
HOLOGIC®
CLARITY OF VISION
Images for Life.
2005 ANNUAL REPORT

Life.

who are the people we care about?

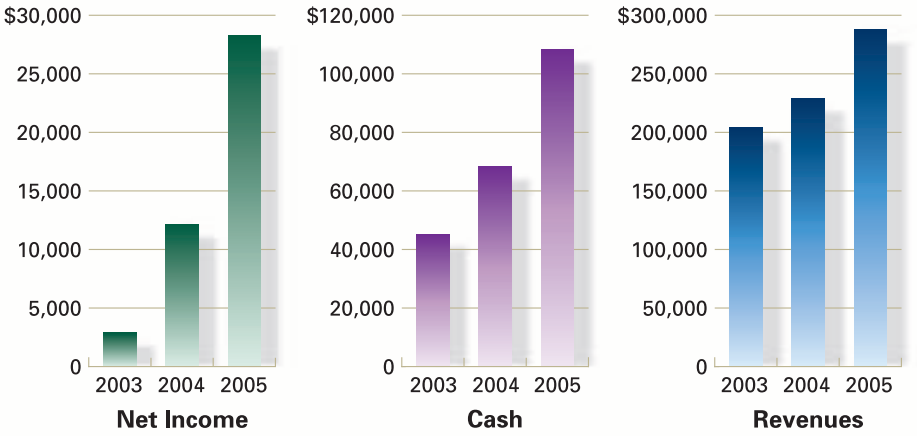
They transmit our DNA across generations.
They inspire us. They weave together our social fabric —
and hold us together. They give the world balance.
And courage. And mystery. And beauty. And they give us life.

And they have unique health issues that deserve
the best attention we can give.

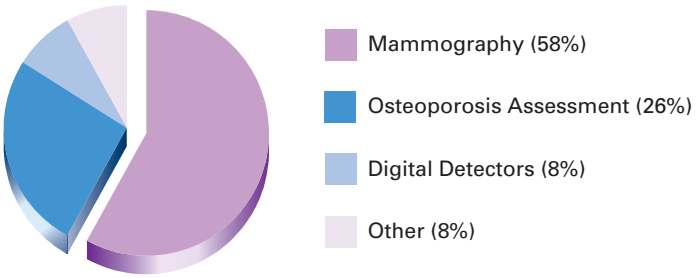
Hologic is working for women's health. We create images
that help physicians see more clearly, to know sooner,
to reach further, do more, and act more effectively —
to save more lives. Images for life.

Selected Financial Highlights

(in thousands)



Fiscal Years Ended (In thousands, except per share data)	September 27, 2003	September 25, 2004	September 24, 2005
Consolidated Statement of Operations Data			
Revenues	$204,035	$228,705	$287,684
Costs and expenses	201,010	216,119	255,053
Income from operations	3,025	12,586	32,631
Net income	$ 2,882	$ 12,164	$ 28,256
Diluted net income per common and common equivalent share	$ 0.07	$ 0.29	$ 0.63
Weighted average number of diluted common shares outstanding	40,261	42,593	45,126
Consolidated Balance Sheet Data			
Working capital	$103,862	$121,049	$167,841
Total assets	188,603	211,751	279,839
Long-term debt	1,550	472	—
Total stockholders' equity	$148,927	$166,275	$217,834



Dear Shareholder:

Hologic had a strong year in 2005. We did what we said we were going to do – achieve double-digit revenue growth, significantly improve profitability and increase our cash flow. Our dedicated focus on our customers was evidenced throughout the year as backlog reached record levels as we continued to build on the trust and confidence our customers have come to expect from Hologic. This initiative is clearly reflected in all phases of our organization.

