HOLOGIC INC
Form 10-Q
May 06, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 27, 2010

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)

Delaware	**04-2902449**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
35 Crosby Drive, Bedford, Massachusetts	**01730**
(Address of principal executive offices)	**(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 x 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 x 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 x	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 x

As of May 3, 2010, 259,087,850 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)

	March 27, 2010	September 26, 2009 As Adjusted (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 431,315	$ 293,186
Restricted cash	872	916
Accounts receivable, less reserves of $7,677 and $7,279, respectively	266,806	263,231
Inventories	195,676	182,780
Deferred income tax assets	74,423	52,165
Prepaid expenses and other current assets	31,856	29,238
Total current assets	1,000,948	821,516
Property and equipment, net	256,918	271,628
Intangible assets, net	2,307,049	2,422,564
Goodwill	2,116,483	2,108,963
Other assets	58,476	59,555
Total assets	$ 5,739,874	$ 5,684,226
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 48,293	$ 38,373
Accounts payable	49,690	46,589
Accrued expenses	152,037	137,284
Deferred revenue	116,370	97,544
Deferred gain	79,500	9,500
Total current liabilities	445,890	329,290
Long-term debt, net of current portion	689	139,955
Convertible debt (principal of $1,725,000, Note 6)	1,409,842	1,373,923
Deferred income tax liabilities	1,023,163	1,045,183
Deferred service obligations long-term	11,545	11,364
Other long-term liabilities	58,771	58,534
Commitments and contingencies (Notes 6, 7, 8, 9 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; 259,249 and 257,938 shares issued, respectively	2,592	2,579
Capital in excess of par value	5,204,735	5,182,060
Accumulated deficit	(2,417,544)	(2,464,257)

Accumulated other comprehensive income	1,709	7,028
Treasury stock, at cost 219 and 214 shares, respectively	(1,518)	(1,433)
Total stockholders equity	2,789,974	2,725,977
Total liabilities and stockholders equity	$ 5,739,874	$ 5,684,226

(1) Adjusted for the retrospective adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement*) (codified within Accounting Standards Codification (ASC) Topic 470, *Debt*). See Note 6.

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	March 27, 2010	March 28, 2009 As Adjusted (1)	March 27, 2010	March 28, 2009 As Adjusted (1)
Revenues:				
Product sales	$ 353,119	$ 351,887	$ 704,529	$ 731,995
Service and other revenues	64,993	50,127	126,031	99,252
	418,112	402,014	830,560	831,247
Costs and expenses (1):				
Cost of product sales	120,570	113,387	236,830	237,808
Cost of product sales amortization of intangible assets	43,526	37,760	87,046	75,506
Cost of product sales impairment of intangible assets		4,065		4,065
Cost of service and other revenues	40,377	37,228	76,600	74,335
Research and development	25,298	24,428	48,496	48,221
Selling and marketing	61,461	58,472	126,058	123,474
General and administrative	38,693	38,810	81,308	73,615
Amortization of intangible assets	13,577	12,693	27,156	25,331
Litigation-related settlement charge	12,500		12,500	
Restructuring (benefit) charge	(132)		355	
Loss on divestiture	341		341	
Impairment of goodwill		2,340,023		2,340,023
	356,211	2,666,866	696,690	3,002,378
Income (loss) from operations	61,901	(2,264,852)	133,870	(2,171,131)
Interest income	401	347	586	793
Interest expense	(32,321)	(33,212)	(64,125)	(67,554)
Other income (expense), net	777	(674)	1,520	(3,755)
Income (loss) before income taxes	30,758	(2,298,391)	71,851	(2,241,647)
Provision for income taxes	10,140	11,728	25,138	30,314
Net income (loss)	$ 20,618	$ (2,310,119)	$ 46,713	$ (2,271,961)
Net income (loss) per common share:				
Basic	$ 0.08	$ (9.01)	$ 0.18	$ (8.86)
Diluted	$ 0.08	$ (9.01)	$ 0.18	$ (8.86)
Weighted average number of common shares outstanding:				
Basic	258,653	256,374	258,339	256,293
Diluted	261,478	256,374	261,141	256,293

(1) Adjusted for the retrospective adoption of FSP APB 14-1. See Note 6.

