

HOLOGIC INC
Form 10-Q
August 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2009

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: 0-18281

Hologic, Inc.

(Exact name of registrant as specified in its charter)

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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 August 3, 2009, 256,632,632 shares of the registrant's Common Stock, \$0.01 par value, were outstanding.

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HOLOGIC, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)

| | June 27, 2009 | September 27, 2008 |
|---|------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 243,721 | \$ 95,661 |
| Restricted cash | 911 | 3,629 |
| Accounts receivable, less reserves of \$7,117 and \$6,326, respectively | 279,811 | 321,299 |
| Inventories (Note 5) | 183,401 | 174,667 |
| Deferred income tax assets | 56,449 | 53,660 |
| Prepaid income taxes | 4,220 | 17,797 |
| Prepaid expenses and other current assets | 25,585 | 26,865 |
| Total current assets | 794,098 | 693,578 |
| Property and equipment, net (Note 5) | 277,640 | 283,975 |
| Intangible assets, net (Note 17) | 2,476,659 | 2,629,651 |
| Goodwill (Note 17) | 2,100,938 | 4,450,496 |
| Other assets | 68,910 | 76,932 |
| Total assets | \$ 5,718,245 | \$ 8,134,632 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 25,355 | \$ 38,480 |
| Accounts payable | 49,785 | 59,590 |
| Accrued expenses | 119,757 | 154,746 |
| Deferred revenue | 92,048 | 78,559 |
| Deferred gain | 9,500 | 9,500 |
| Total current liabilities | 296,445 | 340,875 |
| Long-term debt, net of current portion (Note 6) | 256,340 | 437,420 |
| Convertible debt (Note 6) | 1,725,000 | 1,725,000 |
| Deferred income tax liabilities | 918,603 | 920,838 |
| Deferred service obligations - long-term | 11,111 | 10,777 |
| Other long-term liabilities | 55,573 | 57,453 |
| Commitments and contingencies (Notes 6, 7, 8, 13, 14 and 15) | | |
| 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; 256,817 and 256,373 shares issued, respectively | 2,568 | 2,564 |
| Capital in excess of par value | 4,879,428 | 4,853,837 |
| Accumulated deficit | (2,428,821) | (217,644) |
| Accumulated other comprehensive income | 3,431 | 4,945 |
| Treasury stock, at cost 214 shares | (1,433) | (1,433) |

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| | | |
|--|--------------|--------------|
| Total stockholders' equity | 2,455,173 | 4,642,269 |
| Total liabilities and stockholders' equity | \$ 5,718,245 | \$ 8,134,632 |

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|------------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Revenues: | | | | |
| Product sales | \$ 349,414 | \$ 384,004 | \$ 1,081,409 | \$ 1,108,430 |
| Service and other revenues | 53,706 | 45,488 | 152,958 | 123,556 |
| | 403,120 | 429,492 | 1,234,367 | 1,231,986 |
| Costs and expenses (1): | | | | |
| Cost of product sales | 114,232 | 121,649 | 352,040 | 397,030 |
| Cost of product sales amortization of intangible assets | 40,773 | 24,574 | 116,279 | 69,649 |
| Cost of product sales impairment of acquired intangible assets (Note 17) | | | 4,065 | |
| Cost of service and other revenues | 36,970 | 38,506 | 111,305 | 113,071 |
| Research and development | 23,407 | 20,966 | 71,628 | 60,477 |
| Selling and marketing | 58,928 | 68,483 | 182,402 | 193,731 |
| General and administrative | 37,039 | 35,043 | 110,654 | 109,111 |
| Amortization of acquired intangible assets | 13,025 | 6,267 | 38,356 | 18,685 |
| Impairment of goodwill (Note 17) | | | 2,340,023 | |
| Impairment of acquired intangible assets (Note 17) | | | | 2,900 |
| Acquired in-process research and development (Note 4) | | | | 370,000 |
| Restructuring charge (Note 16) | | 6,383 | | 6,383 |
| | 324,374 | 321,871 | 3,326,752 | 1,341,037 |
| Income (loss) from operations | 78,746 | 107,621 | (2,092,385) | (109,051) |
| Interest income | 206 | 604 | 999 | 3,729 |
| Interest expense | (17,552) | (14,103) | (53,057) | (65,102) |
| Other income (expense), net | (730) | 788 | (4,485) | 615 |
| Income (loss) before income taxes | 60,670 | 94,910 | (2,148,928) | (169,809) |
| Provision for income taxes | 19,670 | 33,531 | 62,249 | 71,435 |
| Net income (loss) | \$ 41,000 | \$ 61,379 | \$ (2,211,177) | \$ (241,244) |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.16 | \$ 0.24 | \$ (8.62) | \$ (0.99) |
| Diluted | \$ 0.16 | \$ 0.24 | \$ (8.62) | \$ (0.99) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 256,556 | 255,676 | 256,381 | 242,604 |
| Diluted | 258,908 | 259,390 | 256,381 | 242,604 |

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- (1) Stock-based compensation included in costs and expenses during the three and nine months ended June 27, 2009 was \$913 and \$2,625 for cost of revenues, \$747 and \$3,095 for research and development, \$1,228 and \$4,005 for selling and marketing and \$5,122 and \$14,628 for general and administrative. Stock-based compensation included in costs and expenses during the three and nine months ended June 28, 2008 was \$508 and \$1,751 for cost of revenues, \$553 and \$1,782 for research and development, \$907 and \$2,402 for selling and marketing and \$3,073 and \$11,612 for general and administrative. The restructuring charge line item includes \$1,941 for both the three and nine months ended June 28, 2008.

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended | |
|---|-------------------|--------------------|
| | June 27, 2009 | June 28, 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (2,211,177) | \$ (241,244) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 48,651 | 38,631 |
| Amortization | 154,635 | 88,347 |
| Fair value write-up of Third Wave and Cytoc inventory | 1,084 | 42,325 |
| Non-cash interest expense | 12,466 | 16,035 |
| Goodwill impairment charge | 2,340,023 | |
| Charge for in-process research and development | | 370,000 |
| Charge for impairment of acquired intangible assets | 4,065 | 2,900 |
| Other-than-temporary impairment charges on cost-method investments | 2,243 | |
| Excess tax benefit related to exercise of non-qualified stock options | (528) | (53,688) |
| Stock-based compensation expense | 24,353 | 19,488 |
| Deferred income taxes | 2,797 | (20,797) |
| Loss on disposal of property and equipment | 2,676 | 1,715 |
| Other non-cash activity | (427) | 538 |
| Changes in assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 39,150 | (43,076) |
| Inventories | (15,878) | (38,015) |
| Prepaid income taxes | 13,872 | 54,151 |
| Prepaid expenses and other assets | (1,048) | (11,493) |
| Accounts payable | (9,634) | (9,135) |
| Accrued expenses and other liabilities | (26,095) | 342 |
| Deferred revenue | 14,396 | 22,037 |
| Net cash provided by operating activities | 395,624 | 239,061 |
| Cash flows from investing activities: | | |
| Merger with Cytoc Corporation, net of cash acquired | | (2,027,017) |
| Additional business acquisition consideration, net | (229) | (956) |
| Decrease in restricted cash | 2,718 | 2,296 |
| Purchase of insurance contracts | (5,322) | (3,322) |
| Purchase of property and equipment | (24,809) | (42,270) |
| Increase in equipment under customer usage agreements | (17,354) | (17,950) |
| Purchase of licensed technology and other intangible assets | (7,414) | |
| Proceeds from sale of intellectual property | 1,500 | 3,000 |
| Purchase of cost method investment | (400) | |
| Proceeds from sale of cost method investment | | 936 |
| Purchases of investment securities | | (263) |
| Proceeds from sales and maturities of investment securities | | 2,638 |
| Deferred gain | | 9,500 |
| Net cash used in investing activities | (51,310) | (2,073,408) |

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Cash flows from financing activities:

| | | |
|--|-----------|-------------|
| Proceeds from issuance of convertible notes, net of issuance costs | | 1,688,974 |
| Proceeds under credit agreement, net of issuance costs | | 2,335,679 |
| Repayments under credit agreement | (195,307) | (2,350,000) |
| Payment upon conversion of Cytic convertible notes | (298) | (40,574) |
| Financing costs on credit agreement | (350) | |

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| | Nine Months Ended | |
|---|--------------------------|--------------------------|
| | June 27, 2009 | June 28, 2008 |
| Proceeds from notes payable | | 2,227 |
| Repayments of notes payable | (2,168) | (2,354) |
| Excess tax benefit related to exercise of non-qualified stock options | 528 | 53,688 |
| Net proceeds from sale of common stock pursuant to employee stock plans | 2,111 | 168,723 |
| Payments of employee restricted stock tax withholdings | (878) | (851) |
| Net cash (used in) provided by financing activities | (196,362) | 1,855,512 |
| Effect of exchange rate changes on cash and cash equivalents | 108 | (1,705) |
| Net increase in cash and cash equivalents | 148,060 | 19,460 |
| Cash and cash equivalents, beginning of period | 95,661 | 100,403 |
| Cash and cash equivalents, end of period | \$ 243,721 | \$ 119,863 |

See accompanying notes.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except per share data)

(1) Basis of Presentation

The consolidated financial statements of Hologic, Inc. (the Company) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission 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. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended September 27, 2008, included in the Company's Form 10-K as filed with the Securities and Exchange Commission on November 26, 2008. 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 preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 nine months ended June 27, 2009 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 26, 2009.

Based on a combination of factors, including the deteriorating macro-economic environment, declines in the stock market and the decline of the Company's market capitalization significantly below the book value of its net assets, the Company concluded that potential goodwill impairment indicators existed as of December 27, 2008. During the second quarter of fiscal 2009, the Company completed its interim goodwill impairment analysis and recorded a goodwill impairment charge of \$2,340,023 for the three months ended March 28, 2009. Please refer to Note 17 for further discussion.

On May 28, 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events* (SFAS 165). This Statement provides authoritative accounting literature on subsequent events that was previously only addressed in the auditing literature and is largely consistent with the current guidance in the auditing literature. 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 relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through August 6, 2009, the date these financial statements are considered issued, and the financial statements reflect those material items that arose after the balance sheet date but prior to this date that would be considered recognized subsequent events. There were no material recognized subsequent events recorded in the June 27, 2009 financial statements.

During the fourth quarter of fiscal 2008, the Company determined that certain amounts previously classified as a component of Cost of service and other revenues should be reclassified to Cost of product sales. The Company determined that the reclassification was not material to its consolidated financial statements and corrected the classification in the fourth quarter of fiscal 2008. These amounts totaled \$13,293 and \$34,949 for the three and nine months ended June 28, 2008, respectively, and have been reclassified to Cost of product sales to conform with the current period presentation. Additionally, royalty expense previously recorded within Cost of service and other revenues totaling \$398 and \$1,198 for the three and nine months ended June 28, 2008, respectively, has been reclassified to Cost of product sales to conform with the current period presentation. The Company also reclassified other receivable amounts of \$5,902 from Accounts receivable to Prepaid expenses and other current assets at September 27, 2008 to conform to the current period presentation.

During fiscal 2009, the Company reclassified certain amounts in the Consolidated Statement of Cash Flows for the nine months ended June 28, 2008 to conform to the current period presentation. As a result, net cash provided by operations decreased to \$239,061 from \$274,601 primarily due to reclassifying \$39,659 of excess tax benefits from the exercise of stock options as a cash outflow in operating activities with an offsetting cash inflow in the financing section and reclassifying \$851 of payments to tax authorities for tax withholdings on the vesting of restricted stock units issued to employees as a cash outflow in the financing section resulting in cash flows provided by financing activities increasing to \$1,855,512 from \$1,816,704. The Company also reclassified certain other assets and other liabilities to cash flows provided by operating activities from cash used in investing activities, which increased to \$2,073,408 from \$2,070,140, to conform to the current period presentation. In addition, there were insignificant reclassifications of certain amounts within the line items of the investing activities section.

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During the third quarter of fiscal 2009, the Company determined that certain amounts previously classified as a component of Selling and marketing should be reclassified to Cost of product sales. This reclassification, which aggregated \$1,393 for the first and second quarters of fiscal 2009, is not material to the Company's consolidated financial statements and is reflected in the Consolidated Statement of Operations for the nine months ended June 27, 2009.

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(2) Fair Value Measurements

Effective September 28, 2008, the Company adopted SFAS No. 157, *Fair Value Measurement* (SFAS 157), for its financial assets and financial liabilities that are re-measured and reported at fair value at each reporting period and its nonfinancial assets and nonfinancial liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FASB Staff Position (FSP) No. SFAS 157-2, *Effective Date of FASB Statement No. 157*, the Company has elected to defer implementation of SFAS 157 as it relates to its nonfinancial assets and nonfinancial liabilities that are recognized and disclosed at fair value in the financial statements on a non-recurring basis until September 27, 2009. The Company is evaluating the impact, if any, SFAS 157 will have on its nonfinancial assets and nonfinancial liabilities.

The adoption of SFAS 157 for financial assets and financial liabilities that are re-measured and reported at fair value on a recurring basis did not have an impact on the Company's financial results.

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. Financial assets and financial liabilities are categorized within the valuation hierarchy based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are quoted market prices for identical assets or liabilities.

Level 2 Inputs to the valuation methodology are other observable inputs, including quoted market prices for similar assets or liabilities and market-corroborated inputs.

Level 3 Inputs to the valuation methodology are unobservable inputs based on management's best estimate of inputs market participants would use in pricing the asset or liability at the measurement date, including assumptions about risk.

As of June 27, 2009, the Company's financial assets that are re-measured at fair value on a recurring basis consisted of \$7,710 in money market mutual funds that are classified as cash and cash equivalents in the Consolidated Balance Sheets. As there are no withdrawal restrictions, they are classified within Level 1 of the fair value hierarchy and are valued using quoted market prices for identical assets.

The Company holds certain minority cost-method equity investments in non-publicly traded securities aggregating \$7,435 and \$9,278 at June 27, 2009 and September 27, 2008, respectively, which are included in other long-term assets on the Company's Consolidated Balance Sheets. These investments are generally carried at cost as the Company owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. The Company regularly evaluates the carrying value of its cost-method investments for impairment and whether any events or circumstances are identified that would significantly harm the fair value of the investment. The indicators the Company utilizes to identify these events and circumstances include (1) the investee's revenue or earnings trends compared to budgets and pre-defined milestones, (2) the technological feasibility of the investee's products and technologies, (3) general market conditions in the investee's industry including adverse regulatory or economic changes, (4) factors related to the investee's ability to remain in business, such as the investee's liquidity and rate of cash use, and (5) the investee's ability to secure additional funding and the value of that additional funding. In the event a decline in fair value is judged to be other-than-temporary, the Company will record an other-than-temporary impairment charge in Other income (expense), net in the Consolidated Statements of Operations. As the inputs utilized for the impairment assessment are not based on observable market data, these cost method investments are classified within Level 3 of the fair value hierarchy on a non-recurring basis. 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. During the three months ended June 27, 2009, the Company recorded an other-than-temporary impairment charge of \$1,933 on one of its cost-method investments to fully write-off the carrying value of the investment. During the nine months ended June 27, 2009, the Company recorded an other-than-temporary impairment charge totaling \$2,243 related to two of its cost method investments to adjust their carrying amounts to fair value.

(3) Disclosure of Fair Value of Financial Instruments

The Company's financial instruments mainly consist of cash and cash equivalents, accounts receivable, cost-method investments, accounts payable and debt obligations. The carrying amounts of the Company's cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term nature of these instruments. The Company believes the carrying amounts of its cost-method investments approximate fair value and has not performed an in-depth analysis of the fair values as it is not practical to do so. Amounts outstanding under the Company's Amended Credit Agreement (See Note 6) are subject to variable rates of interest based on current market rates. As such, the

Company believes the carrying amount of this obligation approximates its fair value.

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The Company's AEG subsidiary also has several notes payable outstanding (See Note 6). These notes payable are denominated in either the Euro or US dollar and have variable rates of interest. As of June 27, 2009 and September 27, 2008, amounts outstanding under these notes payable approximate their fair value based on comparable market terms and conditions.

The Company has \$1,725,000 of Convertible Notes outstanding (See Note 6) as of June 27, 2009 and September 27, 2008. The fair value of these Convertible Notes was approximately \$1,231,000 and \$1,300,000 as of June 27, 2009 and September 27, 2008, respectively, based on the trading prices at those dates.

(4) Business Combinations*(a) Third Wave Technologies, Inc.*

On July 24, 2008 the Company completed its acquisition of Third Wave Technologies, Inc. (Third Wave) pursuant to a definitive agreement dated June 8, 2008. The Company concluded that the acquisition of Third Wave did not represent a material business combination and therefore no pro-forma financial information has been provided herein. Subsequent to the acquisition date, the Company's results of operations include the results of Third Wave, which is being reported as a component of the Company's Diagnostics reporting segment.

Third Wave, located in Madison, Wisconsin, develops and markets molecular diagnostic reagents for a wide variety of DNA and RNA analysis applications based on its proprietary Invader chemistry. Third Wave's current clinical diagnostic offerings consist of products for conditions such as Cystic Fibrosis, cardiovascular risk and other diseases. Third Wave recently received approval for two human papillomavirus (HPV) tests from the U.S. Food and Drug Administration (FDA).

The Company paid \$11.25 per share of Third Wave, for an aggregate purchase price of approximately \$591,100 (subject to adjustment) consisting of approximately \$575,400 in cash in exchange for stock and warrants; approximately 668 of fully vested stock options granted to Third Wave employees in exchange for their vested Third Wave stock options, with an estimated fair value of approximately \$8,100; and approximately \$7,600 for acquisition related fees and expenses. There are no potential contingent consideration arrangements payable to the former shareholders in connection with this transaction. Additionally, the Company granted approximately 315 unvested stock options in exchange for unvested Third Wave stock options, with an estimated fair value of approximately \$5,100, which is being recognized as compensation expense over the vesting period.

The Company determined the fair value of the options issued in connection with the acquisition in accordance with EITF Issue No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination* (EITF 99-12). The Company determined the measurement date to be July 24, 2008, the date the transaction was completed, as the number of shares to be issued according to the exchange ratio was not fixed until this date. The Company valued the securities based on the average market price for two days before the measurement date and the measurement date itself. The weighted average stock price was determined to be approximately \$23.54.

The preliminary purchase price is as follows:

| | |
|--|------------|
| Cash portion of consideration | \$ 575,400 |
| Fair value of vested options exchanged | 8,100 |
| Direct acquisition costs | 7,600 |
| Total estimated purchase price | \$ 591,100 |

The fair value of vested Hologic common stock options exchanged for vested Third Wave options was included in the purchase price as such options were fully vested. The Company estimated the fair value of these stock options using the Binomial Option Pricing Model. The Company estimated the fair value of the stock options assuming no expected dividends and the following weighted-average assumptions:

| | |
|---------------------|------------|
| Expected life | 1.48 years |
| Expected volatility | 42.16% |

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| | |
|-------------------------|-------|
| Risk-free interest rate | 2.33% |
|-------------------------|-------|

| | |
|---|----------|
| Fair value per share determined in accordance with EITF 99-12 | \$ 23.54 |
|---|----------|

The allocation of the purchase price is based upon estimates of the fair value of assets acquired and liabilities assumed as of July 24, 2008. At June 27, 2009, the components and allocation of the purchase price consist of the following approximate amounts:

| | |
|--|-----------|
| Net tangible assets acquired as of July 24, 2008 | \$ 87,300 |
| Increase in inventory to fair value | 5,100 |
| Increase in property and equipment to fair value | 800 |
| In-process research and development | 195,200 |
| Developed technology and know-how | 92,300 |
| Deferred income tax liability | (26,300) |
| Goodwill | 236,700 |

| | |
|--------------------------|------------|
| Estimated Purchase Price | \$ 591,100 |
|--------------------------|------------|

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The preliminary purchase price allocation resulted in goodwill of approximately \$241,800 as of July 24, 2008, the date of the acquisition. During the nine months ended June 27, 2009, the Company decreased goodwill in the amount of approximately \$5,100, primarily related to a \$2,000 increase in the estimated net operating loss acquired and a \$3,000 increase in the preliminary estimate of other tax attributes acquired.

Subsequent to the close of the Third Wave acquisition through June 27, 2009, stock options, originally issued by Third Wave and converted into options to purchase Hologic common stock, were exercised. The Company recorded the estimated tax benefit of approximately \$121 and \$368 related to the exercise of these options as a reduction to goodwill during fiscal 2009 and fiscal 2008, respectively.

Identifiable Intangible Assets

As part of the preliminary purchase price allocation, all intangible assets that were a part of the acquisition were identified and valued. It was determined that only developed technology had separately identifiable values. The fair value of the developed technology intangible assets was determined through the application of the income approach. Developed technology represents currently marketable purchased products that the Company continues to sell as well as utilize to enhance and incorporate into the Company's existing products. See Note 17 for discussion of estimated useful lives and amortization method.