Our Financial Performance

For fiscal 2005, revenues increased to $287.7 million, up 26% compared to $228.7 million in fiscal 2004. 2005 was our sixth year of consecutive sales growth. This continued improvement represents an increasing demand for our leading-edge products. Along with increasing sales, our success in controlling costs and improving internal efficiencies resulted in solid gains in profitability. Net income for fiscal 2005 increased to $28.3 million, or $0.63 per diluted share, compared to net income of $12.2 million, or $0.29 per diluted share, for fiscal 2004. Our financial condition continues to strengthen with a sound balance sheet including $114 million of cash and virtually no debt. We have approximately 44 million fully diluted shares of common stock outstanding following our two-for-one stock split on November 30, 2005.

Our financial accomplishments were solid, but they tell only part of the story for 2005. While economic achievements are important, more significant are the advances they enable us to make.

Our Significant Highlights

Most notable was the digital mammography imaging screening trial results, commonly known as DMIST, which were released in mid-September. DMIST was a four-year research study sponsored by the National Cancer Institute to compare digital mammography to conventional screen-film mammography. The primary purpose of the study was to determine whether digital mammography was the equivalent of, or better than conventional screen-film.

The most promising finding involved a subcategory of women including; women under 50, women with dense breasts and premenopausal or perimenopausal women, which represented 65% of the study population. Results showed digital mammography had statistically greater diagnostic accuracy than film-based systems. It is our belief the DMIST findings will further promote the use of digital mammography and provide women with more options for high quality breast imaging.

Through acquisition and partnership arrangements, we continued to identify growth platforms for the company. Of particular interest:

- We completed the acquisition of the intellectual property of Fischer Imaging relating to its mammography business and products. We believe this acquisition will provide us with additional technology and customer relations to further solidify our position of strength in the markets we serve.
- We also entered into an exclusive U.S. distribution and service agreement for extremity MRI imaging systems manufactured by Esaote of Genoa, Italy. We view dedicated extremity MRI as a natural fit to our current orthopedic distribution and service channel – which is consistent with our goal of maintaining a leadership position in the segments we serve.

The Radiological Society of North America Meeting – Our Largest Event

The Radiological Society of North America (RSNA) Scientific Assembly and Technical Exhibition, held in Chicago, Illinois, November 27 through December 1, was an all-around success. Hologic exhibited its full product line, with emphasis on women's health. The highlight of the show for our customers and us was the unveiling of our continued development work in 3-D digital imaging, called tomosynthesis. Also displayed were our latest offerings in digital mammography, workflow solutions for the women's digital imaging suite, bone densitometry, MRI extremity imaging, and the introduction of our new mini C-arm system. Hologic's theme for this year's RSNA was "The Curve is Now". The radiology profession is changing as exciting technological advancements are redefining visualization capabilities. We believe this journey to seek better technology has catalyzed clinical professionals to accelerate their timelines to acquire the latest in system design. Hologic's message to those in attendance at the scientific assembly was clear – become our partner and stay ahead of the curve.

Our Future

Hologic is leading the way in breast tomosynthesis. One limitation in two-dimensional mammography has always been tissue overlap – where one characteristic obscures the view of another. This can often lead to unnecessary patient callbacks for additional views. Imagine what we might be able to see if we were to simply rotate an x-ray beam in an arc around the breast, while taking a series of low-dose exposures. We can do something quite remarkable. We can mathematically process the breast images into a series of one-millimeter slices showing the tissue structure in three-dimensions. We can move through the breast in 3-D, and determine whether a given characteristic is really reason for concern. It is our hope the uncertainty goes away. Our continuing work in this area is based on our proprietary direct-capture technology that is the heart of our Selenia digital mammography system. Early clinical trials suggest it has the potential to revolutionize the way we think of mammography, giving doctors a powerful new way to see more clearly.

We are also collaborating with Johns Hopkins University for the development of tomographic 3-D image reconstruction of the hip utilizing Hologic's Discovery line of bone densitometers. Clinicians have long sought the next generation of osteoporosis assessment tools to better predict femur fracture risk. We believe tomographic assessment of bone density and geometry may provide the ultimate clinical tool to discern bone structure and strength.