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	March 27, 2010	March 28, 2009 As adjusted (1)
OPERATING ACTIVITIES		
Net income (loss)	$ 46,713	$ (2,271,961)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	33,587	31,393
Amortization	114,202	100,837
Fair value write-up of Third Wave inventory sold		834
Non-cash interest expense amortization of debt discount and deferred financing costs	43,126	38,794
Goodwill impairment charge		2,340,023
Charge for impairment of acquired intangible assets		4,065
Other-than-temporary impairment charge on a cost-method investment		310
Excess tax benefit related to exercise of non-qualified stock options	(1,490)	(299)
Stock-based compensation expense	16,575	16,343
Deferred income taxes	(44,237)	(13,165)
Loss on disposal of property and equipment	1,619	2,133
Loss on divestiture	341	
Other non-cash activity	1,637	658
Changes in operating assets and liabilities:		
Accounts receivable	(7,087)	16,724
Inventories	(14,908)	(9,166)
Prepaid income tax	29	8,087
Prepaid expenses and other current assets	(3,298)	(1,899)
Accounts payable	3,127	(7,389)
Accrued expenses and other liabilities	9,459	(27,713)
Deferred revenue	20,704	12,514
Net cash provided by operating activities	220,099	241,123
INVESTING ACTIVITIES		
Purchase of property and equipment	(12,292)	(16,558)
Increase in equipment under customer usage agreements	(9,777)	(10,667)
Divestiture of business, net of cash transferred to buyer	(2,164)	
Deferred gain	70,000	
Additional business acquisition consideration, net		(229)
Purchase of insurance contracts	(5,322)	(5,322)
Purchase of other intangible assets	(500)	(238)
Proceeds from sale of intellectual property	1,500	750
Purchase of cost-method investment	(475)	(225)
Decrease in restricted cash	44	235
Net cash provided by (used in) investing activities	41,014	(32,254)
FINANCING ACTIVITIES		
Repayments under credit agreement	(127,198)	(87,685)
Financing costs on credit agreement		(314)
Repayments of notes payable	(2,177)	(1,573)
Purchase of non-controlling interests	(2,683)	
Excess tax benefit related to exercise of non-qualified stock options	1,490	299

Net proceeds from issuance of common stock pursuant to employee stock plans	10,223	1,764
Payment of employee restricted stock tax withholding requirements	(2,406)	(760)
Net cash used in financing activities	(122,751)	(88,269)
Effect of exchange rate changes on cash and cash equivalents	(233)	967
Net increase in cash and cash equivalents	138,129	121,567
Cash and cash equivalents, beginning of period	293,186	95,661
Cash and cash equivalents, end of period	$ 431,315	$ 217,228

(1) Adjusted for the retrospective adoption of FSP APB 14-1. See Note 6.

See accompanying notes.

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 26, 2009, included in the Company s Form 8-K as filed with the Securities and Exchange Commission on March 19, 2010, which reflects the retrospective adoption of FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (codified within Accounting Standards Codification (ASC) Topic 470, *Debt*). As a result, certain prior period amounts have been adjusted in these consolidated financial statements. See Note 6 for additional information pertaining to the adoption of FSP APB 14-1. In the opinion of management, the financial statements and notes contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position, results of operations and cash flows for the periods presented.

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

The preparation of financial statements in conformity with U.S. 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 six months ended March 27, 2010 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 25, 2010.

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, and these financial statements reflect those material items that arose after the balance sheet date but prior to the issuance of the financial statements that would be considered recognized subsequent events. Subsequent to March 27, 2010, the Company made a voluntary payment of $45,944 on its term notes, paying off the remaining outstanding principal balance. Accordingly, this amount is classified as short-term debt on the Consolidated Balance Sheet at March 27, 2010. There were no other material recognized subsequent events recorded in the March 27, 2010 consolidated financial statements.

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 was $687 and $1,393 for the three and six months ended March 28, 2009, and was not material to the Company s consolidated financial statements and is reflected in the Consolidated Statement of Operations for the respective periods.

(2) Fair Value Measurements

Effective September 28, 2008 (beginning of fiscal 2009), the Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (formerly Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurement)*, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and as permitted, delayed the adoption of these accounting rules to its non-financial assets and liabilities, that are measured and reported at fair value on a non-recurring basis, until fiscal 2010. The impact of adoption to non-financial assets and liabilities was not material.

ASC 820 establishes a three-level hierarchy to prioritize the inputs to valuation techniques used to measure fair value. 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 fair value 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.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

As of March 27, 2010, the Company s financial assets that are re-measured at fair value on a recurring basis consisted of $313 in money market mutual funds that are classified as cash and cash equivalents in its 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 $8,738 and $7,585 at March 27, 2010 and September 26, 2009, 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 inputs utilized for the Company s periodic 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. In certain instances, a cost-method investment s fair value is not estimated as there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment and to do so would be impractical.

(3) Disclosure of Fair Value of Financial Instruments

The Company s financial instruments mainly consist of cash and cash equivalents, accounts receivable, cost-method equity investments, accounts payable and debt obligations. The carrying amounts of the Company s cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these instruments. The Company believes the carrying amounts of its cost-method equity 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 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.

The Company had $1,409,842 and $1,373,923 of Convertible Notes recorded (See Note 6) as of March 27, 2010 and September 26, 2009, respectively. The principal amount of the Convertible Notes outstanding at both dates was $1,725,000. The fair value of these Convertible Notes was approximately $1,544,000 and $1,424,000 as of March 27, 2010 and September 26, 2009, respectively, based on the trading prices at those dates.

(4) Revenue Recognition

In September 2009, the FASB ratified ASC Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 amends existing revenue recognition accounting standards that are currently within the scope of FASB ASC, Subtopic 605-25, which is the revenue recognition guidance for multiple-element arrangements. ASU 2009-13 provides for three significant changes to the existing multiple element revenue recognition guidance as follows:

1) Deletes the requirement to have objective and reliable evidence of fair value for undelivered elements in an arrangement. This may result in more deliverables being treated as separate units of accounting.