Acquired In-Process Research and Development

As part of the preliminary purchase price allocation for Third Wave, approximately \$195,200 of the purchase price was allocated to acquired in-process research and development projects. The amount allocated to acquired in-process research and development represented the estimated fair value, based on risk-adjusted cash flows, of in-process projects utilizing a discount rate of 20% that have not yet reached technological feasibility and have no alternative future uses as of the date of the acquisition. The primary basis for determining the technological feasibility of these projects was obtaining regulatory approval to market the underlying products. The fair value attributable to these in-process projects was expensed at the time of the acquisition.

The most significant acquired in-process technology related to the Cervista High HPV Risk (HR), for which the Company estimated a value of approximately \$151,200. At the time of, and subsequent to the acquisition, the Company sold HPV reagents that detect certain high risk HPV types as Analyte Specific Reagents (ASRs). In 2006, Third Wave began clinical trials for PMA submissions to the FDA for Cervista HR and submitted the PMAs in April 2008. During March 2009, the FDA approved the Company's PMAs for both the Cervista HPV HR and Cervista HPV 16/18 tests. Subsequent to receiving FDA approval, management expects to transition to only selling HPV In Vitro Diagnostics (IVDs) in the future. The HPV in-process research and development related only to the HPV IVDs, and the HPV ASRs were valued as developed technology.

The estimated cost to complete Third Wave's other remaining in-process research and development projects in the aggregate as of June 27, 2009 was approximately \$4,800.

The net deferred income tax liability relates to the tax effect of acquired identifiable intangible assets and fair value adjustments to acquired inventory and property and equipment, as such amounts are not deductible for tax purposes.

(b) Cytoc Corporation

On October 22, 2007, the Company completed its merger with Cytoc Corporation (Cytoc) pursuant to the Agreement and Plan of Merger (Merger Agreement) entered into on May 20, 2007. Cytoc, headquartered in Marlborough, Massachusetts, is a diversified diagnostic and medical device company that designs, develops, manufactures, and markets innovative and clinically effective diagnostics and surgical products. Cytoc products cover a range of cancer and women's health applications, including cervical cancer screening, prenatal diagnostics, treatment of excessive menstrual bleeding and radiation treatment of early-stage breast cancer.

Upon the close of the merger, Cytoc shareholders received an aggregate of 132,038 shares of Hologic common stock and approximately \$2,094,800 in cash. In connection with the close of the merger, the Company entered into a credit agreement relating to a senior secured credit facility (the Credit Agreement) with Goldman Sachs Credit Partners L.P. and certain other lenders, in which the lenders committed to provide, in the aggregate, senior secured financing of up to approximately \$2,550,000 to pay for the cash portion of the merger consideration, the repayment of existing debt of Cytoc, expenses related to the merger and working capital requirements following the completion of the merger. As of the closing of the merger, the Company borrowed \$2,350,000 under this Credit Agreement.

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The aggregate purchase price of approximately \$6,156,900 included \$2,094,800 in cash; 132,038 shares of Hologic common stock at an estimated fair value of \$3,671,500; approximately 16,465 of fully vested stock options granted to Cytyc employees in exchange for their vested Cytyc stock options, with an estimated fair value of approximately \$241,400; the fair value of Cytyc's outstanding convertible notes assumed in the merger of approximately \$125,000; and approximately \$24,200 of direct acquisition costs. There were no potential contingent consideration arrangements payable to the former Cytyc shareholders in connection with this transaction.

The Company measured the fair value of the 132,038 shares of the Company common stock issued as consideration in connection with the merger under EITF 99-12. The Company determined the measurement date to be May 20, 2007, the date the transaction was announced, as the number of shares to be issued according to the exchange ratio was fixed without subsequent revision. The Company valued the securities based on the average market price a few days before and after the measurement date. The weighted average stock price was determined to be approximately \$27.81.

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(i) Purchase price

The purchase price was as follows:

| | |
|---|------------------|
| Cash portion of consideration | \$ 2,094,800 |
| Fair value of securities issued | 3,671,500 |
| Fair value of vested options exchanged | 241,400 |
| Fair value of Cytyc's outstanding convertible notes | 125,000 |
| Direct acquisition costs | 24,200 |
| Total estimated purchase price | \$ 6,156,900 |

The fair value of vested Hologic common stock options exchanged for vested Cytyc options was included in the purchase price as such options were fully vested. The Company estimated the fair value of these stock options using the Binomial Option Pricing Model. The Company estimated the fair value of the stock options assuming no expected dividends and the following weighted-average assumptions:

| | |
|---|------------|
| Expected life | 2.50 years |
| Expected volatility | 35.10% |
| Risk-free interest rate | 4.82% |
| Fair value per share determined in accordance with EITF 99-12 | \$ 27.81 |

(ii) Purchase Price Allocation

The allocation of the purchase price was based upon estimates of the fair value of assets acquired and liabilities assumed as of October 22, 2007. As a result of the merger, the Company assumed Cytyc's obligation to the former stockholders of Adiana, Inc. to make contingent earn-out payments based on the achievement of milestones. The Company considered the provisions of EITF Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and concluded that this contingent consideration will represent additional purchase price. As a result, goodwill will be increased by the amount of the additional consideration, if any, when it becomes due and payable. As of June 27, 2009, the Company had not recorded any amounts for the potential earn-outs. The Company received FDA approval on July 6, 2009. See Note 7 for additional discussion. The Company had formulated and undertaken a plan to restructure certain of Cytyc's activities. The Company recorded a liability of approximately \$2,800 in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (EITF 95-3), primarily related to the termination of certain employees, minimum inventory purchase commitments and other contractual obligations for which the related business activities had been discontinued.

| | |
|--|--------------|
| Book value of net assets acquired as of October 22, 2007 | \$ 1,158,600 |
| Less: write-off of existing deferred financing costs, goodwill and intangible assets, including related deferred taxes | (787,900) |
| Adjusted book value of assets acquired | 370,700 |
| Remaining allocation: | |
| Increase inventory to fair value | 42,300 |
| Increase property and equipment to fair value | 5,100 |
| Increase in liabilities recorded in accordance with EITF 95-3 | (2,800) |
| Decrease deferred revenue to fair value | 400 |
| Identifiable intangible assets at fair value | 2,486,600 |
| Acquired in-process research and development | 370,000 |
| Deferred taxes | (943,400) |
| Goodwill | 3,828,000 |

| | |
|----------------------|--------------|
| Total purchase price | \$ 6,156,900 |
|----------------------|--------------|

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(iii) Valuation of Intangible Assets and Goodwill

The purchase price for the merger with Cytyc was allocated to assets acquired and liabilities assumed based on management's estimate of their fair values. Management allocated the purchase price in excess of net tangible assets acquired to identifiable intangible assets and in-process research and development based upon a detailed valuation that relies on information and assumptions further described below. Any excess purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed was allocated to goodwill.

Identifiable Intangible Assets

As part of the purchase price allocation, the Company determined that Cytyc's identifiable intangible assets included existing technology, customer relationships and trade names. Cytyc's existing technology related to patents, patent applications and know-how with respect to the technologies embedded in its currently marketed products. In determining the allocation of the purchase price to existing technology, consideration was only given to patents and patent applications that related to products that had been approved by the FDA. Cytyc's customer relationship assets related to relationships that Cytyc's sales force had developed with obstetricians/gynecologists and gynecological surgeons, breast surgeons, radiation oncologists, clinical laboratories and other physicians. The trade names related to both the Cytyc name as well as key product names.

The Company used the income approach to value the existing technology and marketing based intangibles. This approach calculates fair value by discounting the after-tax cash flows back to a present value. The baseline data for this analysis was the cash flow estimates used to price the transaction. Cash flows were forecasted for each intangible asset, then discounted based on an appropriate discount rate. The discount rates applied, which ranged between 10.5% and 13.5%, were benchmarked with reference to the implied rate of return from the transaction model as well as Cytyc's weighted average cost of capital based on the capital asset pricing model.

In estimating the useful life of the acquired assets, the Company considered paragraph 11 of SFAS No. 142, *Goodwill and Other Intangible Assets*, which lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors included a review of the expected use by the combined company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset or may enable the extension of the useful life of an acquired asset without substantial cost, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the asset. See Note 17 for discussion of estimated useful lives and amortization method.

Acquired In-Process Research and Development

As part of the purchase price allocation for Cytyc, approximately \$370,000 of the purchase price was allocated to acquired in-process research and development projects. The amount allocated to acquired in-process research and development represented the estimated fair value, based on risk-adjusted cash flows, of in-process projects that had not yet reached technological feasibility and had no alternative future uses as of the date of the merger. The primary basis for determining the technological feasibility of these projects was obtaining regulatory approval to market the underlying products. The fair value attributable to these in-process projects was expensed at the time of the merger.

The fair value assigned to acquired in-process research and development was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projections used to value the acquired in-process research and development were based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by the Company and its competitors. The resulting net cash flows from such projects were based on management's estimates of cost of sales, operating expenses, and income taxes from such projects.

The rates utilized to discount the net cash flows to their present value of 12.5% to 13.5% were based on estimated cost of capital calculations and the implied rate of return from the transaction model plus a risk premium. Due to the nature of the forecasts and the risks associated with the developmental projects, appropriate risk-adjusted discount rates were used for the in-process research and development projects. The discount rates were based on the stage of completion and uncertainties surrounding the successful development of the purchased in-process technology projects.

The acquired in-process research and development of Cytyc related to the following research and development projects: Adiana Complete TransCervical Sterilization System, which the Company subsequently renamed Adiana Permanent Contraception, and expanded labeling of the NovaSure System, Gestiva, the ThinPrep Imaging System, the ThinPrep Processor and the Helica Thermal Coagulator System (Helica).

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The most significant acquired in-process technology related to the Adiana Permanent Contraception system for which the Company estimated a value of approximately \$220,000. The Adiana Permanent Contraception system includes an incisionless trans-cervical permanent sterilization device intended to be performed as an office-based procedure. The system consists of three different parts: a disposable applicator, an implantable polymer matrix and a radio frequency controller. The Company completed this in-process research and development project during the three months ended June 27, 2009 and received FDA approval on July 6, 2009.

Cytec's other in-process research and development projects were at different stages of development, ranging from the early stages of development to Phase IIb prototype building, ongoing clinical trials and submission to the FDA of PMA and drug applications. FDA approval or clearance had not been granted for any of the products classified as in-process research and development, nor had Cytec received any foreign approvals or clearances for any of these products. All products classified as in-process research and development required various levels of in-house and external testing, clinical trials and approvals from the FDA before these future products could be marketed. The estimated cash requirements in the aggregate to complete the development of these remaining products as of June 27, 2009 are expected to be approximately \$3,900. Certain of these projects that have been discontinued or delayed are not included in this estimate as their cost to complete and timing of completion are unknown at this time. Certain of the projects included in this estimated cash requirement have been delayed to fiscal 2010 and the estimated costs for these projects have been increased accordingly.

The successful development of new products and product enhancements is subject to numerous risks and uncertainties, both known and unknown, including, unanticipated delays, access to capital, budget overruns, technical problems and other difficulties that could result in the abandonment or substantial change in the design, development and commercialization of these new products and enhancements including, for example, changes requested by the FDA in connection with PMA applications for products or 510(k) notification. Given the uncertainties inherent with product development and introduction, there can be no assurance that any of the Company's product development efforts will be successful on a timely basis or within budget, if at all. The failure of the Company to develop new products and product enhancements on a timely basis or within budget could harm the Company's results of operations and financial condition.

Goodwill

The preliminary purchase price allocation resulted in goodwill of approximately \$3,844,100 as of October 22, 2007, the date of the merger. During the nine months ended June 27, 2009, the Company reduced goodwill related to the Cytec merger by approximately \$2,100 primarily due to a decrease in the valuation allowance related to certain tax assets acquired where the Company has determined that it is more likely than not that these assets will be realized. The Company had previously reduced this goodwill in the amount of approximately \$14,200 from the date of acquisition through September 27, 2008. The reduction was primarily related to a \$16,800 increase in the preliminary valuation of assets acquired (primarily related to deferred tax assets acquired), an \$1,845 increase in the preliminary valuation of certain tangible assets and a \$1,700 increase in the preliminary valuation of certain intangible assets which were partially offset by a \$5,900 increase in the preliminary estimate of liabilities assumed (primarily related to current tax liabilities) and a \$200 increase in the preliminary estimate of acquisition costs and expenses.

The factors contributing to the recognition of this amount of goodwill were based upon several strategic and synergistic benefits that were expected to be realized from the combination. These benefits included the expectation that the Company's complementary products and technologies would create a leading women's healthcare company with an enhanced presence in hospitals, private practices and healthcare organizations. The Company also expected to realize substantial synergies through the use of Cytec's OB/GYN and breast surgeon sales channel to cross-sell the Company's existing and future products. The merger provided the Company broader channel coverage within the U.S. and expanded geographic reach internationally, as well as increased scale and scope for further expanding operations through product development and complementary strategic transactions.

Subsequent to the close of the Cytec merger through December 27, 2008, vested stock options, originally issued by Cytec and converted into options to purchase Hologic common stock, were exercised. The Company recorded the estimated tax benefit of approximately \$49,300 related to the exercise of these options as a reduction to goodwill during fiscal 2008 and \$64 during fiscal 2009.

As a result of the Company's interim impairment analysis of goodwill as of December 27, 2008, the Company recorded an impairment charge of \$2,340,023. The goodwill related to this acquisition has been reduced from \$3,778,700 at December 27, 2008 to approximately \$1,438,500 as of June 27, 2009. See Note 17 for additional information pertaining to the interim impairment analysis of the Company's goodwill.

Supplemental Pro-forma Information

The following unaudited pro-forma information presents the consolidated results of operations of the Company and Cytec as if the transaction had occurred at the beginning of the period presented, with pro-forma adjustments to give effect to amortization of intangible assets, an increase

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in interest expense on acquisition financing, subsequent refinancing and certain other adjustments together with related tax effects:

| | Nine Months Ended | |
|--|--------------------------|-----------|
| | June 28, | |
| | 2008 | |
| (approximate amounts in thousands, except per share data) | | |
| Net revenue | \$ | 1,268,892 |
| Net income | \$ | 158,959 |
| Net income per common share: | | |
| Basic | \$ | 0.63 |
| Diluted | \$ | 0.61 |

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The \$370,000 charge for acquired in-process research and development, the fair value of the inventory step-up of \$42,300, stock-based compensation of \$60,000, direct acquisition fees and expenses of \$28,000 and change of control payments of \$18,600 that were a direct result of the transaction are excluded from the unaudited pro-forma information above. The unaudited pro-forma results are not necessarily indicative of the results that the Company would have attained had the merger with Cytyc occurred at the beginning of the period presented.

Prior to the close of the merger, the Board of Directors of Cytyc approved a modification to certain outstanding equity awards for Cytyc employees, which was consented to by the Company. The modification provided for the acceleration of vesting upon the close of the merger for those awards that did not provide for acceleration upon a change of control as part of the original terms of the award. This modification was consented to by the Company so that the Company would not incur stock-based compensation charges that it otherwise would have if the awards had continued to vest under their original terms.

(5) Other Balance Sheet Information

Components of selected captions in the Consolidated Balance Sheets at June 27, 2009 and September 27, 2008 consisted of:

| | June 27, 2009 | September 27, 2008 |
|----------------------------------|------------------|-----------------------|
| Inventories | | |
| Raw material and work-in-process | \$ 118,229 | \$ 106,291 |
| Finished goods | 65,172 | 68,376 |
| | \$ 183,401 | \$ 174,667 |

Inventories are stated at the lower of cost (first-in, first-out) or market.

| | June 27, 2009 | September 27, 2008 |
|--|------------------|-----------------------|
| Property and Equipment, net | | |
| Equipment and software | \$ 190,464 | \$ 172,790 |
| Customer usage equipment | 119,815 | 100,315 |
| Building and improvements | 56,652 | 55,743 |
| Leasehold improvements | 39,845 | 38,620 |
| Furniture and fixtures | 11,438 | 11,083 |
| Land | 8,932 | 8,978 |
| | 427,146 | 387,529 |
| Less accumulated depreciation and amortization | (149,506) | (103,554) |
| | \$ 277,640 | \$ 283,975 |

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Restricted Cash

Restricted cash is currently primarily comprised of various deposits for operating leases and duty taxes. The Company paid \$2,520 of the restricted cash balance to certain former executives related to deferred compensation during the three months ended June 27, 2009.

(6) Indebtedness

(a) Credit Agreement

In connection with its acquisition of Third Wave, on July 17, 2008 the Company entered into an amended and restated credit agreement (the Amended Credit Agreement) with Goldman Sachs Credit Partners L.P. and certain other lenders (collectively, the Lenders). The Amended Credit Agreement amended and restated the Company s existing credit agreement with the Lenders, dated as of October 22, 2007.

Pursuant to the terms and conditions of the Amended Credit Agreement, the Lenders committed to provide senior secured financing in an aggregate amount of up to \$800,000. The credit facility consisted of a \$400,000 senior secured tranche A term loan (Term Loan A); a \$200,000 senior secured tranche B term loan (Term Loan B); and a \$200,000 senior secured revolving credit facility (the Revolving Facility).

In order to complete the acquisition of Third Wave, the Company borrowed \$540,000 under the credit facilities on July 17, 2008, consisting of \$400,000 under the Term Loan A and \$140,000 under the Term Loan B. As of June 27, 2009, the Company had an aggregate of \$269,693 of principal outstanding under this credit facility of which \$194,419 was under the Term Loan A and \$75,274 was under the Term Loan B. The long-term portion of the Term Loan A and Term Loan B loans were \$173,401 and \$74,187, respectively, at June 27, 2009. Subsequent to June 27, 2009, the Company paid down approximately \$56,000 of the outstanding principal. The Company had no amounts outstanding under its Revolving Facility, and therefore, had full availability of the \$200,000 Revolving Facility as of June 27, 2009. The final maturity dates for the credit facility are September 30, 2012 for the Term Loan A and Revolving Facility and March 31, 2013 for the Term Loan B.

The domestic subsidiaries of the Company which are party to the Amended Credit Agreement (including Third Wave, which joined as a party to the Amended Credit Agreement on July 24, 2008) have guaranteed the Company s obligations under the credit facilities and the credit facilities are secured by first-priority liens on, and first-priority security interests in, substantially all of the assets of the Company and all subsidiaries party to the Amended Credit Agreement, a first priority security interest in 100% of the capital stock issued by each guarantor, 65% of the capital stock issued by certain first-tier foreign subsidiaries of the Company and all intercompany debt. The security interests are evidenced by an Amended and Restated Pledge and Security Agreement by and among Goldman Sachs Credit Partners L.P., as collateral agent, Hologic and the other parties therein named (the Amended Pledge and Security Agreement). The Amended Pledge and Security Agreement amended and restated Hologic s existing Pledge and Security Agreement by and among Goldman Sachs Credit Partners L.P., as collateral agent, Hologic and the other parties therein named, dated as of October 22, 2007.

All amounts outstanding under the amended credit facilities bear interest, at Hologic s option, as follows:

With respect to loans made under the Revolving Facility and the Term Loan A facility:

- (i) at the Base Rate plus 1.25% per annum, which was reduced from 1.50% in May 2009; or
- (ii) at the reserve adjusted Eurodollar Rate plus 2.25% per annum, which was reduced from 2.50% in May 2009; and

With respect to loans made under the Term Loan B facility:

- (i) at the Base Rate plus 2.25% per annum; or
- (ii) at the reserve adjusted Eurodollar Rate plus 3.25% per annum.

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The margin applicable to loans under the Revolving Facility and the Term Loan A is subject to specified changes based on certain changes in the leverage ratio as specified in the Amended Credit Agreement.

Interest accruing at the base rate generally is payable by the Company on a quarterly basis. Interest accruing at the Eurodollar Rate is payable on the last day of selected interest periods (which shall be one, two, three and six months and in certain circumstances, nine or twelve months) unless the interest period exceeds three months, in which case, interest will be due at the end of every three months.

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Borrowings outstanding under the Amended Credit Agreement during the three and nine months ended June 27, 2009 had a weighted average interest rate of 2.77% and 3.97%, respectively. At June 27, 2009, the interest rates on the outstanding Term Loan A borrowings ranged from 2.625% to 4.5% and on the Term Loan B borrowings ranged from 3.625% to 5.5%. Interest expense under the Amended Credit agreement for the term loans totaled \$6,507 and \$18,813 during the three and nine months ending June 27, 2009, respectively, which included non-cash interest expense of \$3,973 and \$7,229, respectively, related to the amortization of the capitalized deferred financing costs related to this facility. As of June 27, 2009, there was \$9,903 in deferred financing costs related to the Term Loans classified as Other Assets on the Company's Consolidated Balance Sheets.

Interest expense under the Amended Credit Agreement for the Revolving Facility totaled \$467 and \$1,451 during the three and nine months ended June 27, 2009, respectively, consisting of commitment fees on the unused portion of this facility and non-cash interest expense of \$247 and \$734 related to the amortization of capitalized deferred financing costs. As of June 27, 2009, there was \$3,221 in deferred financing costs related to the Revolving Facility classified as Other Assets on the Company's Consolidated Balance Sheets. The Company pays a quarterly commitment fee, at a per annum rate of 0.375%, which was reduced from 0.50% in May 2009, on the undrawn commitments available under the Revolving Facility, which per annum rate is subject to reduction based on a leverage ratio as specified in the Amended Credit Agreement.

