 29, 2014 for each of the five succeeding fiscal years is as follows:

Remainder of Fiscal 2014	\$ 229,551
Fiscal 2015	\$ 403,348
Fiscal 2016	\$ 374,672
Fiscal 2017	\$ 365,541
Fiscal 2018	\$ 355,044

(14) Product Warranties

Product warranty activity was as follows:

	Balance at Beginning of Period	Provisions	Settlements/ Adjustments	Balance at End of Period
Six Months Ended:				
March 29, 2014	\$ 9,258	\$ 4,320	\$ (5,058)	\$ 8,520
March 30, 2013	\$ 6,179	\$ 5,328	\$ (4,965)	\$ 6,542

(15) New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exist*. ASU 2013-11 amends the presentation requirements of ASC 740 and requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. The ASU is effective for annual periods, and interim periods within those years, beginning after December 15, 2013, which is fiscal 2015 for the Company. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The Company is currently evaluating the impact of the adoption of ASU 2013-11 on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends the guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift in operations, such as a disposal of a major line of business or geographic area, that has (or will have) a major effect on an entity's financial results should be reported as discontinued operations. ASU 2014-08 also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those

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years, beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of ASU 2014-08 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(16) Supplemental Guarantor Condensed Consolidating Financials

The Company's Senior Notes are fully and unconditionally and jointly and severally guaranteed by Hologic, Inc. (Parent/Issuer) and certain of its domestic subsidiaries, which are 100% owned by Hologic, Inc. The following represents the supplemental condensed financial information of Hologic, Inc. and its guarantor and non-guarantor subsidiaries, as of March 29, 2014 and September 28, 2013 and for the three and six months ended March 29, 2014 and March 30, 2013, as applicable.

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**For the Three Months Ended March 29, 2014**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Product	\$ 122,938	\$ 385,989	\$ 121,579	\$ (109,371)	\$ 521,135
Service and other	88,608	17,068	12,342	(14,145)	103,873
	211,546	403,057	133,921	(123,516)	625,008
Costs of revenues:					
Product	58,047	145,665	91,383	(109,371)	185,724
Amortization of intangible assets	1,397	74,619	867		76,883
Impairment of intangible assets			26,567		26,567
Service and other	51,109	13,893	2,865	(14,145)	53,722
Gross Profit	100,993	168,880	12,239		282,112
Operating expenses:					
Research and development	7,695	39,997	2,223		49,915
Selling and marketing	17,857	40,532	20,268		78,657
General and administrative	15,137	35,530	11,442		62,109
Amortization of intangible assets	1,115	26,865	1,120		29,100
Impairment of intangible assets			522		522
Restructuring and divestiture charges	1,656	2,331	7,572		11,559
	43,460	145,255	43,147		231,862
Income (loss) from operations	57,533	23,625	(30,908)		50,250
Interest income	103	901	297	(1,152)	149
Interest expense	(54,692)	(308)	(601)	1,152	(54,449)
Debt extinguishment loss	(4,437)				(4,437)
Other expense, net	(2,938)	(186)	(139)		(3,263)

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(Loss) income before income taxes	(4,431)	24,032	(31,351)	(11,750)
Provision (benefit) for income taxes	(1,753)	4,664	2,104	5,015
Equity in earnings (losses) of subsidiaries	(14,087)	1,028		13,059
Net (loss) income	\$ (16,765)	\$ 20,396	\$ (33,455)	\$ 13,059
				\$ (16,765)