2) Modifies the manner in which the arrangement consideration is allocated to the separately identified deliverables. ASU 2009-13 requires an entity to allocate revenue in an arrangement using its best estimate of selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (VSOE) or third-party evidence of selling price (TPE), if VSOE is not available. Each separate unit of accounting must have a selling price, which can be based on management s estimate when there is no other means (VSOE or TPE) to determine the selling price of that deliverable. The arrangement consideration is allocated based on the elements relative selling prices.

3) Eliminates use of the residual method and requires an entity to allocate revenue using the relative selling price method, which results in the discount in the transaction being evenly allocated to the separate units of accounting.

In September 2009, the FASB ratified ASU No. 2009-14, *Certain Revenue Arrangements that Include Software Elements* (ASU 2009-14). ASU 2009-14 amends the existing revenue recognition accounting standards to remove tangible products that contain software components and non-software components that function together to deliver the product s essential functionality from the scope of industry specific software revenue recognition guidance.

As permitted, the Company elected to early adopt this new accounting guidance at the beginning of its first quarter of fiscal 2010 on a prospective basis for transactions originating or materially modified on or after September 27, 2009. This accounting guidance generally does not change the units of accounting for the Company s revenue transactions, and most products and services qualify as separate units of accounting. The impact of adopting these new accounting standards was not material to the Company s financial statements in the first or second quarter of fiscal 2010, and if they were applied in the same manner to fiscal 2009 would not have had a material impact to revenue recorded in the first or second quarter of fiscal 2009. The Company does not expect the adoption of these new accounting standards to have a significant impact on the timing and pattern of revenue recognition in the future due to a) the existence of VSOE across most of its products and services and b) the selling price of most of its elements undelivered at the time of shipment of the core product sales are much lower relative to these core product sale prices.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

The Company generates revenue from the sale of its products, primarily medical imaging systems and diagnostic and surgical disposable products, and related services, which are primarily support and maintenance services on its medical imaging systems.

The Company recognizes product revenue upon shipment provided that there is persuasive evidence of an arrangement, there are no uncertainties regarding acceptance, the sales price is fixed or determinable, no right of return exists and collection of the resulting receivable is reasonably assured. Generally, the Company s product arrangements for capital equipment sales, primarily in its Breast Health and Skeletal Health reporting segments, are multiple-element arrangements, including services, such as installation and training, and multiple products. In accordance with ASC 605-25, based on the terms and conditions of the product arrangements, the Company believes that these services and undelivered products can be accounted for separately from the delivered product element as the Company s delivered products have value to its customers on a stand-alone basis. Accordingly, services not yet performed at the time of product shipment are deferred based on their selling price and recognized as revenue as such services are performed. The relative selling price of any undelivered products is also deferred at the time of shipment and recognized as revenue when these products are delivered. There is no customer right of return in the Company s sales agreements.

The Company recognizes product revenue upon the completion of installation for products whose installation is essential to its functionality, primarily related to its digital imaging systems. Service revenues primarily consist of amounts recorded under service and maintenance contracts and repairs not covered under warranty, installation and training, and shipping and handling costs billed to customers. Service and maintenance contract revenues are recognized ratably over the term of the contract. Other service revenues are recognized when the services are performed.

The Company typically determines the selling price of its products and services based on VSOE. Consistent with its methodology under previous accounting guidance, the Company determines VSOE based on its normal pricing and discounting practices for the specific product or service when sold on a stand-alone basis. In determining VSOE, the Company s policy is to require a substantial majority of selling prices for a product or service be within a reasonably narrow range. The Company also considers the class of customer, method of distribution, and the geographies into which its products and services are sold into when determining VSOE. The Company typically has had VSOE for its products and services.

If VSOE cannot be established, which may occur in instances when a product or service has not been sold separately, stand-alone sales are too infrequent, or product pricing is not within a narrow range, the Company attempts to establish the selling price based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company cannot determine VSOE or TPE, it uses ESP in its allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would typically transact a stand-alone sale of the product or service. ESP is determined by considering a number of factors including Company pricing policies, internal costs and gross margin objectives, method of distribution, information gathered from experience in customer negotiations, market research and information, recent technological trends, competitive landscape and geographies.

Some of the Company s products have both software (operating and application software) and non-software components that function together to deliver the product s essential functionality. The Company had previously determined that except for its CAD (computer aided detection) products and Dimensions 2D/3D full field digital mammography product (Dimensions), the software element in its other products was incidental in accordance with the software revenue recognition rules. Accordingly, these other products were not within the scope of the software revenue recognition rules, ASC 985-605, *Software Revenue Recognition* (formerly SOP 97-2). The Company had determined that given the significance of the software component s functionality to its CAD systems and Dimensions products, which are in the Breast Health segment, these products were within the scope of the software revenue recognition rules.