Our Commitment

According to the American Cancer Society, breast cancer ranks as the second leading cause of cancer-related deaths among women in the United States, causing an estimated 40,000 deaths in 2005. Breast cancer also ranks as a common cancer among women, and more than 270,000 new cases of invasive breast cancer were expected to occur among women in the United States during 2005. Over a lifetime, one in eight women will develop breast cancer and today there are approximately 2.3 million women living in the U.S. who have been treated for breast cancer. As with all other invasive cancers, lowering morbidity and mortality can be directly related to the stage at which the disease is detected.

According to the National Osteoporosis Foundation, an estimated 10 million Americans over age 50 have osteoporosis, while another 34 million are estimated to have low bone mass placing them at an increased risk for osteoporosis. Of the ten million Americans estimated to have osteoporosis, eight million are women. It is estimated that 1.5 million people suffer an osteoporotic-related fracture every year, an event that often leads to a downward spiral in physical and mental health. Approximately 20 percent of senior citizens who suffer a hip fracture die within one year, and one out of every two women over 50 will have an osteoporosis-related fracture in their lifetime, with risk of fracture increasing with age.

Hologic is committed to working for women's health. We create powerful tools to help physicians see more clearly, to know sooner, to reach further, do more, and act more effectively – to save more lives.

Our Thanks

In closing, I would like to personally thank all the Hologic team members for their dedicated efforts this past year. My sincere thanks to our customers, partners, and shareholders for their continued support. Hologic is a passionate, customer-focused, innovative company whose mission is to play an important role in the lives of women. We are personally committed to do more. We don't view ourselves as "just" a manufacturer of medical equipment – we envision ourselves as producers of hope. We have a higher calling – a greater mission. If one life can breath easier because we have given someone time through technology – then we have succeeded.

Since becoming CEO at the start of fiscal 2001, I pledged to focus Hologic first and foremost in making a difference in the lives of women …. and if we did that successfully, financial success would follow. We have been fortunate to achieve in both areas and are determined to continue to build on the momentum of last fiscal year in 2006 and beyond. Our possibilities are boundless.

Sincerely,

Jack Cumming
Chairman and Chief Executive Officer


Discovery™ – Point-of-care bone health assessment

Powerful Tools

To See More Clearly, Know Sooner, Reach Further, and Do More.