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Six Months Ended March 29, 2014**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Product	\$ 228,394	\$ 767,557	\$ 247,982	\$ (210,416)	\$ 1,033,517
Service and other	174,554	32,941	24,086	(27,642)	203,939
	402,948	800,498	272,068	(238,058)	1,237,456
Costs of revenues:					
Product	110,920	284,425	177,673	(210,416)	362,602
Amortization of intangible assets	2,794	148,728	2,027		153,549
Impairment of intangible assets			26,567		26,567
Service and other	93,429	21,535	19,708	(27,642)	107,030
Gross Profit	195,805	345,810	46,093		587,708
Operating expenses:					
Research and development	15,212	78,848	4,524		98,584
Selling and marketing	35,783	83,307	42,824		161,914
General and administrative	29,793	77,024	23,111		129,928
Amortization of intangible assets	1,894	51,028	2,394		55,316
Impairment of intangible assets			522		522
Restructuring and divestiture charges	6,646	12,087	11,176		29,909
	89,328	302,294	84,551		476,173
Income (loss) from operations	106,477	43,516	(38,458)		111,535
Interest income	202	1,206	491	(1,394)	505
Interest expense	(115,346)	(616)	(1,171)	1,394	(115,739)
Debt extinguishment loss	(7,377)				(7,377)
Other (expense) income, net	6,627	(9,530)	810		(2,093)
(Loss) income before income taxes	(9,417)	34,576	(38,328)		(13,169)
Provision (benefit) for income taxes	(1,812)	6,224	4,535		8,947
Equity in earnings (losses) of subsidiaries	(14,511)	11,116		3,395	
Net (loss) income	\$ (22,116)	\$ 39,468	\$ (42,863)	\$ 3,395	\$ (22,116)

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Three Months Ended March 30, 2013**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Product	\$ 100,614	\$ 396,913	\$ 121,340	\$ (102,751)	\$ 516,116
Service and other	81,176	21,320	9,535	(15,484)	96,547
	181,790	418,233	130,875	(118,235)	612,663
Costs of revenues:					
Product	52,488	169,259	88,231	(102,751)	207,227
Amortization of intangible assets	1,309	73,374	1,050		75,733
Service and other	40,620	16,828	8,413	(15,484)	50,377
Gross profit	87,373	158,772	33,181		279,326
Operating expenses:					
Research and development	7,234	39,973	2,414		49,621
Selling and marketing	20,484	45,237	22,893		88,614
General and administrative	16,716	38,631	8,886		64,233
Amortization of intangible assets	777	26,687	1,203		28,667
Contingent consideration compensation expense	29,388				29,388
Contingent consideration fair value adjustments	799				799
Restructuring and divestiture charges	164	10,600	3,092	(1,394)	12,462
	75,562	161,128	38,488	(1,394)	273,784
Income (loss) from operations	11,811	(2,356)	(5,307)	1,394	5,542
Interest income	99	36	72		207
Interest expense	(75,238)	(309)	(502)		(76,049)
Debt extinguishment loss	(3,247)				(3,247)
Other (expense) income, net	1,638	(3,073)	1,247	(13)	(201)
(Loss) income before income taxes	(64,937)	(5,702)	(4,490)	1,381	(73,748)
(Benefit) provision for income taxes	(14,842)	(8,081)	279		(22,644)
Equity in earnings (losses) of subsidiaries	(1,009)	2,459		(1,450)	
Net (loss) income	\$ (51,104)	\$ 4,838	\$ (4,769)	\$ (69)	\$ (51,104)

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****For the Six Months Ended March 30, 2013**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Product	\$ 198,657	\$ 774,736	\$ 254,415	\$ (178,438)	\$ 1,049,370
Service and other	159,136	44,409	19,407	(28,297)	194,655
	357,793	819,145	273,822	(206,735)	1,244,025
Costs of revenues:					
Product	106,008	331,988	169,996	(178,438)	429,554
Amortization of intangible assets	2,615	146,291	2,114		151,020
Service and other	78,998	33,585	18,166	(28,297)	102,452
Gross profit	170,172	307,281	83,546		560,999
Operating expenses:					
Research and development	14,652	81,726	4,752		101,130
Selling and marketing	41,257	92,602	49,198		183,057
General and administrative	32,036	69,647	16,941		118,624
Amortization of intangible assets	1,455	53,336	2,402		57,193
Contingent consideration compensation expense	58,874				58,874
Contingent consideration fair value adjustments	10,839				10,839
Gain on sale of intellectual property		(53,884)			(53,884)
Restructuring and divestiture charges	385	13,886	3,518	(1,394)	16,395
	159,498	257,313	76,811	(1,394)	492,228
Income from operations	10,674	49,968	6,735	1,394	68,771
Interest income	230	78	159		467
Interest expense	(146,492)	(623)	(1,015)		(148,130)
Debt extinguishment loss	(3,247)				(3,247)
Other income (expense), net	1,757	(7,119)	6,427	(27)	1,038
(Loss) income before income taxes	(137,078)	42,304	12,306	1,367	(81,101)
(Benefit) provision for income taxes	(26,589)	(11,195)	4,669		(33,115)
Equity in earnings (losses) of subsidiaries	62,503	13,393		(75,896)	
Net (loss) income	\$ (47,986)	\$ 66,892	\$ 7,637	\$ (74,529)	\$ (47,986)