Borrowings under the original credit agreement from initial drawdown at October 22, 2007 through June 28, 2008 had a weighted average interest rate of 4.96%. Interest expense under these credit facilities totaled approximately \$3,500 and \$40,400 during the three and nine months ended June 28, 2008, respectively, which included non-cash interest expense of approximately \$2,200 and \$12,100 related to the amortization of the capitalized deferred financing costs.

The credit facilities contain affirmative and negative covenants customarily applicable to senior secured credit facilities, including financial covenants which require the Company to maintain maximum leverage and minimum interest coverage ratios, as of the last day of each fiscal quarter. The Company was in compliance with all covenants as of June 27, 2009.

(b) Convertible Notes

On December 10, 2007, the Company issued and sold \$1,725,000 aggregate original principal amount of 2.00% Convertible Senior Notes due 2037 (the "Convertible Notes"). The Convertible Notes were registered under an effective Registration Statement and were issued pursuant to an Indenture between the Company and Wilmington Trust Company, as Trustee (the "Indenture") and a First Supplemental Indenture thereto (the "Supplemental Indenture"), both dated December 10, 2007.

Holders may require the Company to repurchase the Convertible Notes on December 13 of 2013, and each of December 15, 2017, 2022, 2027 and 2032 at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest. The Company may redeem any of the Convertible Notes beginning December 18, 2013, by giving holders at least 30 days' notice. The Company may redeem the Convertible Notes either in whole or in part at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, including contingent interest and liquidated damages, if any, to, but excluding, the redemption date.

Interest expense under the Convertible Notes totaled \$9,727 and \$30,171 during the three and nine months ended June 27, 2009, respectively, which included non-cash interest expense of \$1,501 and \$4,503, respectively, related to the amortization of the capitalized deferred financing costs related to the Convertible Notes Agreement. Interest expense under the Convertible Notes totaled \$9,935 and \$22,249 during the three and nine months ended June 28, 2008, respectively, which included non-cash interest expense of \$1,502 and \$3,275, respectively, related to the amortization of the capitalized deferred financing costs related to the Convertible Notes Agreement. As of June 27, 2009, there was \$26,748 in deferred financing costs related to the Convertible Notes classified as Other Assets on the Company's Consolidated Balance Sheets.

The Convertible Notes bear interest at a rate of 2.00% per year on the principal amount, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning June 15, 2008 and ending on December 15, 2013. The Convertible Notes will accrete principal from December 15, 2013 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. Beginning with the six month interest period commencing December 15, 2013, the Company will pay contingent interest during any six month interest period to the holders of Convertible Notes if the trading price, as defined, of the Convertible Notes for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six month interest period equals or exceeds 120% of the accreted principal amount of the Convertible Notes.

The holders of the Convertible Notes may convert the notes into shares of the Company's common stock at a conversion price of approximately \$38.60 per share, subject to adjustment, prior to the close of business on September 15, 2037, subject to prior redemption or repurchase of the notes, upon the occurrence of certain events, as defined. None of the events that would allow the holders to convert prior to September 15, 2037 have occurred to date.

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In lieu of delivery of shares of the Company's common stock in satisfaction of the Company's obligation upon conversion of the Convertible Notes, the Company may elect to deliver cash or a combination of cash and shares of the Company's common stock. If

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the Company elects to satisfy its conversion obligation in a combination of cash and shares of the Company's common stock, the Company is required to deliver up to a specified dollar amount of cash per \$1,000 original principal amount of Convertible Notes, and will settle the remainder of the conversion obligation in shares of its common stock, in each case as provided in the Indenture. It is the Company's current intent and policy to settle any conversion of the Convertible Notes as if the Company had elected to make the net share settlement election.

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

If an event of default, as defined, relates to the Company's failure to comply with the reporting obligations in the Convertible Notes, if the Company so elects, the sole remedy of the holders of the Convertible Notes for the first 90 days following such event of default consists exclusively of the right to receive an extension fee on the notes in an amount equal to 0.25% of the accreted principal amount of the Convertible Notes.

Based on the Company's evaluation of the Convertible Notes in accordance with EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the Company determined that the Convertible Notes contained a single embedded derivative, comprising both the contingent interest feature and the filing failure penalty payment requiring bifurcation as the features were not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal for all periods presented in the consolidated financial statements.

As of June 27, 2009, upon conversion, including the potential premium that could be payable on a fundamental change (as defined), the Company would issue a maximum of approximately 56,000 common shares to the Convertible Note holders.

See Note 19, *Recent Accounting Pronouncements*, for a discussion related to the impact of the adoption of FASB Staff Position Accounting Principles Board (APB) 14-1, *Accounting for Convertible Debt Instruments that May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* in fiscal 2010.

(c) AEG Debt

The Company's AEG subsidiary has approximately \$9,000 outstanding at June 27, 2009 under certain debt agreements of which the long term portion is approximately \$7,100. The terms of the agreements have various maturities ranging from December 30, 2010 through March 30, 2014. Outstanding borrowings had interest rates ranging from 2.1% to 4.3% and 5.5% to 7.2% during the nine months ended June 27, 2009 and June 28, 2008, respectively. Interest expense incurred under these debt agreements totaled \$75 and \$314 during the three and nine months ended June 27, 2009, respectively, and \$174 and \$572 during the three and nine months ended June 28, 2008, respectively. Subsequent to June 27, 2009, the Company paid off approximately \$7,200 of the outstanding principal balance under these debt agreements.

(7) Commitments and Contingencies**(a) Contingent Earn-Out Payments**

As a result of the Cytoc merger, the Company assumed the obligation to the former Adiana stockholders to make contingent earn-out payments tied to the achievement of milestones. The milestone payments include potential contingent payments of up to \$155,000 based on worldwide sales of the Adiana Permanent Contraception product in the first year following FDA approval and on annual incremental sales growth thereafter through December 31, 2012. As FDA approval had not occurred as of June 27, 2009, no amounts had been recorded or paid as of June 27, 2009. FDA approval was received on July 6, 2009, and the Company will begin accruing contingent consideration in the fourth quarter of fiscal 2009 based on the defined percentage of worldwide sales of the product. These amounts will be recorded as additional purchase price, and under the terms of the agreement the first payment is not expected to be due until October 2010.

The Company satisfied its obligation for a second and final earn-out to the former Suros Surgical Systems, Inc. (Suros) stockholders related to Suros' incremental revenue growth for revenues earned through July 31, 2008. The Company accrued an amount of approximately \$24,500 for this second annual earn-out in the fourth quarter of 2008, with an increase to goodwill, which was paid in full as of December 27, 2008. The Company had also made a payment of approximately \$19,000 to the former Suros stockholders in the fourth quarter of fiscal 2007 for the first year earn-out.

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The Company also has an obligation for up to two annual earn-out payments not to exceed \$15,000 in the aggregate based on BioLucent's achievement of certain revenue targets. The Company has considered the provisions of EITF Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and concluded that this contingent consideration will represent additional purchase price. As a result, goodwill will be increased by the amount of the additional consideration, if any, when it becomes due and payable. As of June 27, 2009, the revenue targets had not been achieved and the Company has not recorded any amounts for these potential earn-outs.

(8) Pension and Other Employee Benefits

In conjunction with its acquisition of AEG, the Company assumed certain defined benefit pension plans covering the employees of the AEG German subsidiary (the Pension Benefits). As of September 29, 2007 the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158), using a prospective approach. The adoption of SFAS 158 did not impact the Company's compliance with its debt covenants under its credit agreements, cash position or results of operations.

As of June 27, 2009 and September 27, 2008, the Company has recorded a pension liability of \$7,039 and \$7,323, respectively, primarily as a component of long-term liabilities, in the accompanying consolidated financial statements. As of June 27, 2009 and September 27, 2008, the pension plans held no assets. Under German law, there are no rules governing investment or statutory supervision of the pension plan. As such, there is no minimum funding requirement imposed on employers. Pension benefits are safeguarded by the Pension Guaranty Fund, a form of compulsory reinsurance that guarantees an employee will receive vested pension benefits in the event of insolvency. The Company's net periodic benefit cost and components thereof were not material during the nine months ended June 27, 2009 and June 28, 2008.

(9) Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding plus the dilutive effect of potential common shares from outstanding stock options, restricted stock units and convertible debt determined by applying the treasury stock method. In accordance with SFAS No. 123 (revised 2004), *Share-Based Payment*, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money and restricted stock units.

The Company applies the provisions of EITF No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share* (EITF 04-8), to determine diluted weighted average shares outstanding as it relates to its outstanding Convertible Notes, and due to the type of debt instrument issued, the dilutive impact of the Company's Convertible Notes is based on the difference between the Company's current stock price and the conversion price of the Convertible Notes, provided there is a premium. Under EITF 04-8, there is no dilution from the accreted principal of the Convertible Notes. Accordingly, the Company uses the treasury stock method to determine dilutive weighted average shares related to its Convertible Notes and not the if-converted method.

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Numerator: | | | | |
| Net income (loss), as reported, for basic earnings per share | \$ 41,000 | \$ 61,379 | \$ (2,211,177) | \$ (241,244) |
| Interest expense on Cytoc convertible debt, net of tax | | 1 | | |
| Net income (loss), as adjusted, for diluted earnings per share | \$ 41,000 | \$ 61,380 | \$ (2,211,177) | \$ (241,244) |
| Denominator: | | | | |
| Basic weighted average common shares outstanding | 256,556 | 255,676 | 256,381 | 242,604 |
| Weighted average common stock equivalents from assumed exercise of stock options and restricted stock units | 2,352 | 3,703 | | |
| Weighted average common stock equivalents from assumed conversion of convertible notes | | 11 | | |
| Diluted weighted average common shares outstanding | 258,908 | 259,390 | 256,381 | 242,604 |
| Basic net income (loss) per common share | \$ 0.16 | \$ 0.24 | \$ (8.62) | \$ (0.99) |
| Diluted net income (loss) per common share | \$ 0.16 | \$ 0.24 | \$ (8.62) | \$ (0.99) |
| Weighted-average anti-dilutive shares related to: | | | | |
| Outstanding stock options | 11,801 | 4,001 | 13,792 | 7,040 |
| Restricted stock units | 53 | 1,079 | 1,812 | 116 |

Diluted weighted average shares outstanding do not include any effect resulting from the conversion of the Company's Convertible Notes issued in December 2007 as their impact would be anti-dilutive for all periods presented. In those reporting periods in which the Company has reported net income, anti-dilutive shares comprise those common stock equivalents that have either an exercise price above the average stock price for the quarter or the common stock equivalents related average unrecognized stock compensation expense is sufficient to buy back the entire amount of shares. In those reporting periods in which the Company has a net loss, anti-dilutive shares comprise the impact of those number of shares that would have been dilutive had the Company had net income plus the number of common stock equivalents that would be anti-dilutive had the company had net income.

(10) Stock-Based Compensation

Stock-based compensation expense from the issuance of stock options and restricted stock units in the three and nine months ended June 27, 2009 and June 28, 2008 is as follows:

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|------------------|-------------------|------------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Cost of revenues | \$ 913 | \$ 508 | \$ 2,625 | \$ 1,751 |
| Research and development | 747 | 553 | 3,095 | 1,782 |
| Selling and marketing | 1,228 | 907 | 4,005 | 2,402 |
| General and administrative | 5,122 | 3,073 | 14,628 | 11,612 |
| Restructuring charge | | 1,941 | | 1,941 |
| | 8,010 | \$ 6,982 | 24,353 | \$ 19,488 |

Stock Options

The Company granted 2,969 and 3,216 stock options, respectively, during the nine months ended June 27, 2009 and June 28, 2008 with weighted average exercise prices of \$14.42 and \$32.87, respectively. There were 16,116 options outstanding at June 27, 2009 with a weighted average exercise price of \$15.88.

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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 | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|----------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Risk-free interest rate | 2.0% | 3.0% | 2.0% | 3.0% to 4.0% |
| Expected volatility | 46.0% | 36.0% | 46.0% | 36.0% to 38.0% |
| Expected life (in years) | 4.0 | 3.8 | 4.0 | 3.8 to 4.6 |
| Dividend yield | | | | |
| Forfeiture rate | 7.7% | 6.8% | 7.7% | 6.8% to 9.0% |
| Weighted average fair value of stock options granted | \$ 5.10 | \$ 9.65 | \$ 5.40 | \$ 10.38 |

Included in stock-based compensation expense for the nine months ended June 28, 2008 was \$2,662 as a result of the acceleration of vesting for certain outstanding Hologic stock options upon the close of the merger with Cytoc. The original terms of these employee stock options provided for acceleration of vesting upon a change of control. In addition, stock-based compensation expense during the nine months ended June 28, 2008 included \$2,264 as a result of a modification of certain stock options in connection with the Cytoc Merger Agreement in May 2007. The modification provided for acceleration of vesting of the unvested options upon a termination as a result of a change of control, as well as an extension of the period to exercise vested options from 90 days to December 31, 2009, which occurred upon the close of the merger with Cytoc. The Company also recorded additional stock-based compensation expense of \$768 during the three months ended June 28, 2008 for options issued to the former Chairman of the Board of Directors that were modified to extend the time period to exercise upon termination from 90 days to August 31, 2009.

As of June 27, 2009, total unrecognized compensation expense related to stock options is \$30,723, which is expected to be recognized over a weighted average period of 3.7 years

Restricted Stock Units

The Company granted 1,669 and 1,226 restricted stock units, respectively, during the nine months ended June 27, 2009 and June 28, 2008, respectively, with weighted average grant date fair values of \$14.46 and \$33.23 per share, respectively. As of June 27, 2009, there were 2,815 unvested restricted stock units outstanding with a weighted average grant date fair value of \$21.94.

The estimated forfeiture rate for restricted stock awards used in determining the expense recorded in the Company's Consolidated Statements of Operations was 6.4% and 7.0% for the nine months ended June 27, 2009 and June 28, 2008, respectively.

Stock-based compensation expense for the nine months ended June 27, 2009 and June 28, 2008 for restricted stock units included \$41 and \$570, respectively, as a result of the acceleration of vesting for certain outstanding restricted stock units in connection with the acquisition of Third Wave and the merger with Cytoc, respectively.

As of June 27, 2009, total unrecognized compensation expense related to restricted stock units is \$36,064, which is expected to be recognized over a weighted average period of 2.6 years.

Employee Stock Purchase Plan

At the Company's March 11, 2008 Annual Meeting of Stockholders, the Company's 2008 Employee Stock Purchase Plan (the "ESP Plan") was approved. The plan meets the criteria set forth in SFAS 123(R)'s definition of a non-compensatory plan, and therefore does not give rise to the recognition of stock compensation expense. Employees who have completed three consecutive months, or two years, whether or not consecutive, of employment with the Company or any of its participating subsidiaries are eligible to participate in the ESP Plan. The ESP Plan allows participants to purchase common stock of the Company at 95% of the fair market value, as defined. A total of 400 shares may be issued under the ESP Plan. During the second quarter of fiscal 2009, the Company issued 77 shares under the ESP Plan.

Table of Contents*Option Exchange Program*

On December 22, 2008, the Board of Directors approved, subject to stockholder approval, a one-time stock option exchange program (the Option Exchange Program). The Option Exchange Program was approved at the Annual Meeting of Stockholders held on March 4, 2009. The Option Exchange Program permitted eligible employees to exchange their outstanding options issued on January 16, 2008 at an exercise price per share of \$33.31 for a lesser number of new options (New Options), with such number of New Options issuable upon exchange calculated pursuant to an exchange ratio based on the original exercise price of the surrendered option. The exchange offer expired on April 5, 2009. Pursuant to the Option Exchange Program, the New Options have an exercise price of \$14.87, which is 110% of the last reported closing sales price of the Company's common stock as of the date of the new grant, which was April 5, 2009. The total number of stock options eligible to be exchanged of 784 was exchanged for 406 New Options.

On the date of exchange, the estimated fair value of the New Options approximated the estimated fair value of the exchanged stock options calculated immediately prior to the exchange. As such, there is no incremental fair value of the New Options, and the Company will not record additional compensation expense related to the exchange. The Company will continue to recognize the remaining compensation expense related to the exchanged options over the remaining vesting period of the original options. The New Options become exercisable over a period of four years, with 25% vesting on the first anniversary of the date the New Options were granted and 25% vesting on each anniversary thereafter, so long as the option holder continues to be employed by the Company.

(11) Comprehensive Income (Loss)

The Company's other comprehensive income (loss) comprise foreign currency translation adjustments and deferred tax on minimum pension liability. A reconciliation of comprehensive income (loss) is as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Net income (loss) as reported | \$ 41,000 | \$ 61,379 | \$ (2,211,177) | \$ (241,244) |
| Translation adjustment | 3,865 | (170) | (1,514) | 5,200 |
| Deferred tax on minimum pension liability | | 295 | | (670) |
| Comprehensive income (loss) | \$ 44,865 | \$ 61,504 | \$ (2,212,691) | \$ (236,714) |

(12) Business Segments and Geographic Information

The Company reports segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). Operating segments are identified as components of an enterprise about which separate, discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions about how to allocate resources and assess performance. The Company's chief decision-maker, as defined under SFAS 131, is the chief operating officer. The Company reports its business as four segments: Breast Health, Diagnostics, GYN Surgical and Skeletal Health. The Diagnostics segment includes the results of Third Wave Technologies, which was acquired in the fourth quarter of fiscal 2008.

Identifiable assets for the four principal operating segments consist of inventories, intangible assets, and property and equipment. The Company has presented all other identifiable assets as corporate assets. Intersegment sales and transfers are not significant. Segment information for the three and nine months ended June 27, 2009 and June 28, 2008 is as follows:

| | Three Months Ended | | Nine Months Ended | |
|----------------|--------------------|---------------|-------------------|---------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Total revenues | | | | |
| Breast Health | \$ 174,892 | \$ 219,498 | \$ 554,084 | \$ 639,808 |
| Diagnostics | 139,530 | 126,564 | 409,189 | 351,311 |

GYN Surgical

65,840

56,310

197,594

161,417

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| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|------------------|--------------------------|-------------------------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Skeletal Health | 22,858 | 27,120 | 73,500 | 79,450 |
| | \$ 403,120 | \$ 429,492 | \$ 1,234,367 | \$ 1,231,986 |
| Operating income (loss) | | | | |
| Breast Health | \$ 32,640 | \$ 56,421 | \$ (152,262) | \$ 157,375 |
| Diagnostics | 27,303 | 35,824 | (836,176) | (9,336) |
| GYN Surgical | 15,968 | 12,220 | (1,114,746) | (259,680) |
| Skeletal Health | 2,835 | 3,156 | 10,799 | 2,590 |
| | \$ 78,746 | \$ 107,621 | \$ (2,092,385) | \$ (109,051) |
| Depreciation and amortization | | | | |
| Breast Health | \$ 14,608 | \$ 9,923 | \$ 36,868 | \$ 29,669 |
| Diagnostics | 39,295 | 25,474 | 117,933 | 70,340 |
| GYN Surgical | 13,985 | 8,141 | 42,315 | 22,506 |
| Skeletal Health | 2,517 | 1,573 | 6,170 | 4,463 |
| | \$ 70,405 | \$ 45,111 | \$ 203,286 | \$ 126,978 |
| Capital expenditures | | | | |
| Breast Health | \$ 3,398 | \$ 4,656 | \$ 9,540 | \$ 14,090 |
| Diagnostics | 2,554 | 2,896 | 5,493 | 7,916 |
| GYN Surgical | 1,064 | 3,725 | 4,517 | 12,765 |
| Skeletal Health | 1,157 | 2,051 | 5,259 | 7,499 |
| | \$ 8,173 | \$ 13,328 | \$ 24,809 | \$ 42,270 |
| Identifiable assets | | | June 27, 2009 | September 27, 2008 |
| Breast Health | | | \$ 1,147,756 | \$ 1,435,674 |
| Diagnostics | | | 1,968,753 | 2,976,854 |
| GYN Surgical | | | 1,867,458 | 3,080,365 |
| Skeletal Health | | | 33,202 | 25,151 |
| Corporate | | | 701,076 | 616,588 |
| | | | \$ 5,718,245 | \$ 8,134,632 |

As a result of the Company's interim impairment analysis of goodwill as of December 27, 2008, the Company recorded a goodwill impairment charge of \$2,340,023 during the three months ended March 28, 2009 comprised of \$1,165,804 for GYN Surgical, \$908,349 for Diagnostics, and \$265,870 for Breast Health. See Note 17 for additional information pertaining to the interim impairment analysis of the Company's goodwill.

There were no customers with balances greater than 10% of accounts receivable as of June 27, 2009 or September 27, 2008, nor any customer that represented greater than 10% of product revenues during the three and nine months ended June 27, 2009 and June 28, 2008.

Product export sales from the U.S. to unaffiliated customers, primarily in Europe, Asia and Latin America, during the three and nine months ended June 27, 2009 totaled \$68,082 and \$223,256, respectively, and for the three and nine months ended June 28, 2008 totaled \$71,101 and \$218,840, respectively.