ASC 985-605 generally requires revenue earned on software arrangements involving multiple elements to be allocated to each element based on their relative VSOE of fair values of the elements. If VSOE does not exist for a delivered element, the residual method is applied in which the arrangement consideration is allocated to the undelivered elements based on VSOE with the remaining consideration recognized as revenue for the delivered elements. For multiple-element software arrangements where VSOE of fair value of Post-Contract Customer Support (PCS) has

been established, the Company recognizes revenue using the residual method at the time all other revenue recognition criteria have been met. Amounts attributable to PCS are recorded as deferred revenue and recognized ratably over the contractual term of PCS. The Company recognizes revenue on CAD systems and Dimensions product sales upon completion of installation at which time the only remaining undelivered element is PCS.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

Upon the release of the Dimensions product in fiscal 2009, the Company completed an evaluation of its software component in accordance with the software revenue recognition rules. The Company noted the following in its evaluation of the software component of its new Dimensions product:

Dimensions is offered in different configurations providing different levels of functionality (2D vs. 3D). Customers who purchase the 2D configuration will be to able to upgrade the product to a 3D version and such upgrade will be marketed and sold separately. This differentiation from the Company s existing 2D digital mammography product is expected to be highlighted in the Company s marketing literature.

As part of the initial warranty of the Dimensions product, customers will receive not only bug fixes related to the software but also will receive any updates and enhancements to the software that are released during the warranty period. Therefore, the Company concluded that this represents PCS as defined in the software revenue recognition rules.

As a result, under the revenue recognition accounting standards prior to the adoption of ASU 2009-14, the Company determined that the Dimensions product contained software that was more than incidental to the product as a whole and should be accounted for under the software revenue recognition rules. The Company recognized revenue upon installation and deferred the VSOE of fair value of the initial bundled PCS. The Company determined that VSOE of fair value of the initial bundled PCS existed based on the establishment of a price for which this element would be sold separately by management having the relevant authority and that it was probable that this price would not change prior to when this service is sold separately. The Company specified the renewal rates at which the PCS service could be purchased separately upon expiration of the initial PCS period and those rates are consistent among its customers.

In connection with its adoption of ASU 2009-14, the Company re-evaluated the appropriate revenue recognition treatment of its products and determined that the Dimensions products, which have both software and non-software components that function together to deliver the products essential functionality (i.e., it s a tangible product), are scoped out of ASC 985-605, however, its CAD products will continue to be subject to ASC 985-605. Dimensions transactions entered into prior to the first quarter of fiscal 2010 will continue to be accounted for under ASC 985-605.

Under customer usage agreements, the Company installs certain equipment (for example, a ThinPrep Processor or a ThinPrep Imaging System) at customer sites and customers commit to purchasing minimum quantities of disposable products at a stated price (generally including a usage fee for the equipment) over a defined contract term, which is typically between three and five years. Revenue is recognized over the term of the customer usage agreement as disposable products are delivered. The Company also rents certain equipment to customers. Revenues from rental agreements are recorded over the term of the rental agreements.

(5) Other Balance Sheet Information

Components of selected captions in the Consolidated Balance Sheets at March 27, 2010 and September 26, 2009 consisted of:

	March 27, 2010	**September 26, 2009**
Inventories		
Raw material and work-in-process	$ 123,116	$ 116,983
Finished goods	72,560	65,797

	$ 195,676	$ 182,780

	March 27, 2010	September 26, 2009
Property and equipment		
Equipment and software	$ 196,561	$ 187,961
Equipment under customer usage agreements	131,264	125,635
Building and improvements	56,943	57,214
Leasehold improvements	40,339	39,701
Furniture and fixtures	11,134	11,112
Land	8,876	8,983
	445,117	430,606
Less accumulated depreciation and amortization	(188,199)	(158,978)
	$ 256,918	$ 271,628

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

(6) Borrowings and Credit Arrangements

The Company had total debt with carrying values of $1,458,824 at March 27, 2010 and $1,552,251 at September 26, 2009. The Company s borrowings consisted of the following at March 27, 2010 and September 26, 2009:

	March 27, 2010	September 26, 2009 As adjusted
Current debt obligations:		
Term Loan A	$ 33,152	$ 28,789
Term Loan B	13,817	6,785
AEG debt		1,500
Other	1,324	1,299
Total current debt obligations	48,293	38,373
Long-term debt obligations:		
Term Loan A		95,929
Term Loan B		42,664
Other	689	1,362
	689	139,955
Convertible notes (principal of $1,725,000)	1,409,842	1,373,923
Total long-term debt obligations	1,410,531	1,513,878
Total debt obligations	$ 1,458,824	$ 1,552,251

Credit Agreement

In connection with its acquisition of Third Wave Technologies, Inc., 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 March 27, 2010, the Company had an aggregate of $46,969 of principal outstanding under this credit facility. Subsequent to March 27, 2010, the Company paid off the remaining outstanding principal, of which $45,944 was a voluntary payment. The aggregate principal balance of the term notes is classified in current portion of long-term debt on the Company s Consolidated Balance Sheet at March 27, 2010. The Company had no amounts outstanding under its Revolving Facility, and therefore, had full availability of the $200,000 Revolving Facility as of March 27, 2010. The final maturity date for the Revolving Facility is September 30, 2012.

The domestic subsidiaries of the Company, which are party to the Amended Credit Agreement, 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.

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; or

(ii) at the reserve adjusted Eurodollar Rate plus 2.25% per annum; 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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(In thousands, except per share data)

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.