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****For the Three Months Ended March 29, 2014**

		Guarantor	Non-Guarantor		
	Parent/Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net (loss) income	\$ (16,765)	\$ 20,396	\$ (33,455)	\$ 13,059	\$ (16,765)
Changes in foreign currency translation adjustment		26	(5,789)		(5,763)
Changes in unrealized holding gain on available-for-sale securities		(1,048)			(1,048)
Comprehensive (loss) income	\$ (16,765)	\$ 19,374	\$ (39,244)	\$ 13,059	\$ (23,576)

For the Six Months Ended March 29, 2014

		Guarantor	Non-Guarantor		
	Parent/Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net (loss) income	\$ (22,116)	\$ 39,468	\$ (42,863)	\$ 3,395	\$ (22,116)
Changes in foreign currency translation adjustment		115	(7,066)		(6,951)
Changes in unrealized holding gain on available-for-sale securities		(2,228)			(2,228)
Changes in pension plans, net of taxes			(615)		(615)
Comprehensive (loss) income	\$ (22,116)	\$ 37,355	\$ (50,544)	\$ 3,395	\$ (31,910)

For the Three Months Ended March 30, 2013

		Guarantor	Non-Guarantor		
	Parent/Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net (loss) income	\$ (51,104)	\$ 4,838	\$ (4,769)	\$ (69)	\$ (51,104)
Changes in foreign currency translation adjustment		(341)	(7,947)		(8,288)
Changes in unrealized holding gain on available-for-sale securities		2,687			2,687
Comprehensive (loss) income	\$ (51,104)	\$ 7,184	\$ (12,716)	\$ (69)	\$ (56,705)

For the Six Months Ended March 30, 2013

		Guarantor	Non-Guarantor		
	Parent/Issuer	Subsidiaries	Subsidiaries	Eliminations	Consolidated
Net (loss) income	\$ (47,986)	\$ 66,892	\$ 7,637	\$ (74,529)	\$ (47,986)
Changes in foreign currency translation adjustment		236	(6,555)		(6,319)
Changes in unrealized holding gain on available-for-sale securities		2,130			2,130
Comprehensive (loss) income	\$ (47,986)	\$ 69,258	\$ 1,082	\$ (74,529)	\$ (52,175)