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Products sold by the Company internationally are manufactured at domestic and international manufacturing locations such as Costa Rica, where much of the GYN Surgical products are currently being manufactured.

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Transfers between the Company and its subsidiaries are generally recorded at amounts similar to the prices paid by unaffiliated foreign dealers. All intercompany profit is eliminated in consolidation. There were no intersegment revenues during the three and nine months ended June 27, 2009 and June 28, 2008.

Export product sales as a percentage of total product sales were as follows:

| | Three Months Ended | | Nine Months Ended | |
|------------|--------------------|------------------|-------------------|------------------|
| | June 27, 2009 | June 28, 2008 | June 27, 2009 | June 28, 2008 |
| Europe | 11% | 11% | 12% | 12% |
| Asia | 4% | 4% | 4% | 4% |
| All others | 4% | 3% | 5% | 4% |
| | 19% | 18% | 21% | 20% |

(13) Litigation and Other Matters

On October 5, 2007, Ethicon Endo-Surgery, Inc., a Johnson & Johnson operating company, filed a complaint against the Company and its wholly-owned subsidiary Suros in the United States District Court for the Southern District of Ohio, Western Division. The complaint alleges that certain of the ATEC biopsy systems manufactured and sold by Suros infringe four Ethicon patents. An amended complaint filed January 11, 2008 additionally asserts claims of unfair competition. The complaint seeks to enjoin Hologic and Suros from conducting acts of unfair competition and infringing the patents as well as the recovery of unspecified damages and costs. A Markman hearing was held on January 8, 2009, and the Court issued its ruling on April 3, 2009. A court ordered settlement conference is scheduled for August 11, 2009. Given the stage of the litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

On January 9, 2008, Tissue Extraction Devices, LLC filed a complaint against the Company and Suros in the United States District Court for the Northern District of Illinois, alleging infringement of US Patent No. 7,316,726 by certain of the ATEC biopsy systems manufactured and sold by Suros. The complaint seeks to enjoin the Company and Suros from infringing the patents as well as the recovery of damages and costs resulting from the alleged infringement. On May 20, 2008, the judge in Illinois granted the Company's motion to transfer the case to the United States District Court for the Southern District of Indiana. On April 14, 2009, the parties entered into a confidential settlement agreement calling for an immaterial payment by the Company in exchange for a fully paid up license to the patent in suit and related family member patent applications. The suit was dismissed with prejudice by the Court on April 24, 2009.

In October 2005, Third Wave, which the Company acquired by way of merger on July 24, 2008, filed a declaratory judgment suit in the United States District Court for the Western District of Wisconsin against Digene Corporation seeking a ruling that its HPV ASRs do not infringe any valid claims of Digene's human papillomavirus related patents. In January 2006, Third Wave reached an agreement with Digene to dismiss the suit without prejudice. Third Wave also agreed that neither party would file a suit against the other relating to the human papillomavirus patents for one year. After this period expired, on January 11, 2007, Digene Corporation filed suit against Third Wave in the United States Court for the Western District of Wisconsin. The complaint alleged patent infringement of unidentified claims of a single patent related to HPV type 52 by Third Wave's HPV ASR product. Third Wave filed its response to Digene's complaint on February 28, 2007, which, in addition to denying the alleged infringement, also asserted that certain Digene sales practices violate certain antitrust laws. After conducting a hearing on June 22, 2007, the court released its claim construction order on July 23, 2007 adopting all of Third Wave's proposed construction. On July 31, 2007, Digene filed a motion to reconsider the court's claim construction. On September 26, 2007, the court issued an order denying Digene's motion for reconsideration in its entirety and upheld the earlier claim construction ruling. In response, in a filing to the court, Digene stated that it believes it will not be able to sustain its claim of infringement. On October 19, 2007 Digene filed a motion for summary judgment on Third Wave's antitrust counterclaims. On November 23, 2007, the court issued an order dismissing Digene's patent infringement claims. On January 11, 2008, the court issued an order granting Digene's motion for summary judgment on Third Wave's antitrust counterclaims. On February 29, 2008, both Third Wave and Digene filed notices of appeal to the Court of Appeals for the Federal Circuit. Oral arguments for the appeal were conducted on February 2, 2009. On April 1, 2009, the Court of Appeals for the Federal Circuit issued its ruling affirming the judgment of the United States District Court for the Western District of Wisconsin dismissing Digene's patent infringement claim against Third Wave and Third Wave's antitrust counterclaim against Digene.

On May 22, 2009, Conceptus, Inc. filed suit in the United States District Court for the Northern District of California seeking a declaration by the Court that Hologic's planned importation, use, sale or offer to sell of its forthcoming Adiana Permanent Contraception system, would infringe five Conceptus patents. On July 9, 2009, Conceptus filed an amended complaint alleging infringement of the same five patents by the Adiana

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Permanent Contraception system. The complaint seeks preliminary and permanent injunctive relief and unspecified monetary damages. In addition to the amended complaint, Conceptus also filed a motion for preliminary injunction seeking to preliminarily enjoin sales of the Aadiana system based on alleged infringement of certain claims of three of the five patents. Based on the early stage of this litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

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The Company is a party to various other legal proceedings arising out of the ordinary course of its business. The Company believes that there are no other proceedings pending against it which, if determined adversely, would have a material adverse effect on its financial condition or results of operations.

(14) Income Taxes

The Company's effective tax rates for the three and nine months ended June 27, 2009 were 32.4% and (2.9)%, respectively. The Company's effective tax rates for the three and nine months ended June 28, 2008 were 35.3% and (42.1)%, respectively. The Company's effective tax rate in the current three month period is lower than the statutory rate primarily due to a \$2.3 million benefit related to a clarification in Massachusetts tax law on apportionment for affiliates of manufacturing companies. The effective tax rate for the current nine month period was significantly impacted by the goodwill impairment charge recorded in the second quarter of fiscal 2009, substantially all of which is not deductible for tax purposes. The effective tax rate for the nine months ended June 28, 2008 was significantly impacted by the acquired in-process research and development charge related to the Cytoc merger, which is not deductible for tax purposes. As of June 27, 2009, the Company has recorded a net deferred tax liability of approximately \$862,000. This liability is net of approximately \$56,000 of certain deferred tax assets. Management's conclusion that such assets will be recovered is based upon its expectation that the Company's future earnings will provide sufficient taxable income. The realization of the Company's deferred tax assets cannot be assured, and to the extent that the Company fails to generate sufficient future taxable income, some or all of the Company's deferred tax assets will not be realized.

The Company had gross unrecognized tax benefits, including interest, of approximately \$22,800 as of June 27, 2009. Of this amount, \$8,100 represents the amount of unrecognized tax benefits as of June 27, 2009 that, if recognized, would result in a reduction of the Company's effective tax rate. Upon the adoption of SFAS No. 141(R) changes in unrecognized tax benefits following an acquisition generally will affect income tax expense, including any changes associated with acquisitions that occurred prior to the effective date of SFAS 141(R). In the next twelve months it is reasonably possible that the Company will reduce the balance of its unrecognized tax benefits by \$2,274 due to the expiration of statute of limitations and settlements with taxing authorities, of which \$1,481 will reduce the Company's effective tax rate.

The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits as part of income tax expense. As of June 27, 2009, accrued interest was approximately \$1,100, net of federal benefit. As of June 27, 2009, no penalties have been accrued.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state income and foreign jurisdictions. The current tax returns are open for audit through fiscal 2013.

The Company currently has a tax holiday in Costa Rica that is scheduled to expire in 2015. This tax holiday does not materially reduce the Company's income tax provision for fiscal 2009.

(15) Product Warranties

The Company generally offers a one-year warranty for its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized with the exception of the Company's R2 CAD and Dimensions digital mammography products for which the Company defers the vendor-specific objective evidence of fair value of the post contract support to be provided during the warranty period. Factors that affect the Company's warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. The Company periodically assesses the adequacy of the warranty reserve and adjusts the amount as necessary.

Product warranty activity for the nine months ended June 27, 2009 and June 28, 2008 is as follows:

| | Balance at beginning of period | Accruals for warranties provided during the period | Accruals for warranties acquired during the period | Write-offs/ payments | Balance at end of period |
|--------------------|--------------------------------------|---|---|-------------------------|-----------------------------|
| Nine Months Ended: | | | | | |
| June 27, 2009 | \$ 9,109 | \$ 3,265 | \$ | \$ (6,256) | \$ 6,118 |
| June 28, 2008 | \$ 12,087 | \$ 7,369 | \$ 591 | \$ (9,135) | \$ 10,912 |

Table of Contents**(16) Restructuring Accrual**

As a result of the Cytyc merger and the acquisition of Third Wave in the first and fourth quarters of fiscal 2008, respectively, the Company recorded liabilities related to restructuring plans, approved by the previous management of those companies and designed to reduce future operating expenses and recorded liabilities, of \$4,658 and \$7,509, respectively. In connection with the Cytyc merger, the Company assumed an arrangement in which the Company is sub-leasing all of its Mountain View facility to a third party for a term of approximately five years, a period of time equivalent to the remainder of the Company's lease of this facility. The sub-lease commenced on July 1, 2007. The Company has not incurred any additional restructuring costs related to these plans, and it is anticipated that these costs will be paid in full during fiscal 2009.

Additionally, during fiscal 2008 the Company recorded a liability related to the Cytyc merger in accordance with EITF 95-3, primarily related to the termination of certain employees as well as minimum inventory purchase commitments and other contractual obligations for which business activities have been discontinued.

Changes in the restructuring accrual for the nine months ended June 27, 2009 were as follows:

| | Other | Termination Benefits |
|---------------------------------------|--------|-------------------------|
| Beginning balance, September 27, 2008 | \$ 882 | \$ 1,309 |
| Adjustments | (720) | (461) |
| Payments | (128) | (742) |
| Ending balance, June 27, 2009 | \$ 34 | \$ 106 |

On May 20, 2008, the Company entered into a Separation and Release Agreement (the "Separation Agreement") with Patrick J. Sullivan, former Chairman of the Board of Directors of the Company. The Separation Agreement required the Company to pay Mr. Sullivan a total of \$4,442 and continue to pay Mr. Sullivan's premiums for COBRA continuation coverage under the Company's group medical plan for eighteen months following the effective date of the separation. In addition, the Separation Agreement provided that Mr. Sullivan's 45,710 restricted stock units granted pursuant to a Restricted Stock Unit Agreement dated October 22, 2007 would become fully vested, and Mr. Sullivan's options to purchase the Company's common stock, all of which were fully vested, would be extended so as to remain exercisable until August 31, 2009. The acceleration of the restricted stock units and modification of options resulted in a stock-based compensation charge of \$1,941. The Company recorded the lump sum payment and stock-based compensation charge totaling \$6,383 as a restructuring charge in the accompanying Consolidated Statement of Operations during the three months ended June 28, 2008.

(17) Goodwill and Intangible Assets*Goodwill*

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), the Company tests goodwill at the reporting unit level for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of a reporting unit is less than its carrying value. Events that would indicate impairment and trigger an interim impairment assessment include, but are not limited to, current economic and market conditions, a significant adverse change in legal factors, business climate or operational performance of the business, and an adverse action or assessment by a regulator.

In performing the impairment test, the Company utilizes the two-step approach prescribed under SFAS 142. The first step requires a comparison of the carrying value of the reporting units to the estimated fair value of the reporting units. To estimate the fair value of its reporting units for Step 1, the Company utilizes a combination of the income and market approaches and performs a valuation analysis. The income approach is based on a discounted cash flow analysis (DCF) and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. Assumptions used in the DCF require the exercise of significant judgment, including judgment about appropriate discount rates and terminal values, growth rates, and the amount and timing of expected future cash flows. The forecasted cash flows are based on the Company's most recent budget and for years beyond the budget, the Company's estimates are based on assumed growth rates. The Company believes its assumptions are consistent with the plans and estimates used to manage the underlying businesses. The discount rates, which are intended to reflect the risks inherent in future cash flow projections, used in the DCF are based on estimates of the weighted-average cost of capital (WACC) of a market participant relative to each respective reporting unit. The market approach considers comparable market data based on multiples of revenue or earnings before taxes, depreciation and

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amortization (EBITDA). The Company believes its assumptions used to determine the fair value of its respective reporting units are reasonable. If different assumptions were used, particularly with respect to forecasted cash flows, WACCs, or market multiples, different estimates of fair value may result and there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows.

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

In prior years, the Company conducted its annual impairment test of goodwill for certain of its reporting units (its historical reporting units prior to the Cytac merger) as of the last day of the second quarter. In the fourth quarter of fiscal 2008, the Company changed the measurement date from the last day of its second quarter to the first day of its fourth quarter, in order to provide additional time to determine the fair value of its reporting units and to evaluate the results of the impairment testing. This change did not delay, accelerate or avoid an impairment charge. This change did not have any effect on the Company's financial performance or results of operations, nor was there any impact on prior periods financial statements under the requirements of SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154). The retrospective application as required under SFAS 154 was not necessary as no impairment charges had been recorded in any previously recorded financial statements nor did the change in measurement date cause any impairments.

As a result of the change in the measurement date for the Company's annual goodwill impairment test for its historical reporting units from the last day of the second quarter of the fiscal year to the first day of the fourth quarter of the fiscal year, the Company evaluated, in accordance with paragraph 27 of SFAS 142, whether the detailed determination of fair value of its historical reporting units as of March 29, 2008 could be carried forward to the first day of its fiscal fourth quarter of 2008 or if a new test of goodwill impairment was required to be performed for these historical reporting units. In its evaluation, the Company noted that the assets and liabilities of the reporting units had not changed significantly, there was sufficient margin between the carrying amount and fair value determination for each reporting unit and no events or circumstances related to these reporting units would suggest that a current fair value determination of reporting units would result in a valuation lower than the carrying amount of the reporting units. Based on this evaluation, the Company believed it sufficiently met the requirements of paragraph 27 of SFAS 142 to carry forward its estimate of fair value for these reporting units.

The Company conducted its annual impairment test of goodwill for its new reporting units as a result of the Company's acquisition of Cytac Corporation as of the first day of the fourth quarter of fiscal 2008. The fair value of each reporting unit was determined to be in excess of each reporting unit's carrying value and as a result the second step of the impairment test was not required.

During the first quarter of fiscal 2009, based upon a combination of factors, including the deteriorating macro-economic environment, declines in the stock market and the decline of the Company's market capitalization significantly below the book value of the Company's net assets, the Company concluded that potential goodwill impairment indicators existed as of December 27, 2008. As a result, the Company performed an interim goodwill impairment analysis as of December 27, 2008 in accordance with SFAS 142. As noted above, the Company has utilized DCF and market approaches to estimate the fair value of its reporting units as of December 27, 2008 and believes it has used reasonable estimates and assumptions about future revenue, cost projections, cash flows and market multiples. In addition, using a DCF requires the use of a risk-adjusted discount rate for which the Company based its rate on the WACC of a market participant. The Company performed a peer company analysis and considered the industry weighted average return on debt and equity from a market participant perspective for its reporting units. Given the disruptions in the credit and equity markets, the WACCs for each reporting unit increased between the Company's annual test performed on the first day of its fourth quarter of fiscal 2008 and the interim test performed as of December 27, 2008. The long-term growth rates are largely consistent with those applied in the annual test performed, except for MammoSite, which is a reporting unit in Breast Health, in which the long-term growth rate declined due to current competitive pressures on the reporting unit's products, as well as recent regulatory and reimbursement changes. The Step 1 impairment analysis indicated that the carrying value of the net assets of three of the Company's reporting units, acquired in connection with the Cytac acquisition, exceeded the estimated fair value of those reporting units. As a result, the Company was required to perform Step 2 of the goodwill impairment test to determine the amount, if any, of goodwill impairment charges for each of the applicable reporting units. Due to the complexities and time involved in preparing the Step 1 analysis, the Company had not commenced the Step 2 analysis as of February 5, 2009, the date it filed its Form 10-Q for the quarter ended December 27, 2008. As a result of the fact that the Company had not commenced the Step 2 analysis and the complexity of the analysis required to complete the Step 2 analysis, the Company was unable to determine that an impairment loss, in accordance with SFAS No. 5, *Accounting for Contingencies*, was both probable and reasonably estimable at December 27, 2008.

The Company completed the Step 2 analysis during its second quarter of fiscal 2009, which resulted in an aggregate goodwill impairment charge of \$2,340,023. This impairment charge is comprised of \$1,165,804 for GYN Surgical, \$908,349 for Diagnostics, and \$265,870 for Breast Health. The impairment charges for GYN Surgical and Diagnostics are primarily attributable to the assumption of higher discount rates compared to those used in the annual impairment test performed as of the first day of the fourth quarter of fiscal 2008 (the July 2008 valuation) and the assumption that the reporting units would be purchased or sold in a taxable

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transaction in accordance with EITF Issue No. 02-13, *Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB Statement No. 142* (EITF 02-13). The impairment charge for MammoSite, which is included in Breast Health, is a result of a combination of a higher discount rate and lower projected future cash flows compared to those used in the July 2008 valuation. The higher discount rates for the three reporting units, which range from 10% to 13.5% compared to 9% to 10% used in the July 2008 valuation, reflect an increase in the risks inherent in the estimated future cash flows and the higher rate of return a market participant would require based on the current macro-economic environment. The reduction in forecasted cash flows for the MammoSite reporting unit is due to current competitive pressure on the reporting unit's products as well as recent regulatory and reimbursement changes.

The Company also evaluated the aggregate fair value of its reporting units compared to its market capitalization noting an implied control premium of approximately 16% at December 27, 2008. The Company used an average of its market capitalization over the 30 calendar days preceding the impairment testing date as being more reflective of its market value than a single day, point-in-time market price. The Company concluded that its implied control premium was reasonable when compared to industry specific information. There have been no material changes in the Company's market capitalization from the date of the interim goodwill impairment test as of December 27, 2008 through June 27, 2009, and no other potential goodwill impairment indicators have been identified that would require an additional interim goodwill impairment test as of June 27, 2009.

The Company believes that the procedures performed and the estimates and assumptions used in the Step 1 and Step 2 analyses for each reporting unit are reasonable and in accordance with the guidelines for acquisition accounting under SFAS 141, SFAS 142 and EITF 02-13.

For illustrative purposes, had the fair values of each reporting unit for which the Company has recorded goodwill impairment charges in the second quarter of fiscal 2009 been lower by 10% as of December 27, 2008, the Company would have recorded an additional impairment charge of \$435,480. Based on the Company's estimates as of December 27, 2008, the impact of reducing the Company's fair value estimates for its other reporting units, for which the Company did not record any goodwill impairment charges, by 10% would have no impact on the Company's goodwill assessment for those reporting units.

The estimate of fair value requires significant judgment. Any loss resulting from the SFAS 142 impairment analysis is reflected in operating income (loss) in the Company's Consolidated Statements of Operations. The impairment testing process is subjective and requires judgment at many points throughout the analysis. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded. Impairment charges related to goodwill have no impact on the Company's cash balances or compliance with financial covenants under its Amended and Restated Credit Agreement.

The following table presents the changes in goodwill during the nine months ended June 27, 2009:

| | |
|-------------------------------------|---------------------|
| Balance at September 27, 2008 | \$ 4,450,496 |
| Impairment of goodwill | (2,340,023) |
| Purchase price adjustments | (9,291) |
| Foreign currency translation impact | (244) |
| Balance at June 27, 2009 | \$ 2,100,938 |

The decrease of approximately \$9,300 to goodwill for purchase price adjustments during the nine months ended June 27, 2009 primarily includes a \$2,000 increase to the estimated tax net operating loss carryforward acquired in the Third Wave acquisition due to finalizing the analysis in the third quarter of fiscal 2009 of the amounts the Company believes are more likely than not to be realized, as well as increases to the tax net operating loss carryforwards acquired as a result of the Cytyc and R2 acquisitions in the amounts of \$2,100 and \$2,000, respectively, and an increase in the preliminary estimate of other tax attributes acquired in the Third Wave acquisition of \$3,000.

The allocation of goodwill by reporting segment consisted of the following:

| | Balance as of June 27, 2009 | Balance as of September 27, 2008 |
|---------------|--|---|
| Breast Health | \$ 662,617 | \$ 930,672 |

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| | | |
|-----------------|--------------|--------------|
| Diagnostics | 572,147 | 1,486,988 |
| GYN Surgical | 858,000 | 2,024,639 |
| Skeletal Health | 8,174 | 8,197 |
| | \$ 2,100,938 | \$ 4,450,496 |

Table of Contents*Intangible Assets*

The majority of the Company's intangible assets arose in connection with its business combinations. These intangible assets were recorded at fair value and are stated net of accumulated amortization and impairments. The Company amortizes its intangible assets that have finite lives using either the straight-line method, or if reliably determinable, based on the pattern in which the economic benefit of the asset is expected to be consumed utilizing expected undiscounted future cash flows. Amortization is recorded over the estimated useful lives ranging from 2 to 30 years. If the estimate of an intangible asset's remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Subsequent to the Cytoc merger, the Company decided to discontinue the development of Cytoc's Helica product. The Company will not realize any future cash flows from this product. The Company's intangible asset valuation for Cytoc included approximately \$2,900 related to customer relationships for Helica. As a result of the Helica product discontinuation, the Company recorded an impairment charge, as a component of its GYN Surgical segment, of \$2,900 in the first quarter of fiscal 2008.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the Company evaluates the realizability of long-lived assets, which primarily consist of property and equipment and definite lived intangible assets (the SFAS 144 Long-Lived Assets), whenever events or changes in circumstances or business conditions indicate that the carrying value of the long-lived assets may not be recoverable based on expectations of undiscounted future cash flows for each asset group. As a result of the Company's conclusion that an interim impairment test of goodwill was required during the first quarter of fiscal 2009 (as discussed above), the Company performed an interim test for the impairment of long-lived assets as required by SFAS 144 in the first quarter of fiscal 2009.