Borrowings outstanding under the Amended Credit Agreement during the three and six months ended March 27, 2010 had a weighted average interest rate of 2.80%. Borrowings outstanding during the three and six months ended March 28, 2009 had a weighted average interest rate of 3.52% and 4.51%, respectively. Interest expense under the Amended Credit Agreement for the term loans totaled $3,283 and $6,384 during the three months and six months ended March 27, 2010, which included non-cash interest expense of $2,684 and $4,703, respectively, related to the amortization of the deferred financing costs. Interest expense under the Amended Credit Agreement for the term loans totaled $5,513 and $12,306 during the three months and six months ended March 28, 2009, which included non-cash interest expense of $2,157 and $3,256, respectively, related to the amortization of the deferred financing costs. As of March 27, 2010, there was $1,739 of unamortized deferred financing costs related to the term loans, which will be recognized as interest expense in the third quarter of fiscal 2010 upon the full repayment of the term loans.

Interest expense under the Amended Credit Agreement for the Revolving Facility totaled $468 and $936 during the three and six months ended March 27, 2010, respectively, consisting of commitment fees on the unused portion of this facility and non-cash interest expense of $247 and $494 related to the amortization of deferred financing costs. Interest expense under the Amended Credit Agreement for the Revolving Facility totaled $497 and $984 during the three and six months ended March 28, 2009, respectively, consisting of commitment fees on the unused portion of this facility and non-cash interest expense of $244 and $487 related to the amortization of deferred financing costs. As of March 27, 2010, there was $2,480 of unamortized deferred financing costs related to the Revolving Facility classified as other assets on the Company s Consolidated Balance Sheet. The Company pays a quarterly commitment fee, currently at a per annum rate of 0.375%, on the undrawn commitments available under the Revolving Facility, which per annum rate is subject to reduction based on the 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 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 March 27, 2010.

Convertible Notes

On December 10, 2007, the Company issued and sold $1,725,000 aggregate original principal of 2.00% Convertible Senior Notes due 2037 (the Convertible Notes). 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. Net proceeds from the offering were $1,689,000, after deducting the underwriter s discount and offering expenses. At March 27, 2010, the Company has recorded the Convertible Notes at $1,409,842, which is net of the unamortized debt discount as required by U.S. generally accepted accounting principles.

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)* (codified within ASC Topic 470, *Debt*). This accounting standard applies to certain convertible debt instruments that may be settled in cash (or other assets), or partially in cash, upon conversion. The liability and equity components of convertible debt instruments within the scope of this accounting guidance must be separately accounted for in a manner that reflects the entity s nonconvertible debt borrowing rate when interest expense is subsequently recognized. The excess of the principal amount of the debt over the amount allocated to the liability component is recognized as the value of the embedded conversion feature and is recorded within additional-paid-in capital in stockholders equity and amortized to interest expense using the effective interest method. This accounting standard

must be applied retrospectively to all periods presented.

On September 27, 2009, the Company adopted this accounting guidance, which is applicable to its Convertible Notes because their terms include cash or partial cash settlement. Accordingly, the Company is required to account for the liability and equity components of its Convertible Notes separately to reflect its nonconvertible debt borrowing rate. The prior period consolidated financial statements have been adjusted to reflect the adoption of this accounting guidance from the date of issuance of the Convertible Notes. The Company estimated the fair value of its Convertible Notes without the conversion feature as of the date of issuance (liability component). The estimated fair value of the liability component of $1,256,147 was determined using a discounted cash flow technique. Key inputs used to estimate the fair value of the liability component included the Company s estimated

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nonconvertible debt borrowing rate as of December 10, 2007 (the date the Convertible Notes were issued), the amount and timing of cash flows, and the expected life of the Convertible Notes. The estimated effective interest rate of 7.62% was estimated by comparing other companies debt issuances that had features similar to the Company s debt excluding the conversion feature and who had similar credit ratings during the same annual period as the Company.

The excess of the gross proceeds received over the estimated fair value of the liability component totaling $468,853 has been allocated to the conversion feature (equity component) as an increase to capital in excess of par value with a corresponding offset recognized as a discount to reduce the net carrying value of the Convertible Notes. The discount is being amortized to interest expense over a six-year period ending December 18, 2013 (the expected life of the liability component) using the effective interest method. In addition, transaction costs are required to be allocated to the liability and equity components based on their relative values. As such, the adoption of this accounting guidance results in a portion of the deferred financing costs being allocated to the equity component and recorded as a reduction to capital in excess of par value.