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET****March 29, 2014**

	Parent/ Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 139,343	\$ 242,863	\$ 102,316	\$	\$ 484,522
Restricted cash			5,857		5,857
Accounts receivable, net	108,850	177,540	101,243		387,633
Inventories	83,479	172,075	55,426		310,980
Deferred income tax assets	14,907	18,591	900		34,398
Prepaid income taxes		2,583	957	(3,540)	
Prepaid expenses and other current assets	19,252	13,445	8,473		41,170
Intercompany receivables		2,576,516	47,579	(2,624,095)	
Total current assets	365,831	3,203,613	322,751	(2,627,635)	1,264,560
Property, plant and equipment, net	28,596	343,091	100,467		472,154
Intangible assets, net	16,011	3,585,729	65,857		3,667,597
Goodwill	282,448	2,391,294	136,072		2,809,814
Other assets	98,195	48,226	1,849		148,270
Long term intercompany receivables		144,000		(144,000)	
Investment in subsidiaries	8,648,043	199,081	280	(8,847,404)	
Total assets	\$ 9,439,124	\$ 9,915,034	\$ 627,276	\$ (11,619,039)	\$ 8,362,395
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	\$ 89,497	\$	\$	\$	\$ 89,497
Accounts payable	27,969	29,867	10,361		68,197
Accrued expenses	136,690	67,889	47,515	(3,807)	248,287
Deferred revenue	105,712	8,062	30,928		144,702
Intercompany payables	2,576,709		50,145	(2,626,854)	
Total current liabilities	2,936,577	105,818	138,949	(2,630,661)	550,683
Long-term debt, net of current portion	4,183,958				4,183,958
Deferred income tax liabilities	78,567	1,361,467	10,308		1,450,342
Deferred service obligations long-term	8,855	3,750	9,853		22,458
Long-term intercompany payables	144,000			(144,000)	

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Other long-term liabilities	107,064	32,844	34,943		174,851
Total stockholders equity	1,980,103	8,411,155	433,223	(8,844,378)	1,980,103
Total liabilities and stockholders equity	\$ 9,439,124	\$ 9,915,034	\$ 627,276	\$ (11,619,039)	\$ 8,362,395

Table of Contents**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET****September 28, 2013**

	Parent/ Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 321,523	\$ 387,422	\$ 113,545	\$	\$ 822,490
Restricted cash			6,914		6,914
Accounts receivable, net	126,036	174,433	108,804		409,273
Inventories	81,924	146,678	60,761		289,363
Deferred income tax assets		19,042	494	(19,536)	
Prepaid income taxes	47,131	2,303		(4,689)	44,745
Prepaid expenses and other current assets	16,246	21,112	11,003		48,361
Intercompany receivables		2,442,502	31,949	(2,474,451)	
Other current assets held-for-sale			2,997		2,997
Total current assets	592,860	3,193,492	336,467	(2,498,676)	1,624,143
Property, plant and equipment, net	29,313	356,736	105,479		491,528
Intangible assets, net	19,925	3,784,987	101,810		3,906,722
Goodwill	283,038	2,390,939	140,551		2,814,528
Other assets	103,548	58,446	1,908		163,902
Investments in subsidiaries	8,667,620	129,016	2,296	(8,798,932)	
Total assets	\$ 9,696,304	\$ 9,913,616	\$ 688,511	\$ (11,297,608)	\$ 9,000,823
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities:					
Current portion of long-term debt	\$ 563,812	\$	\$	\$	\$ 563,812
Accounts payable	27,865	42,661	10,008		80,534
Accrued expenses	152,950	79,629	44,319	(4,967)	271,931
Deferred revenue	93,306	7,958	31,055		132,319
Deferred income tax liabilities	59,346			(19,536)	39,810
Intercompany payables	2,418,089		64,411	(2,482,500)	
Total current liabilities	3,315,368	130,248	149,793	(2,507,003)	1,088,406
Long-term debt, net of current portion	4,242,098				4,242,098
Deferred income tax liabilities	89,085	1,435,522	10,699		1,535,306
Deferred service obligations long-term	11,251	3,511	12,864	(2,170)	25,456

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Other long-term liabilities	96,990	37,598	33,456		168,044
Total stockholders equity	1,941,512	8,306,737	481,699	(8,788,435)	1,941,513
Total liabilities and stockholders equity	\$ 9,696,304	\$ 9,913,616	\$ 688,511	\$ (11,297,608)	\$ 9,000,823

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS****For the Six Months Ended March 29, 2014**