The interim evaluation of the impairment of long-lived assets, other than goodwill, was based on expectations of undiscounted future cash flows compared to the carrying value of the long-lived asset groups in accordance with SFAS 144. If the sum of the expected undiscounted future cash flows was less than the carrying amount of the SFAS 144 Long-Lived Assets, the Company would recognize an impairment loss. The Company's cash flow estimates were based upon historical cash flows, as well as future projected cash flows derived from the annual Company wide planning process and interim forecasting. The Company believes that its procedures for estimating gross future cash flows are reasonable and consistent with market conditions at the time of estimation. The results of the Company's interim impairment testing under SFAS 144 indicated that there was no impairment of SFAS 144 Long-Lived Assets as of December 27, 2008.

During the second quarter of fiscal 2009, the Company decided to discontinue selling a certain product within the Diagnostic reporting segment as a result of recent communications from the FDA regarding the approval process. The Company believes that its decision is an indicator of impairment, and therefore, the Company performed an impairment test in accordance with SFAS 144. The Company determined that the undiscounted cash flows to be generated by the asset group over its remaining estimated useful life would not be sufficient to recover the carrying value of the asset group. Due to the insufficient cash flows to be generated, the Company determined that the asset group's fair value was de minimus and recorded an impairment charge of \$4,065 comprised of developed technology of \$2,594 and capitalized license fees of \$1,471. This charge is reflected in cost of product sales in the Company's Consolidated Statement of Operations.

During the third quarter of fiscal 2009, the Company acquired certain developed technology of approximately \$5,400.

Intangible assets consist of the following:

| Description | Weighted Average Remaining Estimated Amortization Period (in years) | As of June 27, 2009 | | As of September 27, 2008 | |
|--------------------------|---|----------------------------|-----------------------------|--------------------------|-----------------------------|
| | | Gross Carrying Value | Accumulated Amortization | Gross | |
| | | | | Carrying Value | Accumulated Amortization |
| Developed Technology | 12.9 | \$ 2,137,621 | \$ 228,121 | \$ 2,135,688 | \$ 112,568 |
| Customer Relationship | 12.9 | 484,852 | 53,179 | 484,136 | 22,509 |
| Trade Name | 23.4 | 146,946 | 17,552 | 146,963 | 9,950 |
| Patents | 9.8 | 11,449 | 7,710 | 11,183 | 7,544 |
| Capitalized License Fees | 6.1 | 2,766 | 413 | 6,491 | 2,239 |
| Totals | | \$ 2,783,634 | \$ 306,975 | \$ 2,784,461 | \$ 154,810 |

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Amortization expense related to developed technology, capitalized license fees and patents is classified as a component of cost of product sales amortization of intangible assets in the accompanying Consolidated Statements of Operations. Amortization expense related to customer relationship and trade name is classified as a component of amortization of acquired intangible assets in the accompanying Consolidated Statements of Operations.

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The estimated remaining amortization expense as of June 27, 2009 for each of the five succeeding fiscal years is as follows:

| | |
|--------------------------|-----------|
| Remainder of Fiscal 2009 | \$ 52,078 |
| Fiscal 2010 | 228,418 |
| Fiscal 2011 | 232,747 |
| Fiscal 2012 | 234,100 |
| Fiscal 2013 | 224,418 |

(18) Sale of Gestiva

On January 16, 2008, the Company entered into a definitive agreement pursuant to which it agreed to sell full U.S. and world-wide rights to Gestiva to K-V Pharmaceutical Company upon approval of the pending Gestiva new drug application (the Gestiva NDA) by the FDA. The purchase price to be paid to the Company as a result of the transaction is \$82,000 in cash, of which \$9,500 was paid in fiscal 2008 and the balance is due upon final approval by the FDA of the Gestiva NDA on or before February 19, 2010 and the production of a quantity of Gestiva suitable to enable the commercial launch of the product. The Company has agreed to continue its efforts to obtain FDA approval of the NDA for Gestiva as part of this arrangement. All costs incurred in these efforts will be reimbursed by K-V Pharmaceutical and are being recorded as a credit against research and development expenses. The Company has recorded the \$9,500 as a deferred gain within current liabilities in the accompanying Consolidated Balance Sheet. The gain will be recognized upon the closing of the transaction following final FDA approval of the Gestiva NDA. The Company cannot assure that it will be able to obtain the requisite FDA approval, that the transaction will be completed or that it will receive the balance of the purchase price. Moreover, if K-V Pharmaceutical terminates the agreement as a result of a breach by the Company of a material representation, warranty, covenant or agreement, the Company will be required to return the funds previously received as well as expenses reimbursed by K-V.

The development of Gestiva, a drug that, if approved by the FDA, could be used in the prevention of preterm birth in pregnant women with a history of at least one spontaneous preterm birth, was originally begun by Adeza Biomedical Corporation, which was acquired by Cytoc on April 2, 2007. On October 22, 2007, the Company completed its business combination transaction with Cytoc and as a result acquired all rights to Gestiva. The Company allocated \$53,400 to acquired in-process research and development as part of the initial purchase price allocation.

(19) Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2/124-2). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for the Company beginning with the third quarter of fiscal 2009. The adoption of FSP 115-2/124-2 did not have a significant impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)). This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. SFAS 141(R) replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The Statement retains the guidance in SFAS 141 for identifying and recognizing intangible assets separately from goodwill. SFAS 141(R) will now require acquisition costs to be expensed as incurred, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally to affect income tax expense. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is the Company's 2010 fiscal year. Early adoption is prohibited. The Company is currently evaluating the impact that the adoption of SFAS 141(R) will have on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51* (SFAS 160). SFAS 160 amends Accounting Research Bulletin (ARB) No. 51 to establish accounting and reporting standards for the

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noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The amount of net income attributable to the noncontrolling interest will be included in consolidated

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net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is the Company's 2010 fiscal year. Early adoption is prohibited. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R). The FSP is effective for financial statements for fiscal years beginning after December 15, 2008, which will be the beginning of fiscal 2010 for the Company. The Company is currently evaluating the impact that the adoption of this FSP will have on its consolidated financial statements. Early adoption is prohibited.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under SFAS 133. The liability and equity components of convertible debt instruments within the scope of this FSP must be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the debt over the amount ultimately allocated to the liability component is required to be amortized to interest expense using the interest method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. As a result, the Company will adopt this standard at the beginning of fiscal 2010. This FSP must be applied retrospectively to all periods presented. The retrospective adoption of this FSP will increase the Company's historical reported interest expense from December 10, 2007 (issuance date of the Convertible Notes - See Note 6) forward.

The adoption of FSP APB 14-1 will have no impact on the Company's actual past or future cash flows. However, upon adoption in fiscal 2010, the Company will restate prior periods by reclassifying approximately \$470,000 of its Convertible Notes to additional paid-in capital, resulting in a debt discount. It is estimated that the Company's non-cash interest expense will increase by approximately \$16,600 and \$48,700 for the three and nine months ended June 27, 2009, respectively, and approximately \$15,300 and \$32,700 for the three and nine months ended June 28, 2008, respectively, resulting in a restated diluted net income (loss) per share of approximately \$0.12 and \$(8.74) for the three and nine months ended June 27, 2009, respectively, and a restated diluted net income (loss) per share of approximately \$0.20 and \$(1.08) for the three and nine months ended June 28, 2008, respectively.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-5). EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS 133. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The Company has concluded that upon the adoption of this standard, the embedded derivative option in the Company's Convertible Notes (See Note 6) will continue to be considered indexed to the Company's own stock. As a result, the adoption of EITF 07-05 is not expected to have a material impact on the Company's financial condition or results of operations.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP SFAS 107-1 and APB 28-1). FSP SFAS 107-1 and APB 28-1 amend SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. FSP SFAS 107-1 and APB 28-1 also amend APB Opinion No 28, *Interim Financial Reporting*, to require fair value disclosures in all interim financial statements. FSP SFAS 107-1 and APB 28-1 are effective for the Company in its third quarter of fiscal 2009 and did not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP. The Codification will supersede all existing non-SEC accounting and reporting standards. As a result, upon adoption, all references to accounting literature in our SEC filings will conform to the appropriate reference within the Codification. The Company is required to adopt SFAS No. 168 for the Company's fiscal fourth quarter ending September 26, 2009. The Company does not expect the adoption of this standard to have an impact on its financial position or results of operations.

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

This report contains forward-looking information that involves risks and uncertainties, including statements regarding our plans, objectives, expectations and intentions. Such statements include, without limitation, statements regarding various estimates we have made in preparing our financial statements, statements regarding expected future trends relating to our results of operations and the sufficiency of our capital resources. These forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those anticipated.

Risks and uncertainties that could adversely affect our business and prospects include without limitation:

the risk that the continuing worldwide economic downturn may continue to adversely affect our business and prospects;

the importance of third party reimbursement policies to support the sales and market acceptance of our products;

the risk that medical regulatory reform could adversely affect the use and sale of our products;

the risk that we may fail to successfully realize the anticipated benefits from combining recently acquired businesses, technologies, product lines, and products, including Third Wave and Cytoc, with our business for a number of reasons, including the following:

we may be unable to successfully integrate the acquired businesses, which may result in us not operating as effectively and efficiently as expected;

we may be unable to achieve the expected synergies from an acquisition or it may take longer than expected to achieve those synergies;

an acquisition may result in future impairment charges related to diminished fair value of businesses acquired as compared to the price we paid for them;

an acquisition may involve restructuring operations or reductions in workforce which may result in substantial charges to our operations;

an acquisition may involve unexpected costs or liabilities, or the effects of purchase accounting may be different from our expectations; and

the acquired businesses may be adversely affected by future legislative, regulatory, or tax decisions and/or changes as well as other economic, business and/or competitive factors.

risks associated with the continued market acceptance of our products, as well as the limited number of customers for our ThinPrep system;

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manufacturing risks that may limit our ability to increase commercial production of certain of our digital products, including our reliance on a single or a limited number of suppliers for some key components of our products as well as the need to comply with especially high standards for those components and in the manufacture of direct radiography products in general;

uncertainties inherent in the development of new products and the enhancement of existing products, including technical, U.S. Food and Drug Administration (FDA) approval/clearance and other regulatory risks, cost overruns and delays, and the changing of agency administration;

the risk that newly introduced products may contain undetected errors or defects or otherwise not perform as anticipated;

our ability to predict accurately the demand for our products, and products under development;

our ability to successfully manage our international operations, including fluctuations in exchange rates;

our ability to develop strategies to address our markets successfully and the risk that the markets for our products may not develop or continue as expected;

the early stage of market development for certain of our products;

expenses and uncertainties relating to litigation, product liability claims and allegations of infringement of third party intellectual property rights;

technical innovations that could render products marketed or under development by us obsolete and our ability to protect our proprietary technologies;

competition;

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an adverse change in the projected discounted cash flows from our acquired businesses or the business climate in which they operate, including the continuation of the current financial and economic downturn, could require us to incur further impairment charges which would have an adverse impact on our operating results.

Other factors that could adversely affect our business and prospects are described in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended September 27, 2008. The risks included above and in such reports are not exhaustive. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such forward-looking statement is based.

OVERVIEW

We are a developer, manufacturer and supplier of medical imaging systems and diagnostic and surgical products focused on the healthcare needs of women. Historically, we have developed, manufactured and marketed products focused on mammography, breast care and osteoporosis assessment. In October 2007, we completed our business combination with Cytec Corporation (Cytec), a company that develops, manufactures and markets complementary products covering a range of cancers and women's health applications, including cervical cancer screening, prenatal diagnostics, uterine disorders and partial breast radiation therapy. On July 24, 2008, we completed our acquisition of Third Wave Technologies, Inc. (Third Wave), a company that develops and markets molecular diagnostic reagents for a wide variety of DNA and RNA analysis applications based on its proprietary Invader chemistry.

We have historically focused our resources on developing systems and subsystems offering superior image quality and diagnostic accuracy, which has enabled us to capture significant market share and customer loyalty, despite the presence of large competitors. Our combination with Cytec has enabled us to benefit from Cytec's strengths in the fields of obstetrics, gynecology, radiation oncology and minimally invasive surgery. Our acquisition of Third Wave has enabled us to further expand our offerings into the clinical molecular diagnostics market utilizing Third Wave's Invader chemistry and its human papillomavirus (HPV) tests recently approved by the FDA in March 2009.

Our breast health products include a broad portfolio of breast imaging and related products and accessories, including digital and film-based mammography systems, computer-aided detection (CAD), breast biopsy guidance systems, minimally invasive breast biopsy and tissue extraction devices and breast brachytherapy products. Our new Dimensions 2D digital mammography system received CE mark approval in Europe in fiscal 2008, and we received FDA approval for the system in December 2008. Our 3D configuration received CE mark approval in Europe in fiscal 2008, and we are currently in the process of seeking FDA approval. However, the timing of such approval, if at all, is uncertain.

Our diagnostics products include the ThinPrep System (ThinPrep), which is primarily used in cytology applications, such as cervical cancer screening, and the FullTerm Fetal Fibronectin Test (FullTerm), which offers clinical and cost benefits for the assessment of the risk of pre-term birth. Through our recent acquisition of Third Wave, we have added In Vitro Diagnostic (IVD) tests using Third Wave's Invader technology, allowing researchers and clinical laboratories to create assays to perform inherited disorders testing and testing for other mutations associated with genetic predispositions and other diseases such as Cystic Fibrosis. We received FDA approval for both of our Cervista HPV High Risk (HR) and Cervista HPV 16/18 tests in March 2009.

Our GYN surgical products include the NovaSure Impedance Controlled RF Ablation System (NovaSure System), which enables physicians to treat women suffering from excessive menstrual bleeding in a minimally invasive manner in order to eliminate or reduce their bleeding, and the Adiana Permanent Contraception system, which is a form of permanent female contraception intended as an alternative to tubal ligation. The Adiana Permanent Contraception system received CE mark approval in Europe in the second quarter of fiscal 2009, and we received FDA approval in July 2009, the beginning of our fiscal fourth quarter of 2009.

Our skeletal health products include dual-energy X-ray bone densitometry systems, an ultrasound-based osteoporosis assessment product, our FluorSCAN mini C-arm imaging products and our Esaote line of extremity Magnetic Resonance Imaging (MRI) systems, which are manufactured by an original equipment manufacturer.

We were incorporated in Massachusetts in October 1985 and reincorporated in Delaware in March 1990. Unless the context otherwise requires, references to us, we, Hologic or our company refer to Hologic, Inc. and each of its consolidated subsidiaries.

Hologic is a trademark of Hologic, Inc. Other trademarks, logos, and slogans registered or used by Hologic and its divisions and subsidiaries in the U.S. and other countries include, but are not limited to, the following: Adeza, Adiana, AEG, ATEC, BioLucent, Celero, Cervista, Cytec, Dimensions, Eviva, FluorSCAN, FullTerm, Gestiva, Invader, MammoSite, MultiCare, NovaSure, R2, Selenia, Suros, ThinPrep, and Third Wave.

Table of Contents**RECENT ECONOMIC DEVELOPMENTS**

Market acceptance of our medical products in the U.S. and other countries is dependent upon the medical equipment purchasing and procurement practices of our customers, patient demand for our products and procedures and the reimbursement of patients' medical expenses by government healthcare programs, private insurers or other healthcare payors. We believe that the current uncertainty surrounding the U.S. and world economies and financial markets has resulted in the purchasers of medical equipment decreasing their medical capital equipment purchasing and procurement activities. Additionally, constrictions in world credit markets have and may continue to result in our customers having increased difficulty securing the financing necessary to purchase our products, which may result in lower sales. Widespread economic uncertainty also has and may continue to result in cost-conscious consumers focusing on acute care rather than wellness, which could result in reduced demand for our products and procedures. Furthermore, governments around the world facing tightening budgets could move to further reduce the reimbursement rates offered by government sponsored healthcare programs. As a result, we believe the current economic conditions have adversely affected our business and prospects.

During the first quarter of fiscal 2009, the value of the U.S. dollar strengthened against the value of many foreign currencies and remained at this strengthened position throughout our second quarter of fiscal 2009. However, in our fiscal third quarter, the dollar weakened slightly. A majority of our sales to international dealers are denominated in U.S. dollars. The ongoing fluctuations of the value of the U.S. dollar may cause our products to be less competitive in international markets and may impact sales and margins over time. In addition, we have international sales, principally in our Diagnostics segment, that are denominated in foreign currencies. The value of these sales is also impacted by fluctuations in the value of the U.S. dollar. Given the uncertainty in the worldwide financial markets, foreign currency fluctuations may be significant in the future, and if the U.S. dollar strengthens, we may experience a material adverse effect on our international sales and margins.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our interim consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition for multiple element arrangements, allowance for doubtful accounts, reserves for excess and obsolete inventories, valuations and purchase price allocations related to business combinations, expected future cash flows used to evaluate the recoverability of long-lived assets and goodwill, estimated fair values of intangible assets and goodwill, amortization methods and periods, warranty reserves, certain accrued expenses, restructuring and other related charges, stock-based compensation, pension liabilities, contingent liabilities, tax reserves and recoverability of our net deferred tax assets and related valuation allowance. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates if past experience or other assumptions do not turn out to be substantially accurate. Any differences may have a material impact on our financial condition and results of operations. For a discussion of how these and other factors may affect our business, see the Cautionary Statement above and Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

Goodwill

During the first quarter of fiscal 2009, based upon a combination of factors, including the deteriorating macro-economic environment, declines in the stock market and the decline of our market capitalization significantly below the book value of our net assets, we concluded that potential goodwill impairment indicators existed as of December 27, 2008. As a result, we performed an interim goodwill impairment analysis as of December 27, 2008 in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Step 1 of the impairment analysis under SFAS 142 indicated that the carrying value of the net assets of certain reporting units, acquired in connection with the Cytyc acquisition, exceeded the estimated fair value of those reporting units. As a result, we were required to perform Step 2 of the goodwill impairment test to determine the amount, if any, of goodwill impairment charges for each of the applicable reporting units. The Step 2 analysis under SFAS 142 required us to perform a hypothetical purchase price allocation for each of these reporting units to determine the implied fair value of goodwill and to compare the implied fair value of goodwill to the recorded amount of goodwill by reporting unit. Due to the complexities and time involved in preparing the Step 1 analysis, we had not commenced the Step 2 analysis as of February 5, 2009, the date we filed our Form 10-Q for the quarter ended December 27, 2008. As a result of the fact that we had not commenced the Step 2 analysis and the complexity of the analysis required to complete the Step 2 analysis, we were unable to determine that an impairment loss, in accordance with SFAS No. 5, *Accounting for Contingencies*, was both probable and reasonably estimable at December 27, 2008. We completed the Step 2 analysis during our second quarter of fiscal 2009, which resulted in an aggregate goodwill impairment charge of \$2.34 billion. This impairment charge is comprised of \$1.17 billion for GYN Surgical, \$908.3 million for Diagnostics, and \$265.9 million for Breast Health related to our MammoSite reporting unit acquired from Cytyc. We believe that our procedures and related assumptions for estimating the reporting units' fair value are reasonable and consistent with the market conditions that existed at the time of the impairment test. Refer to Note 17 Goodwill and Intangible Assets contained

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in Item 1 of this Quarterly Report on Form 10-Q for more information.

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The estimate of fair value requires significant judgment. Any loss resulting from an impairment test is reflected in operating income (loss) in our Consolidated Statements of Operations. The impairment testing process is subjective and requires judgment at many points throughout the analysis. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges for these assets or for other assets not previously impaired.

The critical accounting estimates used in the preparation of our financial statements that we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 27, 2008, and as set forth below. There have been no material changes to our critical accounting policies from those set forth in our Annual Report.

Valuation of Acquired In-Process Research and Development – Third Wave Acquisition

As part of the preliminary purchase price allocation for our acquisition of Third Wave, approximately \$195.2 million of the purchase price was allocated to acquired in-process research and development projects. The amount allocated to acquired in-process research and development represented programs for which some research and development had been completed, but technological feasibility had not been determined or FDA approval was pending. The amount allocated to acquired in-process research and development related to the Third Wave acquisition represented the estimated fair value based on risk-adjusted cash flows related to these projects using a discount rate of 20%. The primary basis for determining the technological feasibility of these projects was obtaining regulatory approval to market the underlying products. The fair value attributable to these in-process projects was expensed at the time of the acquisition. If the projects are not successful or completed in a timely manner, we may not realize the financial benefits expected for these projects or for the transaction as a whole.