The adoption of this accounting guidance increased interest expense associated with the Company s Convertible Notes by adding a non-cash component from the amortization of the debt discount. This increase in interest expense is offset slightly by less amortization of deferred financing costs. The impact of the adoption of this accounting guidance on the Company s results of operations for the three and six months ended March 27, 2010 and March 28, 2009 is as follows:

	Three Months Ended March 27, 2010			Three Months Ended March 28, 2009		
	Previous Method	Effect of Change	Current Method	As Reported	Effect of Change	As Adjusted
Interest expense	$ (14,705)	$ (17,616)	$ (32,321)	$ (17,095)	$ (16,117)	$ (33,212)
Income before income taxes	48,374	(17,616)	30,758	(2,282,274)	(16,117)	(2,298,391)
Provision for income taxes	16,882	(6,742)	10,140	17,896	(6,168)	11,728
Net income (loss)	31,492	(10,874)	20,618	(2,300,170)	(9,949)	(2,310,119)
Diluted net income (loss) per share	$ 0.12	(0.04)	$ 0.08	$ (8.97)	(0.04)	$ (9.01)

	Six Months Ended March 27, 2010			Six Months Ended March 28, 2009		
	Previous Method	Effect of Change	Current Method	As Reported	Effect of Change	As Adjusted
Interest expense	$ (29,204)	$ (34,921)	$ (64,125)	$ (35,505)	$ (32,049)	$ (67,554)
Income before income taxes	106,772	(34,921)	71,851	(2,209,598)	(32,049)	(2,241,647)
Provision for income taxes	38,503	(13,365)	25,138	42,579	(12,265)	30,314
Net income (loss)	68,269	(21,556)	46,713	(2,252,177)	(19,784)	(2,271,961)
Diluted net income (loss) per share	$ 0.26	(0.08)	$ 0.18	$ (8.79)	(0.07)	$ (8.86)

The impact of the adoption of this accounting guidance on the September 26, 2009 balance sheet accounts is as follows:

	Other Assets	Convertible Notes	Deferred Income Tax Liabilities	Capital in Excess of Par Value	Accumulated Deficit
	$ (9,792)	$ (468,853)	$ 175,423	$ 283,638	$

Allocation of debt discount and issuance costs to equity component on issuance date					
Cumulative retrospective impact from amortization of discount on liability component and debt issuance costs	4,190	117,776	(43,210)		(70,376)
September 26, 2009 balance, as previously reported	$ 65,157	$ 1,725,000	$ 912,970	$ 4,898,422	$ (2,393,881)
September 26, 2009 balance, as adjusted	$ 59,555	$ 1,373,923	$ 1,045,183	$ 5,182,060	$ (2,464,257)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

As of March 27, 2010 and September 26, 2009, the Convertible Notes and equity component (recorded in capital in excess of par value, net of income tax benefit) associated with the adoption of this accounting guidance consisted of the following:

	March 27, 2010	September 26, 2009
Convertible notes principal amount	$ 1,725,000	$ 1,725,000
Unamortized discount	(315,158)	(351,077)
Net carrying amount	$ 1,409,842	$ 1,373,923
Equity component, net of taxes	$ 283,638	$ 283,638

Holders may require the Company to repurchase the Convertible Notes on December 13, 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.

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. Interest expense under the Convertible Notes totaled $27,724 and $55,132 during the three and six months ended March 27, 2010, respectively, which included non-cash interest expense of $19,122 and $37,929, respectively, related to the amortization of the debt discount of $18,109 and $35,919, respectively and deferred financing costs of $1,013 and $2,010, respectively. Interest expense under the Convertible Notes totaled $26,339 and $52,493 during the three and six months ended March 28, 2009, respectively, which included non-cash interest expense of $17,618 and $35,051, respectively, related to the amortization of the debt discount of $16,685 and $33,194, respectively and deferred financing costs of $933 and $1,857, respectively. As of March 27, 2010, the balance of unamortized deferred financing costs was $17,634 classified as other assets on the Company s Consolidated Balance Sheet.

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 upon the occurrence of certain defined events. None of the events that would permit conversion of the Convertible Notes had occurred as of March 27, 2010.

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 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 its conversion obligation in shares of its common stock. 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.

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 ASC Topic 815, *Derivatives and Hedging*, Subsection 40, *Contracts in Entity s Own Equity* (formerly EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock*, and EITF Issue 07-5, *Determining Whether an Instrument (or Embedded Feature) IS Indexed to an Entity s Own Stock*), the Company determined that the Convertible Notes contain a single embedded derivative, comprising both the contingent interest feature and the filing failure penalty payment, requiring bifurcation as the features are not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal.

As of March 27, 2010, 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.

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(In thousands, except per share data)

(7) Commitments and Contingencies

(a) Contingent Earn-Out Payments

As a result of the merger with Cytyc in October 2007, the Company assumed the obligation to the former Adiana, Inc. 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 System in the first year following FDA approval and on annual incremental sales growth thereafter through December 31, 2012. FDA approval of the Adiana Permanent Contraception System occurred on July 6, 2009, and the Company began accruing contingent consideration in the fourth quarter of fiscal 2009 based on the defined percentage of worldwide sales of the product. The total contingent consideration recorded as additional purchase price as of March 27, 2010 is $12,431. Under the terms of the agreement the first payment is not due to the Adiana shareholders until October 2010. The agreement includes an indemnification provision that provides for the reimbursement of qualifying legal expenses in defense of the Adiana intellectual property, and the Company has the right to offset contingent consideration payments to the Adiana shareholders with these qualifying legal costs. The Company is recording legal fees related to the Conceptus litigation matter (described below) as an offset to the accrued contingent consideration payments. Legal costs have not been material to date.