	Parent/ Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	\$ 343,410	\$ (122,511)	\$ (2,584)	\$	\$ 218,315
INVESTING ACTIVITIES					
Proceeds from sale of business, net			2,431		2,431
Purchase of property and equipment	(5,643)	(9,635)	(4,499)		(19,777)
Increase in equipment under customer usage agreements	(453)	(10,546)	(6,965)		(17,964)
Net sales of insurance contracts	13,841				13,841
Purchases of mutual funds	(29,732)				(29,732)
Sales of mutual funds	18,564				18,564
(Increase) decrease in other assets	(945)	(1,981)	994		(1,932)
Net cash used in investing activities	(4,368)	(22,162)	(8,039)		(34,569)
FINANCING ACTIVITIES					
Repayment of long-term debt	(562,500)				(562,500)
Payment of debt issuance costs	(2,446)				(2,446)
Payment of deferred acquisition consideration	(4,965)				(4,965)
Net proceeds from issuance of common stock pursuant to employee stock plans	53,718				53,718
Excess tax benefit related to equity awards	4,134				4,134
Payment of minimum tax withholdings on net share settlement of equity awards	(9,163)				(9,163)
Net cash used in financing activities	(521,222)				(521,222)
Effect of exchange rate changes on cash and cash equivalents		114	(606)		(492)
Net decrease in cash and cash equivalents	(182,180)	(144,559)	(11,229)		(337,968)
Cash and cash equivalents, beginning of period	321,523	387,422	113,545		822,490
	\$ 139,343	\$ 242,863	\$ 102,316	\$	\$ 484,522

Cash and cash equivalents, end of
period

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Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS****For the Six Months Ended March 30, 2013**

	Parent/ Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES					
Net cash provided by operating activities	\$ 65,009	\$ 72,387	\$ 32,132	\$	\$ 169,528
INVESTING ACTIVITIES					
Acquisition of a business	(3,698)		(220)		(3,918)
Payment of additional acquisition consideration	(16,808)				(16,808)
Proceeds from sale of business, net of cash transferred		84,762	1,488		86,250
Purchase of property and equipment	(6,397)	(14,335)	(5,156)		(25,888)
Increase in equipment under customer usage agreements	(335)	(13,031)	(7,589)		(20,955)
Purchase of insurance contracts	(4,000)				(4,000)
Proceeds from sale of intellectual property		60,000			60,000
Purchase of cost-method investments	(3,400)	(225)			(3,625)
Increase in other assets	(1,984)	(1,520)	(1,447)		(4,951)
Net cash provided by (used in) investing activities	(36,622)	115,651	(12,924)		66,105
FINANCING ACTIVITIES					
Repayment of long-term debt	(32,500)				(32,500)
Payment of debt issuance cost	(7,019)				(7,019)
Payment of contingent consideration	(42,433)				(42,433)
Net proceeds from issuance of common stock pursuant to employee stock plans	37,623				37,623
Excess tax benefit related to equity awards	4,437				4,437
Payment of minimum tax withholdings on net share settlements of equity awards	(9,972)				(9,972)
Net cash used in financing activities	(49,864)				(49,864)
Effect of exchange rate changes on cash and cash equivalents		(1,782)	579		(1,203)
Net increase (decrease) in cash and cash equivalents	(21,477)	186,256	19,787		184,566

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Cash and cash equivalents, beginning of period	210,028	269,416	80,986	560,430
Cash and cash equivalents, end of period	\$ 188,551	\$ 455,672	\$ 100,773	\$ 744,996

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

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

the effect of the continuing worldwide macroeconomic uncertainty on our business and results of operations;

the coverage and reimbursement decisions of third-party payors and the guidelines, recommendations, and studies published by various organizations relating to the use of our products and treatments;

the uncertainty of the impact of cost containment efforts and federal healthcare reform legislation on our business and results of operations;

the ability to successfully manage ongoing organizational and strategic changes, including our ability to attract, motivate and retain key employees;

the impact and anticipated benefits of recently completed acquisitions and acquisitions we may complete in the future;

the ability to consolidate certain of our manufacturing and other operations on a timely basis and within budget, without disrupting our business and to achieve anticipated cost synergies related to such actions;

our goal of expanding our market positions;

the development of new competitive technologies and products;

regulatory approvals and clearances for our products;

production schedules for our products;

the anticipated development of our markets and the success of our products in these markets;

the anticipated performance and benefits of our products;

business strategies;

estimated asset and liability values;

the impact and costs and expenses of any litigation we may be subject to now or in the future;

our compliance with covenants contained in our indebtedness;

anticipated trends relating to our financial condition or results of operations; and

our capital resources and the adequacy thereof.