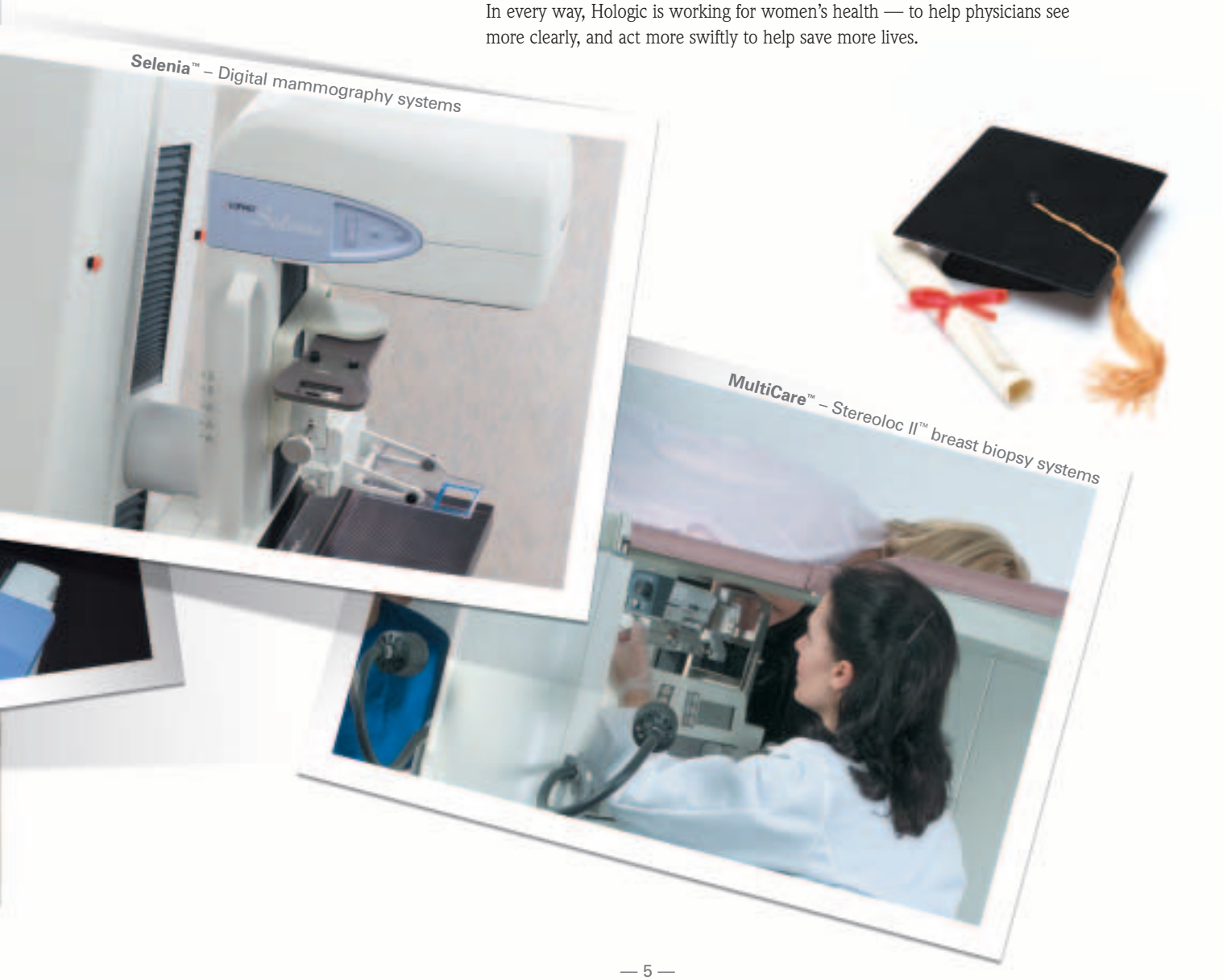
Breast cancer detection and osteoporosis assessment are two key battlegrounds in women's health where we can make a difference with technology.

In the fight against breast cancer, early detection means hope for millions of women. The recently completed U.S. Digital Mammography Image Screening Trial (DMIST) proved that digital mammography greatly improves the process of breast cancer detection in a significant number of women. The Hologic Selenia™ digital mammography system delivers diagnostic images of unparalleled clarity. And, powerful image review capabilities help physicians work more efficiently, streamlining workflow with complete diagnostic assurance.

When a suspicious lesion appears, a biopsy may be needed to determine if it's cancer. This used to mean open surgery. Today, more and more physicians are turning to the MultiCare Platinum™ and StereoLoc™ II image-guided stereotactic breast biopsy systems to obtain tissue samples. These tools make the procedure more accurate, faster, and safer while reducing patient anxiety and recovery time.

Think about the tragedy of osteoporosis. Many of the crippling fractures that so often lead to an early death could be prevented with treatment, if detected early enough. Hologic brings powerful imaging tools to help in that effort. The Discovery™ QDR™ Series comprehensively assesses bone health with a level of precision that surpasses any other system available today.

In every way, Hologic is working for women's health — to help physicians see more clearly, and act more swiftly to help save more lives.