(b) Litigation and Related Matters

On October 5, 2007, Ethicon Endo-Surgery, Inc. (Ethicon), a Johnson & Johnson operating company, filed a complaint against Hologic and its wholly-owned subsidiary Suros in the United States District Court for the Southern District of Ohio, Western Division. The complaint alleged that certain of the ATEC biopsy systems manufactured and sold by Suros infringed Ethicon patents, and sought 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. On August 6, 2009, Ethicon filed a second complaint against the Company and its wholly-owned subsidiary Suros in the United States District Court for the District of Delaware. The complaint alleged that certain of the Eviva biopsy systems manufactured and sold by Suros infringed Ethicon patents and sought to enjoin Hologic and Suros from infringing the patents as well as recovery of damages and costs resulting from the alleged infringement. On February 17, 2010, the Company entered into a settlement agreement with Ethicon relating to the two lawsuits previously filed by Ethicon, and one previously filed by Hologic against Ethicon. As a result of the settlement agreement, all outstanding litigation between the parties has been dismissed, without acknowledgement of liability by either party. While details of the agreement are confidential, under the terms of the settlement agreement, Ethicon has agreed to pay Hologic ongoing royalties for sales of its Mammotome magnetic resonance imaging product. In addition, the Company agreed to pay Ethicon a one-time payment of $12,500, plus ongoing royalties for sales of its ATEC and EVIVA hand pieces. The Company recorded the $12,500 as an expense in the three months ended March 27, 2010.

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. A hearing on Conceptus preliminary injunction motion was held on November 4, 2009, and on November 6, 2009, the judge issued an order denying the motion. On January 19, 2010, upon stipulation of the parties, the Court dismissed all claims relating to three of the five asserted patents with prejudice. A Markman hearing on claim construction took place on March 10, 2010 and a ruling was issued on March 24, 2010. A trial date has been scheduled for February 28, 2011. Based on the early stage of this litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

The Company is a party to various other legal proceedings and claims arising out of the ordinary course of its business. The Company believes that except for those described above there are no other proceedings or claims pending against it the ultimate resolution of which would have a material adverse effect on its financial condition or results of operations.

(8) Sale of Gestiva

On January 16, 2008, the Company entered into a definitive agreement to sell full U.S. and world-wide rights to its Gestiva pharmaceutical product to KV Pharmaceutical Company (KV) upon approval of the pending Gestiva new drug application (the Gestiva NDA) by the FDA for a purchase price of $82,000. The Gestiva product is a drug that, if approved by the FDA, could be used in the prevention of preterm births in pregnant women with a history of at least one spontaneous preterm birth. Under this agreement, the Company received $9,500 of the purchase price in fiscal 2008, and the balance was due upon final approval of the Gestiva NDA by the FDA 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 recorded the $9,500 as a deferred gain within current liabilities in the Consolidated Balance Sheet. Either party had the right to terminate the agreement if FDA approval was not obtained by February 19, 2010. On

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

January 8, 2010, the parties executed an amendment to the agreement eliminating the date by which FDA approval must be received and extending the term indefinitely. In consideration of executing this amendment, the purchase price was increased to $199,500. The Company received $70,000 upon the signing of the amendment, which has been recorded as a deferred gain, and is due to receive an additional $25,000 upon FDA approval of the product and an additional $95,000 over a nine-month period beginning one year after FDA approval.

Under the arrangement, the Company is continuing its efforts to obtain FDA approval of the Gestiva NDA. All costs incurred in these efforts are being reimbursed by KV and recorded as a credit against research and development expenses. These reimbursed costs have not been material to date on an annual basis. The Company expects that the amounts recorded in deferred 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 KV terminates the agreement prior to the transfer of the rights to the Gestiva product 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 KV.

(9) Pension and Other Employee Benefits

The Company has certain defined benefit pension plans covering the employees of its AEG German subsidiary (the Pension Benefits). As of March 27, 2010 and September 26, 2009, the Company has recorded a pension liability of $6,098 and $6,736, respectively, primarily as a component of long-term liabilities in the Consolidated Balance Sheets. As of March 27, 2010 and September 26, 2009, 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 six months ended March 27, 2010 and March 28, 2009.

(10) 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, the employee stock purchase plan, and convertible debt determined by applying the treasury stock method. If the Company has a net loss, there is no dilutive effect of common stock equivalents. In accordance with ASC Topic 718, *Stock Compensation* (formerly 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 ASC Topic 260, *Earnings per Share,* subtopic 10-45-44 (formerly EITF No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings per Share),* 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 this accounting guidance, 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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(In thousands, except per share data)

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

	Three Months Ended		Six Months Ended	
	March 27, 2010	March 28, 2009 As adjusted	March 27, 2010	March 28, 2009 As adjusted
Numerator:				
Net income (loss)	$ 20,618	$ (2,310,119)	$ 46,713	$ (2,271,961)
Denominator:				
Basic weighted average common shares outstanding	258,653	256,374	258,339	256,293
Weighted average common equivalent shares from assumed exercise of stock options and restricted stock units	2,825		2,802	
Diluted weighted average common shares outstanding	261,478	256,374	261,141	256,293
Basic net income (loss) per common share	$ 0.08	$ (9.01)	$ 0.18	$ (8.86)
Diluted net income (loss) per common share	$ 0.08	$ (9.01)	$ 0.18	$ (8.86)
Weighted-average anti-dilutive shares related to:				
Outstanding stock options	11,452	14,435	11,362	13,773
Restricted stock units	2	2,841	308	2,531

Diluted weighted average shares outstanding do not include any effect resulting from the assumed 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.