In some cases, you can identify forward-looking statements by terms such as may, will, should, could, would, plans, anticipates, believes, estimates, projects, predicts, potential and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include the cautionary statements set forth herein and in our other filings with the Securities and Exchange Commission, including those set forth under Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 28, 2013. We qualify all of our forward-looking statements by these cautionary statements.

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OVERVIEW

We are a leading developer, manufacturer and supplier of premium diagnostics products, medical imaging systems and surgical products with an emphasis on serving the healthcare needs of women. Our core business units are focused on diagnostics, breast health, GYN surgical and skeletal health. We sell and service our products through a combination of direct sales and service forces and a network of independent distributors and sales representatives.

We offer a wide range of diagnostic products which are used primarily to aid in the diagnosis of human diseases and screen donated human blood. Our molecular diagnostic products include our Aptima family of assays based on our Transcription-Mediated-Amplification, or TMA, technology, our Cervista products based on our proprietary Invader chemistry and our advanced instrumentation (Panther and Tigris). The Aptima family of assays is used to detect the infectious microorganisms that cause the common sexually transmitted diseases, or STDs, chlamydia and gonorrhea, certain high-risk strains of human papillomavirus, or HPV, and *Trichomonas vaginalis*, the parasite that causes trichomoniasis. Our Invader chemistry is comprised of molecular diagnostic reagents used for a variety of DNA and RNA analysis applications, including our Cervista HPV high risk, or HR, and Cervista HPV 16/18 products to assist in the diagnosis of HPV, as well as other products to diagnose cystic fibrosis, cardiovascular risk and other diseases. Our diagnostics products also include the ThinPrep System, which is primarily used in cytology applications such as cervical cancer screening, and the Rapid Fetal Fibronectin Test, which assists physicians in assessing the risk of pre-term birth. In blood screening, we develop and manufacture the Procleix family of assays, which are used to detect Human Immunodeficiency Virus, or HIV, the Hepatitis C Virus, or HCV, the Hepatitis B Virus, or HBV, the West Nile Virus, or WNV, the Hepatitis A Virus, or HAV, and Parvovirus, in donated human blood. These blood screening products are marketed worldwide by our blood screening collaborator, Grifols, S.A., or Grifols, under Grifols trademarks. In January 2014, Grifols completed its acquisition of the blood screening business of Novartis Vaccines and Diagnostics, Inc.

Our breast health products include a broad portfolio of breast imaging and related products and accessories, including digital and film-based mammography systems, magnetic resonance imaging, or MRI, breast coils, computer-aided detection, or CAD, for mammography and minimally invasive breast biopsy devices, breast biopsy site markers, breast biopsy guidance systems, breast imaging comfort pads, and breast brachytherapy products. Our most advanced breast imaging platform, Dimensions, utilizes a technology called tomosynthesis to produce 3D images, as well as conventional 2D full field digital mammography images.

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

Our skeletal health products include dual-energy X-ray bone densitometry systems, an ultrasound-based osteoporosis assessment product, and our Fluoroscan mini C-arm imaging products.

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

Trademark Notice

Hologic is a trademark of Hologic, Inc. Other trademarks, logos, and slogans registered or used by Hologic and its divisions and subsidiaries in the United States and other countries include, but are not limited to, the following: Affirm, Aptima, Aptima Combo 2, Aquilex, ATEC, Celero, Cervista, Contura, C-View, Dimensions, Eviva,

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Fluoroscans, Gen-Probe, Healthcome, HTA, Horizon Interlace, Invader, LORAD, MammoPad, MammoSite, MultiCare, MyoSure, NovaSure, Panther, Prodesse, PreservCyt, QDR, Rapid fFN, Sahara, SecurView, Selenia, Sentinelle, Serenity, StereoLoc, TCT, ThinPrep, THS, Tigris, TLI IQ, and Trident.