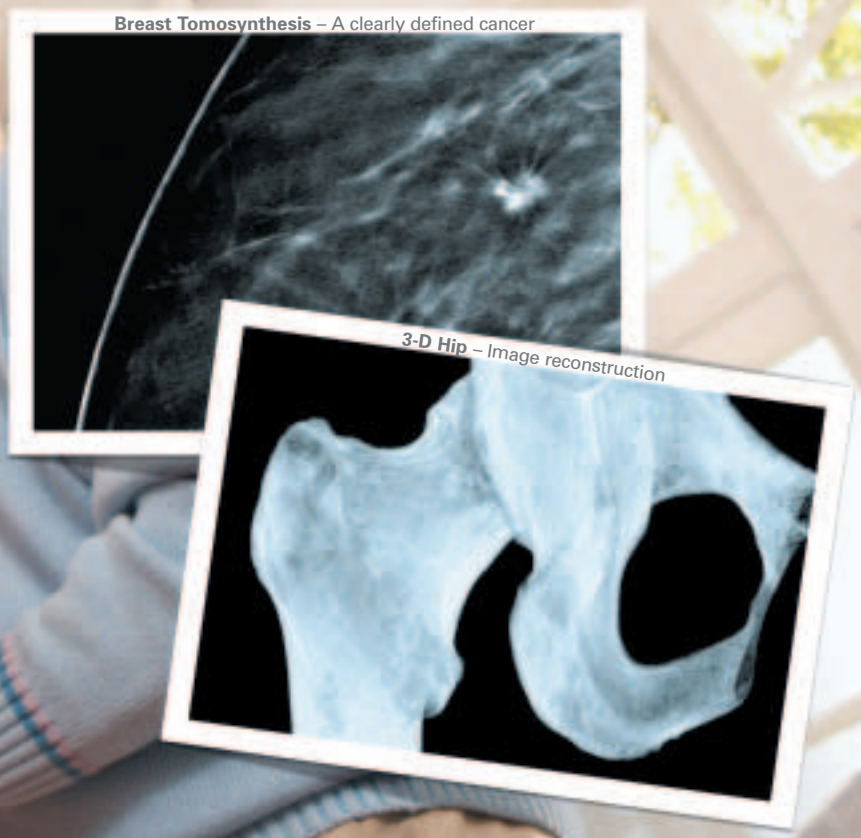
Leading the Way

In Emerging Imaging Technologies

Hologic is driven to find life saving answers faster. Early detection saves lives. This is why we spend a considerable amount of our research and development efforts on emerging imaging technologies aimed at helping physicians diagnose more confidently.

A significant limitation of two-dimensional imaging is tissue overlap — where one feature obscures our view of another. In mammography, this often leads to patient callbacks for additional views, and more frequent biopsies. Hologic breast tomosynthesis, now in clinical trials, offers the possibility of improved accuracy and 3-D lesion location, making new inroads in the fight against breast cancer.

The application of 3-D hip image reconstruction utilizing our Discovery QDR™ bone densitometry series is another work in progress. Researchers at Hologic and The Johns Hopkins University are working on this powerful new way to assess fracture risk and help make a difference in people's lives.



"These Emerging Technologies are investigational devices, and are limited by Federal (USA) Law to investigational use."

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

FORM 10-K

(Mark One)

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

For the fiscal year ended: September 24, 2005

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 or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

35 Crosby Drive, Bedford, Massachusetts 01730
(Address of Principal Executive Offices, Including Zip Code)

(781) 999-7300
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.01 par value
Rights to Purchase Preferred Stock

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes ☒ No ☐

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of March 25, 2005 was $690,490,063 based on the price of the last reported sale on the Nasdaq National Market System on that date.