(11) Stock-Based Compensation

Share-based compensation expense for the three and six months ended March 27, 2010 and March 29, 2009 is as follows:

	Three Months Ended		Six Months Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Cost of revenues	$ 1,003	$ 1,068	$ 2,032	$ 1,712
Research and development	955	1,023	1,922	2,348
Selling and marketing	1,107	1,206	2,494	2,777
General and administrative	5,389	5,576	10,127	9,506

	$ 8,454	$ 8,873	$ 16,575	$ 16,343

Stock Options

The Company granted 2,652 and 2,949 stock options during the six months ended March 27, 2010 and March 28, 2009, respectively, with weighted average exercise prices of $15.67 and $14.42, respectively. There were 15,901 options outstanding at March 27, 2010 with a weighted average exercise price of $16.67.

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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		Six Months Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Risk-free interest rate	1.8%	2.0%	1.8%	2.0%
Expected volatility	47%	46%	47%	46%
Expected life (in years)	3.9	4.0	3.9	4.0
Dividend yield				
Weighted average fair value of options granted	$ 5.53	$ 4.81	$ 5.88	$ 5.40

Restricted Stock Units

The Company granted 1,175 and 1,669 restricted stock units (RSU) during the six months ended March 27, 2010 and March 28, 2009, respectively, with weighted average grant date fair values of $15.66 and $14.46, respectively. As of March 27, 2010, there were 3,348 unvested RSUs outstanding with a weighted average grant date fair value of $20.65.

The Company uses the straight-line attribution method to recognize stock-based compensation expense for stock options and RSUs. Stock options granted to employees generally vest over a five year period with annual vesting of 20% per year on the anniversary of the grant date, and RSUs granted to employees either cliff vest at the end of three years or vest over four years with annual vesting of 25% per year on the anniversary of the grant date. The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Based on an analysis of historical forfeitures, the Company has determined a specific forfeiture rate for certain employee groups and has applied forfeiture rates ranging from 0% to 6% as of March 27, 2010, depending on the specific employee group. This analysis is re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual stock-based compensation expense recognized will only be for those stock options and RSUs that vest.

At March 27, 2010, there was $39,305 and $38,114 of unrecognized compensation expense related to stock options and RSUs, respectively, to be recognized over a weighted average period of 3.7 years and 2.3 years, respectively.

(12) Comprehensive Income

The Company s other comprehensive income relates solely to foreign currency translation adjustments. A reconciliation of comprehensive income is as follows:

	Three Months Ended		Six Months Ended	
	March 27, 2010	March 28, 2009	March 7, 2010	March 28, 2009
Net income (loss) as reported	$ 20,618	$ (2,310,119)	$ 46,713	$ (2,271,961)
Translation adjustment	(5,102)	(3,746)	(5,319)	(5,379)
Comprehensive income (loss)	$ 15,516	$ (2,313,865)	$ 41,394	$ (2,277,340)

(13) Business Segments and Geographic Information

The Company reports segment information in accordance with ASC Topic 280, *Segment Reporting*, (formerly SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information)*. 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 (CODM), or decision-making group, in making decisions about how to allocate resources and assess performance. The Company s CODM is its chief executive officer, and the Company s reportable segments have been identified based on the end markets to which its products are sold into. The Company reports its business as four segments: Breast Health, Diagnostics, GYN Surgical and Skeletal Health.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

(In thousands, except per share data)

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. There were no intersegment revenues during the three and six month periods ended March 27, 2010 and March 28, 2009. Segment information for the three and six months ended March 27, 2010 and March 28, 2009 is as follows:

	Three Months Ended		Six Months Ended	
	March 27, 2010	March 28, 2009	March 27, 2010	March 28, 2009
Total revenues				
Breast Health	$ 189,457	$ 180,080	$ 368,530	$ 379,192
Diagnostics	139,977	135,035	280,377	269,659
GYN Surgical	67,138	63,805	138,591	131,754
Skeletal Health	21,540	23,094	43,062	50,642
	$ 418,112	$ 402,014	$ 830,560	$ 831,247
Operating income (loss)				
Breast Health	$ 20,501	$ (229,865)	$ 48,288	$ (184,905)
Diagnostics	25,608	(887,761)	53,025	(863,478)
GYN Surgical	13,491	(1,150,694)	28,215	(1,130,713)
Skeletal Health	2,301	3,468	4,342	7,965
	$ 61,901	$ (2,264,852)	$ 133,870	$ (2,171,131)
Depreciation and amortization				
Breast Health	$ 12,574	$ 10,872	$ 25,292	$ 21,742
Diagnostics	41,224	39,291	82,649	78,637
GYN Surgical				