The most significant acquired in-process technology related to the HPV Cervista HR screening, for which we estimated a value of approximately \$151.2 million. At the time of, and subsequent to the acquisition, we sold HPV reagents that detect certain high risk HPV types as Analyte Specific Reagents (ASRs). In 2006, Third Wave began clinical trials for pre-market approval (PMA) submissions to the FDA for Cervista HR. Third Wave submitted the PMAs in April 2008 and received FDA approval in the second quarter of fiscal 2009. Subsequent to receiving FDA approval, we expect to transition to only selling HPV IVD in the future. The HPV in-process research and development related only to the HPV IVDs and the HPV ASRs were valued as developed technology.

The estimated cost to complete Third Wave's other remaining in-process research and development projects as of June 27, 2009 in the aggregate was \$4.8 million.

Valuation of Acquired In-Process Research and Development – Cytyc Merger

As part of the purchase price allocation for our business combination with Cytyc, we allocated approximately \$370.0 million of the purchase price to acquired in-process research and development projects. The amount allocated to acquired in-process research and development represented the estimated fair value based on risk-adjusted cash flows related to in-process projects that had not yet reached technological feasibility and had no alternative future uses as of the date of the merger. The primary basis for determining the technological feasibility of these projects was obtaining regulatory approval to market the underlying products. The fair value attributable to these in-process projects was expensed at the time of the business combination. If the projects are not successful or completed in a timely manner, we may not realize the financial benefits expected for these projects or for the transaction as a whole.

The fair value assigned to acquired in-process research and development was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projections used to value the acquired in-process research and development was based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by us and our competitors. The resulting net cash flows from such projects were based on our estimates of cost of sales, operating expenses, and income taxes from such projects.

The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations and the implied rate of return from the transaction model plus a risk premium. Due to the nature of the forecasts and the risks associated with the developmental projects, appropriate risk-adjusted discount rates were used for the in-process research and development projects. The discount rates are based on the stage of completion and uncertainties surrounding the successful development of the purchased in-process technology projects.

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The acquired in-process research and development of Cytyc related to the following research and development projects: Adiana Complete TransCervical Sterilization system, which we subsequently renamed Adiana Permanent Contraception, and expanded labeling of the NovaSure System, Gestiva, the ThinPrep Imaging System, the ThinPrep Processor and Helica.

The most significant acquired in-process technology relates to the Adiana Permanent Contraception system for which we estimated a value of approximately \$220.0 million. The system is an incisionless trans-cervical permanent sterilization device intended to be performed as an office-based procedure. It consists of three different parts: a disposable applicator, an implantable polymer matrix and a radio frequency controller. In January 2008, the FDA requested an additional year of clinical trial data for the product, which we completed, and on March 3, 2009, we received an approvable letter from the FDA, which was subject to inspection of our manufacturing facility. We received FDA approval on July 6, 2009

On January 16, 2008, we entered into a definitive agreement to sell our rights to Gestiva, a drug being developed to be used in the prevention of preterm birth in pregnant women with a history of spontaneous preterm birth, to K-V Pharmaceutical Company. A portion of the purchase price is to be paid upon final approval by the FDA of a Gestiva New Drug Application (NDA) on or before February 19, 2010 and the production of a quantity of Gestiva suitable to enable the commercial launch of the product. The total purchase price to be paid to us as a result of the transaction is \$82.0 million in cash, of which \$9.5 million was paid in fiscal 2008 and the balance is due upon the satisfaction of the above conditions. We have agreed to continue our efforts to obtain FDA approval of the NDA for Gestiva as part of this arrangement, for which we will be reimbursed by K-V Pharmaceutical. All costs incurred in these efforts will be reimbursed by K-V Pharmaceutical and are being recorded as a credit against research and development expenses. We have recorded the \$9.5 million as a deferred gain within current liabilities of our Consolidated Balance Sheet. The gain will be recognized upon final FDA approval of the Gestiva NDA. We had allocated \$53.4 million to acquired in-process research for this product as part of the initial purchase price allocation. We cannot assure that we will be able to obtain the requisite FDA approval, that the transaction will be completed or that we will receive the balance of the purchase price. Moreover, if K-V Pharmaceutical terminates the agreement as a result of our breach of a material representation, warranty, covenant or agreement, we will be required to return the funds previously received by us as well as expenses reimbursed to us by K-V.

Subsequent to the Cytyc merger, we decided to discontinue the development of Cytyc's Helica Thermal Coagulator System product. We will not incur any further costs or realize any future cash flows from this product. Our intangible asset valuation for Cytyc included approximately \$2.9 million related to customer relationships for Helica. As a result of the Helica product discontinuation, we recorded an impairment charge of \$2.9 million during the first quarter of fiscal 2008.

The other in-process research and development projects we acquired in our business combination with Cytyc were at different stages of development, ranging from the early stages of development to Phase IIB prototype building, ongoing clinical trials and submission to the FDA of PMA and drug applications. FDA approval or clearance had not been granted for any of the products classified as in-process research and development, nor had Cytyc received any foreign approvals or clearances for any of these products. Products classified as in-process research and development require various levels of in-house and external testing, clinical trials and approvals from the FDA before these future products can be marketed. The estimated cash requirement in the aggregate to complete these remaining products is expected to be approximately \$3.9 million.

The successful development of new products and product enhancements is subject to numerous risks and uncertainties, both known and unknown, including, unanticipated delays, access to capital, budget overruns, technical problems and other difficulties that could result in the abandonment or substantial change in the design, development and commercialization of these new products and enhancements including, for example, changes requested by the FDA in connection with PMA or New Drug Applications (NDAs) for products or 510(k) notification. Given the uncertainties inherent with product development and introduction, we cannot provide assurance that any of our product development efforts will be successful on a timely basis or within budget, if at all. Our failure to develop new products and product enhancements on a timely basis or within budget could harm our results of operations and financial condition.

RESULTS OF OPERATIONS

Our results of operations include the operating activities of the former Cytyc's business from the date of our business combination with Cytyc on October 22, 2007. As such, our first quarter of fiscal 2008 only includes ten weeks of Cytyc's operations. Our results of operations include the operating activities of Third Wave's business from the date of our business combination with Third Wave on July 24, 2008. As such, our third quarter of fiscal 2008 and nine months ended June 28, 2008 do not reflect any results related to Third Wave.

As a result of the Cytyc merger, we reassessed our segment reporting based on the operating and reporting structure of the combined company. Beginning in fiscal 2008, we combined our previously reported Other business segment with our Breast Health (formerly Mammography/Breast Care) and Skeletal Health (formerly Osteoporosis) segments, to better reflect how we view our

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operations and manage our business. Our Other business segment previously included our AEG, mini C-arm, extremity MRI, conventional general radiography service and digital general radiography systems businesses. The AEG business is now part of Breast Health while the remaining reporting units formerly included in Other are now part of Skeletal Health.

In addition, we began reporting two new operating segments in fiscal 2008: Diagnostics and GYN Surgical. Diagnostics includes the ThinPrep Products and the FullTerm Fetal Fibronectin test, acquired as part of Cytyc's purchase of Adeza in March 2007, and GYN Surgical includes the NovaSure system and the Adiana Permanent Contraception system, which received FDA approval on July 6, 2009. The MammoSite Radiation Therapy system, previously part of Cytyc's surgical reporting segment, which is a single-use device for the treatment of early-stage breast cancer, is now part of our Breast Health segment. Third Wave, which was acquired in July of 2008, is being reported as part of our Diagnostics segment.

We now report our business as four segments; Breast Health, Diagnostics, GYN Surgical and Skeletal Health. Prior periods have been restated to conform to this presentation.

All dollar amounts in tables are presented in thousands.

Table of Contents**Product Sales.**

| | June 27, 2009 | | Three Months Ended June 28, 2008 | | Change | | June 27, 2009 | | Nine Months Ended June 28, 2008 | | Change | |
|----------------------|---------------|--------------------------|-------------------------------------|--------------------------|-------------|-------|---------------|--------------------------|------------------------------------|--------------------------|--------------|-------|
| | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % |
| | | | | | | | | | | | | |
| <i>Product Sales</i> | | | | | | | | | | | | |
| Breast Health | \$ 129,574 | 32% | \$ 184,824 | 43% | \$ (55,250) | (30)% | \$ 426,706 | 35% | \$ 547,749 | 44% | \$ (121,043) | (22)% |
| Diagnostics | 138,755 | 34% | 123,746 | 29% | 15,009 | 12% | 406,315 | 33% | 343,807 | 28% | 62,508 | 18% |
| GYN Surgical | 65,433 | 16% | 55,864 | 13% | 9,569 | 17% | 196,345 | 16% | 160,115 | 13% | 36,230 | 23% |
| Skeletal Health | 15,652 | 4% | 19,570 | 4% | (3,918) | (20)% | 52,043 | 4% | 56,759 | 5% | (4,716) | (8)% |
| | \$ 349,414 | 87% | \$ 384,004 | 89% | \$ (34,590) | (9)% | \$ 1,081,409 | 88% | \$ 1,108,430 | 90% | \$ (27,021) | (2)% |

In the current three month period our product sales decreased 9% compared to the corresponding period in the prior year, primarily due to a \$55.3 million decrease in revenues from our Breast Health products and to a lesser extent a \$3.9 million decrease in revenues from our Skeletal Health products, partially offset by an increase of \$15.0 million in our Diagnostics segment primarily due to the addition of Third Wave revenues in the current year and an increase in revenues in our GYN Surgical products of approximately \$9.6 million. We acquired Third Wave in July 2008.

In the current nine month period, our product sales decreased 2% compared to the corresponding period in the prior year, primarily due a \$121.0 million decrease in revenues from our Breast Health products and to a lesser extent a \$4.7 million decrease in revenues from our Skeletal Health products, offset by the additional revenues from Cytyc s Diagnostics and GYN Surgical segments of \$35.0 million and \$36.2 million, respectively, primarily due to the full inclusion of these segments in fiscal 2009 versus the inclusion of only 10 weeks (date of acquisition through quarter-end) of operating results for the first quarter of fiscal 2008. We acquired Cytyc on October 22, 2007. We also generated additional revenues from Third Wave in our Diagnostics segment of approximately \$27.5 million.

Breast Health product sales decreased 30% in the current three month period compared to the corresponding period in the prior year, primarily due to a \$46.2 million decrease in digital mammography systems sales largely related to a reduction in the number of Selenia full field mammography systems and related components, including R2 CAD software, sold domestically, and to a lesser extent, internationally. In addition, we have seen a slight deterioration of average selling prices, both domestically and internationally, driven by the current economic environment for capital purchases and less expensive configurations of the units being sold. Also contributing to lower product sales was a \$3.9 million decrease in multicare stereotactic table sales caused primarily to a decrease in the number of systems sold worldwide. These decreases were partially offset by a \$5.3 million increase in revenues from our Suros breast biopsy products.

For the current nine month period, Breast Health product sales decreased 22% compared to the corresponding period in the prior year, primarily due to a \$101.5 million decrease in digital mammography systems sales caused primarily by a reduction in the number of Selenia full field mammography systems and related components, including R2 CAD software, sold domestically, and to a lesser extent, internationally. In addition, we have seen a slight deterioration of average selling prices, both domestically and internationally, driven by the current economic environment for capital purchases and less expensive configurations of the units being sold. Also contributing to the decrease was a \$12.0 million decrease in multicare stereotactic table sales primarily attributable to a decrease in the number of systems sold worldwide. These decreases were partially offset by a \$16.2 million increase in revenues from our Suros breast biopsy products.

We attribute the decrease in digital mammography system sales primarily to cost pressures faced by hospitals due to the worldwide economic instability, which has resulted in longer sales processes and delays and reductions in capital equipment purchases domestically and to a lesser extent, internationally. We believe the decrease in multicare stereotactic tables is also primarily the result of economic conditions due to delays of capital equipment purchases. The increase in Suros breast biopsy product sales is primarily attributable to an increase in the number of ATEC and Celero biopsy devices sold domestically and internationally as well as the introduction of our new Eviva stereotactic biopsy disposable product.

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Diagnostics product sales, which include ThinPrep, FullTerm and Third Wave, increased 12% and 18% in the current three and nine month periods, respectively, compared to the corresponding periods in the prior year. These increases are primarily due to the addition of Third Wave revenues of approximately \$10.3 million and \$27.5 million, in the three and nine month periods, respectively. The increase in the nine month period is also due to the inclusion of Cytoc s results for the full first quarter in the current year compared to 10 of the 13 weeks in the prior year first quarter. While we recently received FDA approval of Cervista, the revenue contribution has been modest, and we expect only slightly higher revenues in the fourth quarter of fiscal 2009.

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GYN Surgical product sales, which include our NovaSure products and Adiana Permanent Contraception system, which we received FDA approval on July 6, 2009, increased 17% and 23% in the current three and nine month periods, respectively, compared to the corresponding periods in the prior year. These increases are primarily due to a significant increase in the number of NovaSure systems sold. The increase in the nine month period is primarily due to the inclusion of Cytoc results for the full first quarter in the current year as compared to 10 of the 13 weeks in the prior year first quarter. Regarding Adiana, we have only sold it selectively in international markets and have generated minimal revenues as a result, and since we just received FDA approval we expect revenues in the fourth quarter of fiscal 2009 to be modest.

Skeletal Health product sales decreased 20% in the current three month period compared to the corresponding period in the prior year, primarily due to a \$3.1 million decrease in osteoporosis assessment product sales caused primarily by a decrease in the number of bone densitometry systems sold worldwide. This product line continues to face a difficult capital equipment environment in the U.S. and the ongoing effects of the reduction in reimbursement for osteoporosis assessment exams in the U.S. For the current nine month period, Skeletal Health product sales decreased 8% compared to the corresponding period in the prior year, primarily due to a \$4.2 million decrease in osteoporosis assessment product sales and a \$1.3 million decrease in extremity MRI sales, partially offset by \$0.8 million increase in mini C-arm sales. The decrease in osteoporosis assessment sales was primarily due to a decrease in the number of bone densitometry systems sold internationally, partially offset by an increase in the number of systems sold domestically. The decrease in extremity MRI sales was due to a decrease in the number of systems sold. The increase in mini C-arm sales was primarily due to an increase in the number of units sold worldwide.

In the first nine months of fiscal 2009, approximately 79% of product sales were generated in the U.S., 12% in Europe, 4% in Asia, and 5% in other international markets. In the first nine months of fiscal 2008, approximately 80% of product sales were generated in the U.S., 12% in Europe, 4% in Asia, and 4% in other international markets.

Service and Other Revenues.

| | June 27, 2009 | | Three Months Ended June 28, 2008 | | Change | | June 27, 2009 | | Nine Months Ended June 28, 2008 | | Change | |
|--|-----------------------------------|--------------------------|-------------------------------------|--------------------------|--------|----------|---------------|--------------------------|------------------------------------|--------------------------|--------|-----------|
| | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % |
| | <i>Service and Other Revenues</i> | \$ 53,706 | 13% | \$ 45,488 | 11% | \$ 8,218 | 18% | \$ 152,958 | 12% | \$ 123,556 | 10% | \$ 29,402 |

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. Service and other revenues increased 18% and 24% in the current three and nine month periods, respectively, compared to the corresponding periods of the prior year. The increase in service and other revenues in the three and nine month periods was primarily due to an increase in our Breast Health segment, principally from an increase in service contract revenues related to an increase in the installed base of our full field digital mammography systems and detectors.

Cost of Product Sales.

| | June 27, 2009 | | Three Months Ended June 28, 2008 | | Change | | June 27, 2009 | | Nine Months Ended June 28, 2008 | | Change | |
|--|------------------------------|----------------------------|-------------------------------------|----------------------------|--------|------------|---------------|----------------------------|------------------------------------|----------------------------|--------|-------------|
| | Amount | % of Product Revenue | Amount | % of Product Revenue | Amount | % | Amount | % of Product Revenue | Amount | % of Product Revenue | Amount | % |
| | <i>Cost of Product Sales</i> | \$ 114,232 | 33% | \$ 121,649 | 32% | \$ (7,417) | (6)% | \$ 352,040 | 33% | \$ 397,030 | 36% | \$ (44,990) |

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The cost of product sales decreased 6% in the current three month period and 11% in the current nine month period compared to the corresponding periods in the prior year. The decrease in the current three month period compared to the corresponding period in the prior year is primarily due to the decrease in our digital mammography system product sales discussed above, partially offset by the inclusion of Third Wave in the fiscal 2009 results. The decrease in the current nine month period compared to the corresponding period in the prior year is primarily due to \$42.4 million of costs included in the prior year related to sales of acquired Cytoc inventory that was written up to fair value for purchase accounting purposes and lower digital mammography system product sales. Also contributing to the decrease is an MRI inventory impairment charge and related purchase obligations recorded in the first nine months of 2008 of \$4.0 million. The decreases in cost of product sales for the nine month period were partially offset by increased expenses associated with the inclusion of Cytoc product costs for the full first quarter in the current year as compared to 10 of the 13 weeks in the prior year quarter, increased NovaSure product sales and Third Wave related activity. Included in the Third Wave cost of product sales in the current three and nine month periods is approximately \$0.3 million and \$1.1 million of additional costs related to sales of acquired Third Wave inventory that was written up to fair value for purchase accounting purposes as of the date of acquisition.

During the fourth quarter of fiscal 2008, we determined that certain amounts previously classified as a component of Cost of Service and Other Revenues should be reclassified to Cost of Product Sales. We determined that the reclassification was not material to our consolidated financial statements and corrected the classification in the fourth quarter of fiscal 2008. These amounts totaled approximately \$13.3 million and \$34.9 million for the three and nine months ended June 28, 2008, respectively, and have been reclassified to Cost of Product Sales to conform with the current period presentation. Additionally, royalty expense previously recorded within Cost of Service and Other Revenues totaling \$0.4 million and \$1.2 million for the three and nine months ended June 28, 2008, respectively, has been reclassified to Cost of Product Sales to conform with the current period presentation.

The cost of product sales as a percentage of product revenue in the third quarter and the first nine months of fiscal 2009 was 33% for both periods as compared to 32% and 36%, respectively, in the corresponding periods in the prior year. These costs as a percentage of product sales increased in the third quarter of fiscal 2009 compared to the corresponding period in the prior year primarily due to unfavorable overhead absorption in Breast Health. These costs as a percentage of product sales decreased in the first nine months of fiscal 2009 primarily due to the \$46.4 million of charges that were included in product cost of sales in the first nine months of 2008 discussed above. These costs as a percentage of product sales also decreased due to the increase in sales of the Diagnostics and GYN Surgical products, which have lower product costs as a percentage of the related product revenues compared to the mammography products in our Breast Health segment, which declined in the current periods.

Cost of Product Sales Amortization of Intangible Assets.

| | June 27, 2009 | | Three Months Ended June 28, 2008 | | Change | | June 27, 2009 | | Nine Months Ended June 28, 2008 | | Change | |
|--|---------------|----------------------------|-------------------------------------|----------------------------|-----------|-----|---------------|----------------------------|------------------------------------|----------------------------|-----------|-----|
| | Amount | % of Product Revenue | Amount | % of Product Revenue | Amount | % | Amount | % of Product Revenue | Amount | % of Product Revenue | Amount | % |
| <i>Cost of Product Sales</i> | | | | | | | | | | | | |
| <i>Amortization of Intangible Assets</i> | \$ 40,773 | 12% | \$ 24,574 | 6% | \$ 16,199 | 66% | \$ 116,279 | 11% | \$ 69,649 | 6% | \$ 46,630 | 67% |

Cost of product sales amortization of intangible assets substantially relates to acquired developed technology and know-how resulting from our acquisitions. These intangible assets are generally being amortized over their estimated useful lives of between 8.5 and 15 years using a straight-line method or, if reliably determinable, based on the pattern in which the economic benefits of the assets are expected to be consumed utilizing expected undiscounted future cash flows. The \$16.2 million and \$46.6 million increases in these costs in the current three and nine month periods compared with the corresponding periods in the prior year primarily relate to \$16.0 million and \$46.5 million, respectively, in additional Cytoc and Third Wave-related amortization.

Table of Contents**Cost of Product Sales Impairment of Intangible Assets.**

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|---------------|--------|-------------------|---------------|-----------------|
| | June 27, 2009 | June 28, 2008 | Change | June 27, 2009 | June 28, 2008 | Change |
| | % of | % of | | % of | % of | |
| | Product | Product | | Product | Product | |
| | Amount | Revenue | Amount | Revenue | Amount | Revenue |
| | Amount | % | Amount | % | Amount | % |
| <i>Cost of Product Sales</i> | | | | | | |
| <i>Impairment of Intangible Assets</i> | \$ | % | \$ | % | \$ 4,065 | 0% |
| | | | | | \$ | % \$ 4,065 100% |

During the second quarter of fiscal 2009, we decided to discontinue selling a certain product acquired in the Third Wave acquisition as a result of recent communications from the FDA regarding the approval process. This decision is an indicator of impairment, and we performed an impairment test in accordance with SFAS 144, which indicated that the undiscounted cash flows that the asset group would generate over its remaining estimated useful life would not be sufficient to recover the carrying value of the asset group. Due to the insufficient cash flows to be generated, the Company determined that the related asset group's fair value was de minimus and recorded an impairment charge of \$4.1 million comprised of developed technology of \$2.6 million and capitalized license fees of \$1.5 million.