As of December 1, 2005 there were 44,378,013 shares of the registrant's Common Stock, $.01 par value, outstanding. The number of shares outstanding reflects the registrant's two-for-one stock split effected November 30, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the registrant's annual meeting of stockholders to be filed within 120 days of the end of its fiscal year ended September 24, 2005 are incorporated into Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K where indicated.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our goal of expanding our market positions;
- the development of new competitive technologies and products;
- regulatory approval and clearances for our products;
- production schedules for our products;
- the anticipated development of our markets and the success of our products in these markets;
- the anticipated performance and benefits of our products;
- business strategies;
- dependence on significant suppliers;
- our ability to maintain effective internal controls;
- the impact of acquisitions we may complete in the future;
- the impact and costs and expenses of any litigation we may be subject to now or in the future;
- compliance with covenants contained in long term leases;
- anticipated trends relating to our financial condition or results of operations; and
- our capital resources and the adequacy thereof.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include those discussed in the Risk Factors set forth in Part II Item 7 below as well as those discussed elsewhere in this report. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business.

Overview

We are a leading developer, manufacturer and supplier of diagnostic and medical imaging systems primarily serving the healthcare needs of women. We focus 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 core women's healthcare business units are focused on mammography and bone densitometry. Our Lorad line of mammography systems and our bone densitometry product line are premier brands in their markets. In addition, we develop, manufacture and supply mini C-arm imaging products and DirectRay digital detectors. Our digital detectors are sold primarily to Original Equipment Manufacturers (OEMs), to incorporate into their own equipment. We also sell, distribute and service complementary products that are developed and manufactured by other original equipment manufacturers, such as our Esaote line of extremity MRI imaging systems, our jointly labeled breast imaging ultrasound system with Aloka Company, Ltd., our computer aided detection software for breast cancer detection with R2 Technology and iCAD, and our breast biopsy system with Suros Surgical Systems and J&J Ethicon. Our customers include hospitals, imaging clinics and private practices and many of the leading healthcare organizations in the world. Our customers are also major pharmaceutical companies that utilize our products in conducting clinical trials.

We were founded on and remain committed to the principle of applying superior technology to medical imaging challenges. We achieved our first market and technology position shortly after the first commercial shipment of our initial product targeting bone densitometry in 1987. Our proprietary technology remains a leading bone densitometry assessment tool, offering superior, cost-effective accuracy and reliability. Over the years we have expanded and diversified our business through acquisitions. In 1996 we acquired Fluoroscan Imaging Systems, a market leader for low intensity, real-time mini C-arm x-ray imaging devices that address the trend towards minimally invasive surgery. We have long identified mammography as an attractive growth opportunity where superior imaging technology could significantly improve diagnosis. With this goal in mind, in June 1999, we acquired Direct Radiography Corp., or DRC, from Sterling Diagnostic Imaging and have continued to invest in the development of their direct-to-digital x-ray technology, DirectRay, with an emphasis on mammography applications. In September 2000 we significantly expedited our entry into the mammography market by acquiring certain U.S. assets of Trex Medical Corporation, which included the Lorad product line of mammography and minimally invasive breast biopsy image guidance systems used to detect breast cancer. We estimate that over 13,000 Lorad mammography systems have been sold worldwide. Our products are known within the industry for superior image quality and technological innovation. We successfully integrated our DirectRay technology into the Lorad mammography product line and offer both digital upgrades to our existing installed base and new digital systems to potential customers. Most recently, in September 2005, we acquired the intellectual property relating to the mammography business and products of Fischer Imaging Corporation ("Fischer"), which has significantly expanded our intellectual property relating to the breast mammography and breast biopsy product lines. The purchase price for the intellectual property was $32 million, approximately $26.9 million of which was paid out of existing cash with the remaining amount paid through the cancellation of the principal and interest outstanding under a $5 million secured loan we previously provided to Fischer Imaging on June 22, 2005.