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All dollar amounts in tables are presented in thousands.

Product Revenues

	Three Months Ended						Six Months Ended					
	March 29, 2014		March 30, 2013		Change		March 29, 2014		March 30, 2013		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Diagnostics	\$ 283,598	45%	\$ 288,836	47%	\$ (5,238)	(2)%	\$ 561,952	45%	\$ 583,426	47%	\$ (21,474)	(4)%
Heart Health	149,529	24%	138,340	23%	11,189	8%	290,513	23%	279,617	22%	10,896	4%
WNV Surgical	71,737	11%	73,372	12%	(1,635)	(2)%	150,248	12%	153,928	12%	(3,680)	(2)%
Skeletal Health	16,271	3%	15,568	3%	703	5%	30,804	2%	32,399	3%	(1,595)	(5)%
	\$ 521,135	83%	\$ 516,116	84%	\$ 5,019	1%	\$ 1,033,517	84%	\$ 1,049,370	84%	\$ (15,853)	(2)%

Diagnostics product revenues decreased 2% and 4% in the current three and six month periods compared to the corresponding periods in the prior year. These decreases were primarily due to the divestiture of our Lifecodes business in the second quarter of fiscal 2013, which had contributed \$10.6 million and \$23.1 million in the three and six months ended March 30, 2013, respectively, a reduction in ThinPrep revenues of \$6.9 million and \$19.5 million in the three and six months ended March 29, 2014, respectively, and a reduction in Prodesse (principally flu testing assays) revenues of \$2.4 million and \$5.6 million in the three and six months ended March 29, 2014, respectively. Partially offsetting these declines were an increase in blood screening revenues of \$10.4 million and \$19.7 million in the three and six months ended March 29, 2014, respectively, and a \$4.7 million and \$11.9 million increase from our molecular diagnostics products, primarily our Aptima family of assays.

We attribute the reduction in ThinPrep revenues primarily to lower domestic sales volumes resulting from an increase in screening intervals based on guidelines released in 2012 by the American Congress of Obstetrics and Gynecologists and the U.S. Preventative Services Task Force and lower average sales prices internationally, primarily in China where we have transitioned to selling more of our products through distributors, partially offset by higher sales volumes internationally. Prodesse revenues decreased in the current year periods primarily due to a milder flu season this year compared to the corresponding periods in the prior year and the recent introduction of competitive products. Our blood screening revenues increased primarily due to the inclusion of contingent revenue under our blood screening collaboration that was not recognized in the first quarter of fiscal 2013, and to a lesser extent the second quarter of fiscal 2013, due to unbilled accounts receivable being recorded as a fair value adjustment in purchase accounting. Under the collaboration, a portion of our blood screening revenue is contingent on donations testing revenue earned by our blood screening collaborator. As a result, amounts to be received for this contingent revenue related to inventory on hand and not yet utilized by Novartis (our blood screening collaborator at the time) customers as of the date we acquired Gen-Probe were recorded as unbilled accounts receivable on the balance sheet in purchase accounting and these amounts were not recorded as revenue in our results of operations in fiscal 2013. This increase in blood screening revenues was partially offset by lower WNV assay sales compared to the corresponding periods in

fiscal 2013 as last year generally had a much higher incidence of the WNV resulting in higher donation testing in the prior year periods. The increase in revenues related to our Aptima family of assays was primarily due to increased volumes from our strategic alliance with Quest Diagnostics Incorporated entered into in the third quarter of fiscal 2013, and increased sales volumes of our HPV screening assay, which was FDA approved for use on our Panther system in the fourth quarter of fiscal 2013. These increases were partially offset by slightly lower average sales prices for our Aptima products due to increased competitive pressures.