Cost of Service and Other Revenues.

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|---------------|------------|-------------------|---------------|---------|
| | June 27, 2009 | June 28, 2008 | Change | June 27, 2009 | June 28, 2008 | Change |
| | % of | % of | | % of | % of | |
| | Service | Service | | Service | Service | |
| | Amount | Revenue | Amount | Revenue | Amount | Revenue |
| | Amount | % | Amount | % | Amount | % |
| <i>Cost of Service and Other Revenue</i> | | | | | | |
| | \$ 36,970 | 69% | \$ 38,506 | 85% | \$ 111,305 | 73% |
| | | | \$ (1,536) | (4)% | \$ 113,071 | 92% |
| | | | | | \$ (1,766) | (2)% |

Cost of service and other revenues decreased in the current three month period primarily due to a decrease in service costs related to our Diagnostics products partially offset by an increase of these costs for our Breast Health products. The cost of service and other revenues as a percentage of service and other revenues in the current quarter and nine months of fiscal 2009 decreased to 69% and 85%, respectively, from 73% and 92%, respectively, in the prior year due in part to the improved absorption of fixed service costs and the continued growth of service contract revenue, primarily in the Breast Health segment.

Please see *Cost of Product Sales* above for discussion of the reclassification between *cost of product sales* and *cost of service and other revenues* during fiscal 2008.

Table of Contents**Operating Expenses.**

| | June 27, 2009 | | Three Months Ended June 28, 2008 | | Change | | June 27, 2009 | | Nine Months Ended June 28, 2008 | | Change | |
|---|---------------|--------------------------|-------------------------------------|--------------------------|------------|--------|---------------|--------------------------|------------------------------------|--------------------------|--------------|--------|
| | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % | Amount | % of Total Revenue | Amount | % of Total Revenue | Amount | % |
| | | | | | | | | | | | | |
| <i>Operating Expenses</i> | | | | | | | | | | | | |
| Research and Development | \$ 23,407 | 6% | \$ 20,966 | 5% | \$ 2,441 | 12% | \$ 71,628 | 6% | \$ 60,477 | 5% | \$ 11,151 | 18% |
| Selling and Marketing | 58,928 | 15% | 68,483 | 16% | (9,555) | (14)% | 182,402 | 15% | 193,731 | 16% | (11,329) | (6)% |
| General and Administrative | 37,039 | 9% | 35,043 | 8% | 1,996 | 6% | 110,654 | 9% | 109,111 | 9% | 1,543 | 1% |
| Amortization of Acquired Intangible Assets | 13,025 | 3% | 6,267 | 1% | 6,758 | 108% | 38,356 | 3% | 18,685 | 1% | 19,671 | 105% |
| Impairment of Goodwill | | % | | % | | % | 2,340,023 | 189% | | % | 2,340,023 | 100% |
| Impairment of Acquired Intangible Assets | | % | | % | | % | | % | 2,900 | % | (2,900) | (100)% |
| Charge for Acquired In-Process Research and Development | | % | | % | | % | | % | 370,000 | 30% | (370,000) | (100)% |
| Restructuring Charge | | % | 6,383 | 2% | (6,383) | (100)% | | % | 6,383 | 1% | (6,383) | (100)% |
| | \$ 132,399 | 33% | \$ 137,142 | 32% | \$ (4,743) | (3)% | \$ 2,743,063 | 222% | \$ 761,287 | 62% | \$ 1,981,776 | 260% |

Research and Development Expenses. Research and development expenses increased 12% and 18%, respectively, in the current three and nine month periods as compared to the corresponding periods in the prior year. These increases were primarily due to the inclusion of \$5.0 million and \$15.6 million, respectively, of expenses in the current three and nine month periods of the current year associated with Third Wave-related activity during fiscal 2009, as well as the inclusion of Cytoc-related activity for the full 13 week period in the first quarter of the current year compared to 10 of the 13 weeks in the prior year first quarter. In addition, there was an increase in expenses related to the anticipated launch of Adiana and clinical spending for a number of projects. These increases were partially offset by a decrease in related headcount, bonus and other discretionary areas resulting from a number of cost reduction initiatives implemented in the first half of 2009. The first nine months of fiscal 2008 also included a \$1.8 million charge related to a change in control payment associated with the Cytoc business combination.

Selling and Marketing Expenses. Selling and marketing expenses decreased 14% and 6%, respectively, in the current three and nine month periods compared to the corresponding periods in the prior year. These decreases were primarily due to lower commission related expenses resulting from lower revenues and cost reductions resulting from our cost reduction initiatives implemented in the first half of 2009. These decreases were partially offset by approximately \$2.2 million and \$7.1 million of Third Wave related activity in the three and nine month periods, respectively. Also offsetting these decreases in the nine month period as compared to the prior year is the inclusion of a full 13 week period in the first quarter of Cytoc-related activity in the current year as compared to 10 of the 13 weeks in the prior year first quarter.

General and Administrative Expenses. General and administrative expenses increased slightly in the current three and nine month periods compared to the corresponding periods in the prior year. The increase in the current three month period compared to the prior year is primarily due to \$3.3 million related to Third Wave partially offset by a decrease in headcount and related compensation and bonus and other expenses as a result of our cost reduction initiatives implemented in the first half of 2009. The increase in general, and administrative expenses for the

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current nine month period compared to the corresponding period in the prior year is primarily due to the inclusion of Third Wave related expenses of \$9.2 million offset by a reduction in compensation and bonus expenses and our cost reduction initiatives implemented in the first half of 2009. Also contributing to the increase in the nine month period as compared to the prior year is the inclusion of a full 13 week period in the quarter of Cytoc-related activity in the current year compared to 10 of the 13 weeks in the prior year first quarter.

Amortization of Acquired Intangible Assets. Amortization of acquired intangible assets results from customer relationships and trade names related to our acquisitions. These intangible assets are being amortized over their estimated useful lives of between 8.5 and 30 years using a straight-line method or, if reliably determinable, based on the pattern in which the economic benefits of the assets are expected to be consumed utilizing expected undiscounted future cash flows. The increases in these costs primarily relate to additional Cytoc-related amortization based on the pattern of economic use and Third Wave-related amortization.

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Impairment of Goodwill. Based upon a combination of factors, including the deteriorating macro-economic environment, declines in the stock market and the decline of our market capitalization significantly below the book value of our net assets, we concluded that potential goodwill impairment indicators existed as of December 27, 2008. As a result, we performed an interim goodwill impairment analysis as of December 27, 2008 in accordance with SFAS 142. Step 1 of the impairment analysis indicated that the carrying value of the net assets of certain of our reporting units, acquired in connection with the Cytyc acquisition, exceeded the estimated fair value of those reporting units. As a result, we were required to complete Step 2 of the impairment analysis to determine the amount, if any, of goodwill impairment charges. We completed Step 2 of this analysis during the second quarter of fiscal 2009 and recorded a goodwill impairment charge of \$2.34 billion, which is included in the nine month period ended June 27, 2009. Refer to Note 17 Goodwill and Intangible Assets contained in Item 1 of this Quarterly Report on Form 10-Q for more information.

Impairment of Acquired Intangible Assets. Subsequent to the Cytyc business combination, we discontinued the development of Cytyc's Helica Thermal Coagulator System product, used for the treatment of endometriosis. We will not realize any future cash flows from this product. Our intangible asset valuation for Cytyc included approximately \$2.9 million related to customer relationships for Helica. As a result of the Helica product discontinuation, we recorded an impairment charge of \$2.9 million during the first nine months of fiscal 2008.

Acquired In-Process Research and Development Expenses. The \$370.0 million charge for in-process research and development during first nine months of fiscal 2008 was incurred in connection with our business combination with Cytyc as described in further detail above under Valuation of Acquired In-Process Research and Development Cytyc Merger.

Restructuring Charge. During the third quarter of fiscal 2008, we recorded \$6.4 million in compensation charges, including \$1.9 million in stock-based compensation, related to the resignation of our former Executive Chairman, which was effective May 20, 2008.

Interest Income.

| | Three Months Ended | | | | Nine Months Ended | | | |
|------------------------|--------------------|---------------|----------|-------|-------------------|---------------|------------|-------|
| | June 27, 2009 | June 28, 2008 | Change | | June 27, 2009 | June 28, 2008 | Change | |
| | Amount | Amount | Amount | % | Amount | Amount | Amount | % |
| Interest Income | \$ 206 | \$ 604 | \$ (398) | (66)% | \$ 999 | \$ 3,729 | \$ (2,730) | (73)% |

Interest income decreased 66% and 73%, respectively, in the current three and nine month periods compared to the corresponding periods in the prior year primarily due to a decline in interest rates.

Interest Expense.

| | Three Months Ended | | | | Nine Months Ended | | | |
|-------------------------|--------------------|---------------|------------|-----|-------------------|---------------|-----------|-------|
| | June 27, 2009 | June 28, 2008 | Change | | June 27, 2009 | June 28, 2008 | Change | |
| | Amount | Amount | Amount | % | Amount | Amount | Amount | % |
| Interest Expense | \$ (17,552) | \$ (14,103) | \$ (3,449) | 24% | \$ (53,057) | \$ (65,102) | \$ 12,045 | (19)% |

Interest expense consists primarily of the interest costs and the related amortization of deferred financing costs for both the senior secured credit agreement entered into on October 22, 2007 in connection with the Cytyc business combination and amended on July 17, 2008 in connection with the Third Wave acquisition and our 2.0% Convertible Note Offering that was entered into in December 2007 and used to pay down a portion of the term loans, which had higher interest rates. The increase in interest expense in the current three month period compared to the corresponding period in the prior year is due to a higher term loan balance in the current quarter. The decrease in interest expense in the current nine month period compared to the corresponding period in the prior year is caused in part by reduced term loan balances as we pay them down quarterly and lower interest rates on those balances. Additionally, we had the benefit of the lower interest rates from our Convertible Note Offering completed in December 2007 for the full first nine months in fiscal 2009 as compared to approximately six months of fiscal 2008.

Other Income (Expense), net.

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|---------------|--------|-------------------|---------------|--------|
| | June 27, 2009 | June 28, 2008 | Change | June 27, 2009 | June 28, 2008 | Change |

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| | Amount | Amount | Amount | % | Amount | Amount | Amount | % |
|------------------------------------|----------|--------|------------|--------|------------|--------|------------|--------|
| <i>Other Income (Expense), net</i> | \$ (730) | \$ 788 | \$ (1,518) | (193)% | \$ (4,485) | \$ 615 | \$ (5,100) | (829)% |

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In the current three month period, other income (expense) primarily includes a write-off of a cost-method investment of \$1.9 million due to an other-than-temporary impairment charge offset by an increase of \$1.2 million in the cash surrender value of life insurance contracts related to our Supplemental Executive Retirement Plan (SERP). In the current nine month period, other income (expense) primarily includes other-than-temporary impairment charges of cost-method investments of \$2.2 million, foreign currency transaction losses of approximately \$2.0 million, and a \$0.4 million decrease in the cash surrender value of life insurance contracts related to our SERP. In the three and nine month ended June 28, 2008, these balances were primarily related to foreign currency transaction gains of \$0.6 million and \$0.5 million, respectively. To the extent that foreign currency exchange rates fluctuate in the future, we may be exposed to continued financial risk. Although we have established certain debt agreements denominated in the foreign currency, the Euro, in which certain of our subsidiaries currently conduct business as well as other measures to reduce this risk, we cannot assure that we will be successful or can fully manage our outstanding exposure.

Provision for Income Taxes.

| | Three Months Ended | | | | Nine Months Ended | | | |
|----------------------------|--------------------|---------------|-------------|-------|-------------------|---------------|------------|-------|
| | June 27, 2009 | June 28, 2008 | Change | | June 27, 2009 | June 28, 2008 | Change | |
| | Amount | Amount | Amount | % | Amount | Amount | Amount | % |
| Provision for Income Taxes | \$ 19,670 | \$ 33,531 | \$ (13,861) | (41)% | \$ 62,249 | \$ 71,435 | \$ (9,186) | (13)% |

Our effective tax rates were 32.4% and (2.9)% of pre-tax income (loss) for the three and nine months ended June 27, 2009. Our effective tax rate in the current three month period is lower than the statutory rate primarily due to a \$2.3 million benefit related to a clarification in Massachusetts tax law on apportionment for affiliates of manufacturing companies. Our effective tax rate for the current nine month period was significantly impacted by the \$2.34 billion goodwill impairment charge recorded in the second quarter of fiscal 2009, substantially all of which is not deductible for tax purposes. Our effective tax rates were 35.3% and (42.1)% for the three and nine months ended June 28, 2008. The reduction of the effective tax rate for the nine month period compared to the three month period ended June 28, 2008 was due to the in-process research and development charge we incurred in connection with our business combination with Cytyc. This charge is not deductible for tax purposes.

Segment Results of Operations

We report our business as four segments: Breast Health, Diagnostics, GYN Surgical and Skeletal Health. The accounting policies of the segments are the same as those described in the footnotes to the accompanying consolidated financial statements included in our 2008 Annual Report on Form 10-K. We measure segment performance based on total revenues and operating income or loss. Revenues from product sales for each of these segments are described in further detail above. The discussion that follows is a summary analysis of total revenues and the primary changes in operating income or loss by segment.

Breast Health.

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|--------------------|---------------|-------------|-------|-------------------|---------------|--------------|--------|
| | June 27, 2009 | June 28, 2008 | Change | | June 27, 2009 | June 28, 2008 | Change | |
| | Amount | Amount | Amount | % | Amount | Amount | Amount | % |
| Total Revenues | \$ 174,892 | \$ 219,498 | \$ (44,606) | (20)% | \$ 554,084 | \$ 639,808 | \$ (85,724) | (13)% |
| Operating Income (Loss) | \$ 32,640 | \$ 56,421 | \$ (23,781) | (42)% | \$ (152,262) | \$ 157,375 | \$ (309,637) | (197)% |
| Operating Income (Loss) as % of Segment Revenue | 19% | 26% | | | (27)% | 25% | | |

Breast Health revenues for the current three and nine month periods decreased as compared to the corresponding periods in the prior year primarily due to the \$55.3 million and \$121.0 million decreases, respectively, in Breast Health product sales discussed above, partially offset by increases of \$10.6 million and \$35.3 million, respectively, in service revenues that were primarily related to additional service contracts for the increased number of Selenia systems in our installed base.

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Operating income for this business segment decreased in the current three month period compared to the corresponding period in the prior year primarily due to the reduction in revenues as discussed above and lower gross margins partially offset by a reduction of operating expenses under our cost reduction initiatives implemented in the first half of 2009. Operating income decreased in the current nine month period compared to the corresponding period in the prior year primarily due to a \$265.9 million goodwill impairment charge recorded in the second quarter related to our MammoSite reporting unit in addition to the reasons noted for the decline in the current three month period. Our gross margins in this business segment were 45% and 47% for the current three and nine month periods, respectively, compared to 52% and 51%, respectively, in the three and nine month periods in the prior year. The decrease in our gross margins in the current three and nine month periods was primarily caused by lower absorption of manufacturing costs due to lower volumes and higher amortization expense of intangible assets. This segment incurred charges of \$3.3 million related to sales of acquired MammoSite inventory that was written up to fair value for purchase accounting purposes in the nine months ended June 28, 2008.

Diagnostics.

| | Three Months Ended | | | | Nine Months Ended | | | |
|--|-------------------------|-------------------------|------------------|-------|-------------------------|-------------------------|------------------|--------|
| | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % |
| Total Revenues | \$ 139,530 | \$ 126,564 | \$ 12,966 | 10% | \$ 409,189 | \$ 351,311 | \$ 57,878 | 16% |
| Operating Income (Loss) | \$ 27,303 | \$ 35,824 | \$ (8,521) | (24)% | \$ (836,176) | \$ (9,336) | \$ (826,840) | 8,856% |
| Operating Income (Loss) as % of Segment Revenue | 20% | 28% | | | (204)% | (3)% | | |

Diagnostics revenues for the current three and nine month periods increased primarily due to the \$15.0 million and \$62.5 million increases, respectively in product sales discussed above.

Operating income for this business segment decreased in the current three month period compared to the corresponding period in the prior year primarily due to the inclusion of Third Wave operating expenses in the current quarter and higher amortization expense partially offset by the implementation of our cost reduction initiatives implemented in the first half of fiscal 2009. The operating loss in this segment in the current nine month period included a \$908.3 million goodwill impairment charge recorded in the second quarter and the increase in intangible amortization discussed above. Partially offsetting these charges were reduced operating expenses resulting from our cost reduction initiatives. The operating loss for the nine months ended June 28, 2008 included an \$85.2 million charge for in-process research and development as a result of the Cytoc business combination and a \$3.6 million restructuring charge in the third quarter related to the resignation of our former Executive Chairman in May 2008. Our gross margins in this business segment were 56% and 55% in the current three and nine month periods, respectively, as compared to 62% and 55%, respectively, in the comparable periods in the prior year. Gross margins in both periods were reduced due to amortization of acquired intangible assets, which totaled \$22.5 million and \$67.6 million in the current three and nine month periods, respectively, and \$14.0 million and \$25.8 million, respectively, in the three and nine months periods in the prior year. Gross margins were also reduced in the three and nine month periods of fiscal 2009 by charges for the write-up to fair value of inventory sold during those periods for Third Wave totaling \$0.3 million and \$1.1 million, respectively. In addition, gross margin was negatively impacted by the write-off of intangible assets of \$4.1 million in the current nine month period. Gross margin in the nine month period in fiscal 2008 was reduced by charges for the write-up to fair value of inventory sold during that period for Cytoc totaling \$26.6 million.

GYN Surgical.

| | Three Months Ended | | | | Nine Months Ended | | | |
|-------------------------|-------------------------|-------------------------|------------------|-----|-------------------------|-------------------------|------------------|------|
| | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % |
| Total Revenues | \$ 65,840 | \$ 56,310 | \$ 9,530 | 17% | \$ 197,594 | \$ 161,417 | \$ 36,177 | 22% |
| Operating Income (Loss) | \$ 15,968 | \$ 12,220 | \$ 3,747 | 31% | \$ (1,114,746) | \$ (259,680) | \$ (855,066) | 329% |
| | 24% | 22% | | | (564)% | (161)% | | |

Operating Income (Loss) as % of
Segment Revenue

GYN Surgical revenues for the current three and nine month periods increased primarily due to the \$9.6 million and \$36.2 million increases, respectively, in product sales discussed above.

Operating income for this business segment increased in the current three month period compared to the corresponding period in the prior year primarily due to an increase in revenues and lower operating expenses as a result of our cost reduction initiatives implemented in the first half of fiscal 2009 partially offset by higher amortization expense. The operating loss in the current nine month period is primarily the result of a \$1.17 billion goodwill impairment charge recorded in the second quarter. Partially offsetting this charge was the increase in revenue discussed above as well as a decrease in operating expense as a result of cost reduction

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initiatives implemented in the first half of fiscal 2009. The operating loss for the nine months ended June 28, 2008 included a \$284.8 million charge for in-process research and development as a result of the Cytyc business combination, a \$2.9 million impairment charge for the Helica Thermal Coagulator System intangibles and a \$2.4 million restructuring charge in the third quarter related to the resignation of our former Executive Chairman in May 2008. Our gross margin in this business segment decreased to 67% in the third quarter from 74% in the corresponding period of fiscal 2008 and increased to 68% for the current nine months as compared to 66% for the corresponding period in the prior year. Gross margins were reduced in both years by amortization of acquired intangible assets which totaled \$9.6 million and \$28.7 million in the current three and nine month periods, respectively, compared to \$5.5 million and \$15.4 million in the corresponding periods of the prior year. The increase in gross margin for the current nine month period is primarily due to a \$12.4 million charge for the write-up to fair value of Cytyc inventory that was sold during the first quarter in the prior year.

Skeletal Health.

| | Three Months Ended | | | | Nine Months Ended | | | |
|--|-------------------------|-------------------------|------------------|-------|-------------------------|-------------------------|------------------|------|
| | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % | June 27, 2009 Amount | June 28, 2008 Amount | Change Amount | % |
| Total Revenues | \$ 22,858 | \$ 27,120 | \$ (4,262) | (16)% | \$ 73,500 | \$ 79,450 | \$ (5,950) | (7)% |
| Operating Income | \$ 2,835 | \$ 3,156 | \$ (321) | (10)% | \$ 10,799 | \$ 2,590 | \$ 8,209 | 317% |
| Operating Income as % of Segment Revenue | 12% | 12% | | | 15% | 3% | | |

Skeletal Health revenues decreased in the three and nine months ended June 27, 2009 compared to the corresponding periods in the prior year primarily due to the \$3.9 million and \$4.7 million decreases in product sales discussed above. Our gross margins in this business segment were 39% and 41% in the current three and nine month periods compared to 41% and 34%, respectively, in the corresponding periods in the prior fiscal year. Operating income and gross margin for the Skeletal Health segment decreased during the current three month period primarily due to lower revenues as discussed above and unfavorable overhead absorption partially offset by reduced operating expenses, primarily resulting from cost reduction initiatives implemented in the first half of 2009. The operating income and gross margin in the nine month periods of fiscal 2008 for this segment included a \$4.0 million charge associated with MRI inventory and purchase obligations.