We are continuing to focus on expanding our market position in bone densitometry and mammography, including the growing field of digital mammography. To that end, in October 2002, we received approval from the U.S. Food and Drug Administration, known as the FDA, to commence marketing activities with respect to our Lorad Selenia full field digital mammography system. Following this approval we began to focus on the expansion of our direct sales and service forces in the United States, and late in fiscal 2003 we began to de-emphasize sales of our lower margin digital end-use general radiography systems. We have also entered into license and distribution agreements with several other manufacturers in the United States and China to produce and sell general radiography systems using our DirectRay plates and technology. We are continuing to evaluate

new marketing programs to expand market share in our core markets, to assess new distribution channels for our product portfolio and to pursue business relationships and acquisitions that would allow us to further leverage our technology base.

We were incorporated in Massachusetts in October 1985 and reincorporated in Delaware in March 1990. Unless the context otherwise requires, references to us, Hologic or our company refer to Hologic, Inc. and each of its consolidated subsidiaries. We view our operations and manage our business in four principal operating segments: mammography products, osteoporosis assessment products, direct-to-digital DirectRay detectors and all other which includes our mini C-arm imaging products and general radiography products. We have provided financial information concerning these segments in Note 9 of the Notes to our Consolidated Financial Statements included in this report.

Hologic and the Hologic Logo are registered trademarks of Hologic, Inc. Other trademarks, logos and slogans registered or used by Hologic and its divisions and subsidiaries in the United States and other countries include: Acclaim, Affinity, Affinity Platinum, Alexia, "At LORAD, Every Month is Breast Cancer Awareness Month," Auto Film ID, Backtrack, CADfx, "Clarity of Vision," Contour, Dataport, Delphi, Digispot, Direct Radiography, DirectRay and the DirectRay signal profile logo, Discovery, Dual Hip, EPEX, EPEX ER, EPEX Symphony, Exam Coach, Explorer, Express BMD, Express Exam, Fluoroscan, HiBrite, HTC, Image Pro, Instant Vertebral Assessment, IRIS, IVA, IVA Works, LORAD, "LORAD A Hologic Company," LORAD DSM, LORAD Elite, M-IV, M-IV Platinum, MultiCare, Omniflex, One Time, OnePage Dx, OnePage Fx, OnePass, Permagrid, Physicians Report Writer, Physicians Viewer, Picturing Life, Premier, Premier Encore, QDR, QDR-1000, QDR-4500, RADEX, Radiological Vertibral Assessment, RVA, Sahara, ScoutMarc, SecurLook, SecurView, SecurView DX, SecurView RT, Selenia, SmartWindow, StereoLoc, SureLock, Tech Tips, UBA, and XRE. In September 2005, we acquired the mammography intellectual property portfolio of Fischer Imaging Corporation, including the following registered trademarks: MammoSound, MammoTest, MammoTest Plus, MammoVision, SenoLase, SenoScan, SenoSound, SenoView, and SenoView Plus.

Available Information

Our Internet website address is http://www.hologic.com. Through our website, we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Our Markets and Products

Our core women's healthcare business units are focused on mammography and bone densitometry. In addition, we develop, manufacture and supply other x-ray based products, such as general purpose direct-to-digital radiography detectors and mini C-arm imaging products.

Mammography and Other Breast Cancer Detection Products

Overview

According to the American Cancer Society, breast cancer is the second most common cancer among women, and more than 211,000 new cases of invasive breast cancer were expected to occur among women in the United States during 2005. Breast cancer ranks as the second leading cause of cancer-related deaths among women, causing an estimated 40,000 deaths in 2005. Over a lifetime, one in eight women will develop breast cancer and today there are approximately 2.3 million women living in the U.S. who have been treated for breast cancer. In 2005, about 1,690 cases of breast cancer are expected to occur among men, accounting for less than 1% of all breast cancers, and approximately 460 men will die from breast cancer. As with all other invasive

cancers, lowering morbidity and mortality can be directly related to the stage at which the disease is detected. Providing clinicians the tools necessary to assist in early detection of breast cancer represents a principal business of Hologic. Today we hold a leading share in the mammography market, primarily within the high-end segment.

In fiscal 2005, we shipped over 900 mammography products including 239 digital systems, and estimate our installed base of equipment to be over 13,000 systems worldwide.