Breast Health product revenues increased 8% and 4% in the current three and six month periods compared to the corresponding periods in the prior year. In the current three and six month periods, our digital mammography systems revenue increased \$11.5 million and \$13.4 million, respectively, compared to the corresponding periods in the prior year primarily due to the increase in 3D Dimensions revenue of \$15.9 million and \$24.2 million, respectively, as we sold more units with slightly higher average sales prices in the United States, and to a lesser extent internationally. As expected, we continue to experience a decline in the number of Selenia units sold as well as slightly lower average sales prices for our 2D Dimensions products partially due to configuration differences. We also experienced an increase in revenues for our workstation and related products of \$2.6 million and \$3.0 million, respectively, in the current year periods, which is partially driven by our C-View product. In addition, our breast biopsy products revenue increased \$2.2 million in the current six month period compared to the corresponding period in the prior year primarily due to the increase in the number of Eviva biopsy devices sold worldwide. Recent adverse changes in the reimbursement for our breast biopsy products may result in lower sales prices, or use, of such products in the future. Partially offsetting the increases in the current six month period, we experienced a decline in our analog mammography systems and MRI breast coils.

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GYN Surgical product revenues decreased 2% in both the current three and six month periods compared to the corresponding periods in the prior year primarily due to a decline in sales of NovaSure devices of \$5.5 million and \$12.8 million, respectively, partially offset by a \$4.1 million and \$9.5 million increase in MyoSure system sales in the current year periods, respectively. We experienced a decrease in the number of NovaSure devices sold in the United States, which we continue to believe is primarily attributable to patients delaying surgery or opting for lower cost and generally less effective alternatives. The MyoSure system continues to gain strong market acceptance as unit sales increase.

Skeletal Health product revenues increased 5% in the current quarter compared to the corresponding period in the prior year and decreased 5% in the current six months compared to the corresponding period in the prior year. The increase in the current quarter was primarily due to an increase in our mini C-arm systems and our osteoporosis assessment product sales, namely our Horizon product, which was introduced in late fiscal 2013, partially offset by lower volumes of our older Discovery products and pricing pressures. The decrease in the current six month period compared to the prior year corresponding period was primarily due to a reduction in unit sales of our Discovery products and to a lesser extent our mini C-arm systems and pricing pressures, partially offset by higher Horizon unit sales.

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

	Three Months Ended		Six Months Ended	
	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
United States	73%	74%	73%	73%
Europe	16%	13%	15%	14%
Asia-Pacific	8%	9%	8%	9%
All others	3%	4%	4%	4%
	100%	100%	100%	100%

The increase in product revenues as a percentage of consolidated product revenues in Europe in the current quarter compared to the corresponding period in the prior year was primarily due to an increase in blood screening revenues.

Service and Other Revenues

	Three Months Ended						Six Months Ended					
	March 29, 2014		March 30, 2013		Change	March 29, 2014		March 30, 2013		Change		
	% of Total		% of Total			% of Total		% of Total				
	Amount	Revenue	Amount	Revenue	Amount	%	Amount	Revenue	Amount	Revenue	Amount	%
<i>Service and Other Revenues</i>	\$ 103,873	17%	\$ 96,547	16%	\$ 7,326	8%	\$ 203,939	16%	\$ 194,655	16%	\$ 9,284	5%

Service and other revenues are primarily comprised of revenue generated from our field service organization to provide ongoing service, installation and repair of our products. The majority of these revenues are generated within

our Breast Health segment. Service and other revenues increased 8% and 5% in the current three and six month periods, respectively, compared to the corresponding periods in the prior year primarily due to an increase in the number of service contracts in our Breast Health business driven by an increase in the installed base of our digital mammography systems, an increase in services not covered by service contracts and higher training revenues on our digital mammography systems.

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	Three Months Ended			Six Months Ended				
	March 29, 2014		March 30, 2013		March 29, 2014		March 30, 2013	
	Amount	% of Product Revenue	Amount	% of Product Revenue	Amount	% of Product Revenue	Amount	% of Product Revenue
<i>Cost of Product Revenues</i>	\$ 185,724	36%	\$ 207,227	40%	\$ (21,503)	(10)%		