Liquidity and Capital Resources

At June 27, 2009, we had \$497.7 million of working capital and our unrestricted cash and cash equivalents totaled \$243.7 million. Our unrestricted cash and cash equivalents balance increased by \$148.1 million during the nine month period ended June 27, 2009, primarily from cash generated from our operations. This cash source was partially offset by our financing activities relating to our repayment of amounts outstanding under our credit agreement and to a lesser extent cash used in our investing activities primarily for capital expenditures and placement of equipment under customer usage agreements.

Our operating activities generated \$395.6 million of cash, which included a net loss of \$2.2 billion reduced primarily by non-cash charges for goodwill and intangible asset impairments of \$2.34 billion, depreciation and amortization expense of \$203.3 million, stock-based compensation expense of \$24.4 million and non-cash interest expense of \$12.5 million from the amortization of debt issuance costs. Cash provided by operations due to changes in our operating assets and liabilities included a decrease in accounts receivable of \$39.2 million, an increase in deferred revenue of \$14.4 million and a decrease in prepaid income taxes of \$13.9 million. The decrease in accounts receivable was primarily due to the decline in sales volume in the current quarter as compared to the fourth quarter of fiscal 2008 as well as improved collections. The increase in deferred revenue was primarily due to an increase in the number of service contracts as our installed base of our Breast Health products continues to grow. The decrease in prepaid income taxes was due to the utilization of amounts to offset current taxable income. Cash provided by operations was offset by a decrease in accrued expenses and other liabilities of \$26.1 million, an increase in inventories of \$15.9 million, and a decrease in accounts payable of \$9.6 million. The decrease in accrued expenses and other liabilities was primarily due to the payment of accrued compensation, which included our annual bonus payment, lower commissions due to lower sales, and overall lower operating expenses excluding amortization of intangible assets due to our cost reduction initiatives. The increase in inventories was primarily related to the increase in components on hand as a result of the decline in sales volume. The decrease in accounts payable was primarily due to the timing of payments.

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During the nine months ended June 27, 2009, we used \$51.3 million of cash in investing activities. This use of cash was primarily attributable to \$24.8 million for purchases of property and equipment, which consisted primarily of manufacturing, demonstration and test equipment and computer software and hardware. We also invested \$17.4 million in equipment under customer usage agreements. The purchase of \$5.3 million of life insurance contracts is to fund future payments under our SERP. In addition, we also purchased certain intellectual property totaling \$7.4 million.

During the nine months ended June 27, 2009, we utilized \$196.4 million of cash in financing activities, substantially for repayments of the term loans under our credit agreement.

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Indebtedness

Credit Agreement.

On July 17, 2008, in connection with our acquisition of Third Wave, we entered into an amended and restated credit agreement (the *Amended Credit Agreement*) with Goldman Sachs Credit Partners L.P. and certain other lenders (collectively, the *Lenders*). The Amended Credit Agreement amended and restated our then existing credit agreement with the Lenders, dated as of October 22, 2007. Pursuant to the terms and conditions of the Amended Credit Agreement, the Lenders committed to provide senior secured financing in an aggregate amount of up to \$800 million. The credit facility consisted of \$400 million under a senior secured tranche A term loan (*Term Loan A*); \$200 million under a senior secured tranche B term loan (*Term Loan B*); and \$200 million under a senior secured revolving credit facility (the *Revolving Facility*).

In order to complete the acquisition of Third Wave, we borrowed \$540 million under the credit facilities on July 17, 2008, consisting of \$400 million under the Term Loan A and \$140 million under the Term Loan B. As of June 27, 2009, we had an aggregate of \$269.7 million of principal outstanding under this credit facility of which approximately \$194.4 million was under the Term Loan A and \$75.3 million was under the Term Loan B. The long-term portion of the Term Loan A and Term Loan B was \$173.4 million and \$74.2 million, respectively, at June 27, 2009. Subsequent to June 27, 2009, we paid down approximately \$56 million of the outstanding principal. The final maturity dates for the credit facility are September 30, 2012 for the Term Loan A and Revolving Facility and March 31, 2013 for the Term Loan B.

Our domestic subsidiaries which are party to the Amended Credit Agreement (including Third Wave, which joined as a party to the agreement on July 24, 2008, the effective date of the transaction) have guaranteed our obligations under the credit facilities and the credit facilities are secured by first-priority liens on, and first-priority security interests in, substantially all of our assets, a first priority security interest in 100% of the capital stock issued by each guarantor, 65% of the capital stock issued by certain of our first-tier foreign subsidiaries and all intercompany debt. The security interests are evidenced by an Amended and Restated Pledge and Security Agreement by and among Goldman Sachs Credit Partners L.P., as collateral agent, us and the other parties therein named (the *Amended Pledge and Security Agreement*).

All amounts outstanding under the credit facilities will bear interest, at our option, as follows:

With respect to loans made under the Revolving Facility and the Term Loan A:

- (i) at the Base Rate plus 1.25% per annum, which was reduced from 1.50% in May 2009; or
- (ii) at the reserve adjusted Eurodollar Rate plus 2.25% per annum, which was reduced from 2.50% in May 2009; and

With respect to loans made under the Term Loan B:

- (i) at the Base Rate plus 2.25% per annum; or
- (ii) at the reserve adjusted Eurodollar Rate plus 3.25% per annum.

The margin applicable to loans under the Revolving Facility and the Term Loan A is subject to specified changes based on certain changes in the leverage ratio as specified in the Amended Credit Agreement.

Interest accruing at the base rate generally is payable on a quarterly basis. Interest accruing at the Eurodollar Rate is payable on the last day of selected interest periods (which shall be one, two, three and six months and in certain circumstances, nine or twelve months) unless the interest period exceeds three months, in which case, interest will be due at the end of every three months. The weighted average interest rate under the Amended Credit Agreement was 2.77% and 3.97%, respectively, during the three and nine months ended June 27, 2009. In addition, we are required to pay a quarterly commitment fee, at a per annum rate of 0.375%, which was reduced from 0.50% in May 2009, on the undrawn commitments available under the revolving credit facility, which per annum rate is subject to reduction based on a leverage ratio as specified in the Amended Credit Agreement. The credit facilities contain affirmative and negative covenants customarily applicable to senior secured credit facilities, including financial covenants which require us to maintain maximum leverage and minimum interest coverage ratios, as of the last day of each fiscal quarter. We were in compliance with our financial covenants as of June 27, 2009.

Convertible Notes. On December 10, 2007, we issued and sold \$1.725 billion aggregate original principal amount of our 2.00% Convertible Senior Notes due 2037 (the *Convertible Notes*). The Convertible Notes were registered under an effective Registration Statement and were issued pursuant to an Indenture between us and Wilmington Trust Company, as Trustee (the *Indenture*) and a First Supplemental Indenture

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thereto, both dated December 10, 2007. The net proceeds from the offering was approximately \$1.69 billion, after deducting the underwriters discounts and estimated offering expenses of approximately \$1.5 million payable by us, and was used to repay a portion of our then outstanding senior secured indebtedness under our Credit Agreement.

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Holders may require us to repurchase the Convertible Notes on December 13 of 2013, and on each of December 15, 2017, 2022, 2027 and 2032 at a repurchase price equal to 100% of their accreted principal amount, plus accrued and unpaid interest. We may redeem any of the Convertible Notes beginning December 18, 2013, by giving holders at least 30 days notice. We may redeem the Convertible Notes either in whole or in part at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, including contingent interest and liquidated damages, if any, to, but excluding, the redemption date.

The Convertible Notes bear interest at a rate of 2.00% per year on the principal amount, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning June 15, 2008, and ending on December 15, 2013 and will accrete principal from December 15, 2013 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. Beginning with the six month interest period commencing December 15, 2013, we will pay contingent interest during any six month interest period to the holders of Convertible Notes if the trading price, as defined, of the Convertible Notes for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six month interest period equals or exceeds 120% of the accreted principal amount of the Convertible Notes.

The holders of the Convertible Notes may convert the Convertible Notes into shares of our common stock at a conversion price of approximately \$38.60 per share, subject to adjustment, prior to the close of business on September 15, 2037, subject to prior redemption or repurchase of the Convertible Notes, upon the occurrence of certain events, as defined. None of the events that would allow the holders to convert prior to September 15, 2037 have occurred to date. In lieu of delivery of shares of our common stock in satisfaction of our obligation upon conversion of the Convertible Notes, we may elect to deliver cash or a combination of cash and shares of our common stock. If we elect to satisfy our conversion obligation in a combination of cash and shares of our common stock, we will be required to deliver up to a specified dollar amount of cash per \$1,000 original principal amount of Convertible Notes, and will settle the remainder of our conversion obligation in shares of our common stock, in each case based on the daily conversion value calculated as provided in the Indenture. It is our current intent and policy to settle any conversion of the Convertible Notes as if we had elected to make the net share settlement election.

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

AEG Debt. AEG has outstanding existing debt in aggregate principal amount of \$9.0 million as of June 27, 2009. The terms of the loans have various maturities ranging from December 30, 2010 through March 30, 2014. Interest rates are variable and during the nine months ended June 27, 2009 ranged from 2.1% to 4.3%. Subsequent to June 27, 2009, we paid off approximately \$7.2 million of the outstanding principal balance under these debt agreements.

Table of Contents**Contingent Earn-Out Payments**

As a result of the Cytoc merger, we assumed Cytoc's obligation to Adiana, Inc. to make contingent earn-out payments tied to the achievement of milestones. The milestone payments include potential contingent payments of up to \$155 million based on worldwide sales of the Adiana permanent contraception product in the first year following FDA approval and on annual incremental sales growth thereafter through December 31, 2012. As FDA approval had not occurred as of June 27, 2009, no amounts had been recorded or paid as of June 27, 2009. FDA approval was received on July 6, 2009, and we will begin accruing contingent consideration in the fourth quarter of fiscal 2009 based on the defined percentage of worldwide sales of the product. These amounts will be recorded as additional purchase price, and under the terms of the agreement the first payment is not expected to be due until October 2010.

We have satisfied our obligation for a second and final earn-out to the former Suros Surgical Systems, Inc. (Suros) stockholders related to Suros incremental revenue growth for revenues earned through July 31, 2008. We accrued an amount of approximately \$24.5 million for this second annual earn-out in the fourth quarter of 2008, with an increase to goodwill, which was paid in full as of March 28, 2009. We had also made a payment of approximately \$19.0 million to the former Suros stockholders in the fourth quarter of fiscal 2007 for the first year earn-out.

We also have an obligation for up to two annual earn-out payments not to exceed \$15.0 million in the aggregate based on BioLucent's achievement of certain revenue targets. We have considered the provisions of Emerging Issues Task Force (EITF) Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and concluded that this contingent consideration will represent additional purchase price. As a result, goodwill will be increased by the amount of the additional consideration, if any, when it becomes due and payable. As of June 27, 2009, the revenue targets have not been achieved and we have not recorded any amounts for these potential earn-outs.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2/124-2). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing intent and ability indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for us beginning with the third quarter of fiscal 2009. The adoption of FSP 115-2/124-2 did not have a significant impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)). This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The Statement retains the guidance in SFAS 141 for identifying and recognizing intangible assets separately from goodwill. SFAS 141(R) will now require acquisition costs to be expensed as incurred, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is our 2010 fiscal year. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An amendment of ARB No. 51* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is our 2010 fiscal year. Earlier adoption is prohibited. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

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In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under SFAS 142. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R). The FSP is effective for financial statements for fiscal years beginning after December 15, 2008, which will be our fiscal 2010. The Company is currently evaluating the impact that the adoption of this FSP will have on its consolidated financial statements. Early adoption is prohibited.

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In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). This FSP applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under SFAS 133. The liability and equity components of convertible debt instruments within the scope of this FSP must be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The excess of the principal amount of the debt over the amount ultimately allocated to the liability component is required to be amortized to interest expense using the interest method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. As a result, we will adopt this standard at the beginning of fiscal 2010. This FSP must be applied retrospectively to all periods presented. The retrospective adoption of this FSP will increase our historical reported interest expense from December 10, 2007 (issuance date of the Convertible Notes) forward.

The adoption of FSP APB 14-1 will have no impact on our actual past or future cash flows. However, upon adoption in fiscal 2010 we will restate prior periods by reclassifying approximately \$470.0 million of our Convertible Notes to additional paid-in capital, resulting in a debt discount. It is estimated that our non-cash interest expense will increase by approximately \$16.6 million and \$48.7 million for the three and nine months ended June 27, 2009, respectively, and approximately \$15.3 million and \$32.7 million for the three and nine months ended June 28, 2008, respectively, resulting in a restated diluted net income (loss) per share of approximately \$0.12 and \$(8.74) for the three and nine months ended June 27, 2009, respectively, and a restated diluted net income (loss) per share of approximately \$0.20 and \$(1.08) for the three and nine months ended June 28, 2008, respectively.

In June 2008, the FASB ratified the consensus reached on EITF Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-05). EITF 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS 133. EITF 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. We have concluded that upon the adoption of this standard, the embedded derivative option in our Convertible Notes will continue to be considered indexed to our own stock. As a result, the adoption of EITF 07-05 is not expected to have a material impact on our financial condition or results of operations.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, (FSP SFAS 107-1 and APB 28-1). FSP SFAS 107-1 and APB 28-1 amend SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments in interim as well as in annual financial statements. FSP SFAS 107-1 and APB 28-1 also amend APB Opinion No. 28, *Interim Financial Reporting*, to require fair value disclosures in all interim financial statements. FSP SFAS 107-1 and APB 28-1 were effective for us in the third quarter of fiscal 2009 and did not have a material impact on our financial position, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, which is our third quarter of fiscal 2009. The implementation of this standard did not have a significant impact on our financial statements. Subsequent events through the filing date of this Form 10-Q have been evaluated for disclosure and recognition.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP. The Codification will supersede all existing non-SEC accounting and reporting standards. As a result, upon adoption, all references to accounting literature in our SEC filings will conform to the appropriate reference within the Codification. We are required to adopt SFAS No. 168 for our fourth quarter ending September 26, 2009. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments. SFAS No. 107, *Disclosure of Fair Value of Financial Instruments*, requires disclosure about fair value of financial instruments. Financial instruments consist of cash equivalents, accounts receivable, cost method investments, accounts payable, and debt obligations. Except for our outstanding Convertible Notes, the fair value of these financial instruments approximates their carrying amount. As of June 27, 2009 we have \$1.725 billion of Convertible Notes outstanding. The fair value of our Convertible Notes was approximately \$1.2 billion as of June 27, 2009 based on the trading price as of that date.

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Primary Market Risk Exposures. Our primary market risk exposures are in the areas of interest rate risk and foreign currency exchange rate risk. We incur variable interest expense on borrowings outstanding under our Amended Credit Agreement and on the

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debt assumed as a result of our acquisition of AEG. Borrowings under the Amended Credit Agreement bear interest at a rate per annum equal to, at our option, with respect to the borrowings under the Revolving Facility and Term Loan A of either (1) the Base Rate (the greater of the prime rate as quoted in *The Wall Street Journal* and the Federal Funds Effective Rate) plus 1.25% or (2) the Eurodollar Rate, plus 2.25% and with respect to the Term Loan B of either (1) the Base Rate (the greater of the prime rate as quoted in *The Wall Street Journal* and the Federal Funds Effective Rate) plus 2.25% or (2) the Eurodollar Rate, plus 3.25%.

On July 17, 2008, the date we entered into the Amended Credit Agreement, we borrowed \$400 million under the Term Loan A and \$140 million under the Term Loan B. As of June 27, 2009, there was \$269.7 million outstanding under the Amended Credit Agreement, comprised of \$194.4 million under the Term Loan A facility, which matures on September 30, 2012, and \$75.3 million under the Term Loan B facility, which matures on March 31, 2013.

The terms of the AEG debt agreements have various maturities ranging from December 30, 2010 through March 30, 2014. Interest rates are variable and had average interest rates ranging from 2.1% to 4.3% during the nine months ended June 27, 2009. We may also incur interest expense on loans made under a European line of credit that accrues interest at the Europe Interbank Offered Rate, as defined. At June 27, 2009, there were no amounts outstanding under the European line of credit.

These debt obligations are variable rate instruments and our interest expense associated with these instruments is, therefore, subject to changes in market interest rates. A 10% adverse movement (increase in LIBOR) would not have a material adverse effect on our financial condition or results of operations.

The return from cash and cash equivalents will vary as short-term interest rates change. A hypothetical 10% increase or decrease in interest rates, however, would not have a material adverse effect on our financial condition. Interest income on our cash and cash equivalents is recorded as Interest Income in our accompanying Consolidated Statements of Operations.

Foreign Currency Exchange Risk. Our international business is subject to risks, including, but not limited to: unique economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign currency exchange rate volatility. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

We maintain sales and service offices outside the U.S., have manufacturing facilities in Germany, Costa Rica and China, and conduct business worldwide. The expenses of our international offices are denominated in local currencies, except at our Costa Rica subsidiary, where the majority of the business is conducted in U.S. dollars. Our foreign sales are denominated in local currencies, the Euro or U.S. dollars. Fluctuations in the foreign currency rates could affect our sales, cost of goods and operating margins and could result in exchange losses. In addition, currency devaluations can result in a loss if we hold deposits of that currency.

We believe that the operating expenses of our international subsidiaries that are incurred in local currencies will not have a material adverse effect on our business, results of operations or financial condition. Our operating results and certain assets and liabilities that are denominated in the Euro are affected by changes in the relative strength of the U.S. dollar against the Euro. Our expenses are positively affected when the U.S. dollar strengthens against the Euro and adversely affected when the U.S. dollar weakens. However, we believe that the foreign currency exchange risk is not significant. A hypothetical 10% increase or decrease in foreign currencies that we transact in would not have a material adverse effect on our financial condition or results of operations.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 27, 2009, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

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PART II OTHER INFORMATION

HOLOGIC, INC.

Item 1. Legal Proceedings.

On May 22, 2009, Conceptus, Inc. filed suit in the United States District Court for the Northern District of California seeking a declaration by the Court that Hologic's planned importation, use, sale or offer to sell of its forthcoming Adiana Permanent Contraception system, would infringe five Conceptus patents. On July 9, 2009, Conceptus filed an amended complaint alleging infringement of the same five patents by the Adiana Permanent Contraception system. The complaint seeks preliminary and permanent injunctive relief and unspecified monetary damages. In addition to the amended complaint, Conceptus also filed a motion for preliminary injunction seeking to preliminarily enjoin sales of the Adiana system based on alleged infringement of certain claims of three of the five patents. Based on the early stage of this litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

On April 1, 2009, the United States Court of Appeals for the Federal Circuit issued its ruling rejecting Qiagen's (formerly Digene Corporation) appeal and affirming the judgment of the United States District Court for the Western District of Wisconsin that Third Wave's HPV products do not infringe Qiagen's patent. The Court's ruling should end a patent lawsuit filed by Digene in January of 2007 against Third Wave alleging infringement of a Digene patent by Third Wave's HPV ASR product.

Other than set forth above, there are no material changes in Legal Proceedings as previously disclosed in our Annual Report on Form 10-K for our fiscal year ended September 27, 2008.

Item 1A. Risk Factors

There are no material changes in the risk factors as previously disclosed in our Annual Report on Form 10-K for our fiscal year ended September 27, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Issuer Purchases of Equity Securities**

For the majority of restricted stock units granted, the number of shares issued on the date that the restricted stock units vest is net of the minimum statutory tax withholding requirements that we pay in cash to the appropriate taxing authorities on behalf of our employees. The following table sets forth information about repurchases of our common stock for the three months ended June 27, 2009:

| Period of Repurchase | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Program |
|---------------------------------|----------------------------------|------------------------------|--|
| March 29, 2009 – April 25, 2009 | | \$ | |
| April 26, 2009 – May 23, 2009 | 6,314 | 12.14 | |
| May 24, 2009 – June 27, 2009 | 3,062 | 13.66 | |
| Total | 9,376 | 12.64 | |

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Submission of Matters to a Vote of Security Holders.
None.

Item 5. Other Information.
None.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

| Exhibit Number | | Reference |
|---------------------------|--|-------------------|
| 31.1 | Certification of Hologic's CEO pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | filed herewith |
| 31.2 | Certification of Hologic's CFO pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | filed herewith |
| 32.1 | Certification of Hologic's CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | filed herewith |
| 32.2 | Certification of Hologic's CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | filed herewith |
| 101.INS | XBRL Instance Document | filed herewith |
| 101.SCH | XBRL Taxonomy Extension Schema Document | filed herewith |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | filed herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | filed herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | filed herewith |

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HOLOGIC, INC.

SIGNATURES

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

Hologic, Inc.
(Registrant)

August 6, 2009
Date

/s/ JOHN W. CUMMING
John W. Cumming
Chief Executive Officer

August 6, 2009
Date

/s/ GLENN P. MUIR
Glenn P. Muir
**Executive Vice President, Finance and Administration and Chief
Financial Officer**
(Principal Financial Officer)