Market

Leading industry sources estimate that the worldwide mammography imaging equipment market was greater than $300 million in 2004, and anticipate it may grow to over $600 million by 2008. This anticipated market growth is being fueled primarily by the rapidly emerging segment of digital mammography, offset only partially by a decline in more conventional film-based technologies. These sources estimate that the U.S. market for mammography may grow to $400 million by 2008 from its introduction only four years ago. International markets are expected to experience similar growth trends. In addition to speed and convenience, digital technology is expected to provide improved image quality over conventional films particularly in a subset of women falling into the categories of under 50 years old or having dense breast or pre-menopausal and peri-menopausal—ultimately leading to earlier detection. While digital mammography systems are presently several times more expensive than conventional systems, we believe they can provide long-term savings as they eliminate the recurring film and processing costs, reduce the cost of image storage, and have the potential to increase patient throughput.

Products

Our breast cancer detection business offers a broad line of breast imaging products, including the Selenia full field digital mammography system, a series of screen-film mammography systems and a range of breast biopsy image guidance systems. The Selenia system received U.S. FDA marketing approval in October of 2002. Its technology is based on our proprietary, amorphous selenium DirectRay digital detector, which preserves image quality by directly converting x-rays to electronic signals. We believe our Selenia full field direct-to-digital mammography system positions us to expand our share of the mammography market by offering clinicians one of the most advanced tools available for early detection of breast cancer.

Currently our highest-end LORAD screen-film mammography system, the M-IV Platinum, is considered a technology leader in the analog mammography marketplace. The M-IV Platinum incorporates our High Transmission Cellular, (HTC) Grid, recognized by Frost & Sullivan in connection with LORAD's receipt of the 2001 Frost & Sullivan Technology Innovation Award, as one of the most effective contrast improvements in 20 years of breast imaging. The patented HTC technology reduces x-ray scatter in two dimensions, delivering high quality contrast and resolution without an increase in radiation dose. In March 2002, we began full commercial production of our mid-tier system, the LORAD Affinity, which can also be configured with our HTC technology. The LORAD Affinity is a high-performance screen-film mammography system specifically developed to fill a market need for a cost-effective product, with performance characteristics similar to high-end systems.

We also offer two minimally invasive stereotactic breast biopsy guidance systems, the MultiCare Platinum prone breast biopsy table and the StereoLoc II upright attachment. These systems provide an alternative to open surgical biopsy, which is sometimes performed under general anesthesia in the outpatient department of a hospital, as well as to ultrasound guided biopsies. Minimally invasive biopsies, whether sterotactic or ultrasound guided, are most often performed in a physician's office or a breast-imaging center on an outpatient basis under local anesthesia and cause far less tissue trauma and patient morbidity as well as being less expensive than open surgical biopsies.

In 2004 we began marketing efforts and commenced sales of a dedicated ultrasound breast imaging system made for us under private label by Aloka Corporation. Breast ultrasound may assist in the early detection of breast cancer by providing unique imaging capabilities for differentiating between solid and cystic nodules and identifying suspicious areas in dense breasts.

The following is a more detailed description of the products sold by our LORAD Division.

Selenia Full Field Digital Mammography System

- *LORAD Selenia*. The Selenia, which utilizes our DirectRay amorphous selenium flat-panel detector, is the industry's first FDA approved digital mammography system based on direct conversion technology. Our direct conversion technology uses amorphous selenium to directly convert x-rays to electronic signals, without first converting them to light, a step required in systems using indirect conversion detectors. This direct conversion process completely eliminates light diffusion and preserves image sharpness, for exceptional digital images.

The Selenia has a number of other features designed to improve image quality, enhance patient comfort, and streamline patient throughput. For example, the system's detector size of 24 x 29 cm, the largest in the industry, accommodates almost all breast sizes with a single exposure per view. The system enables complete intra-department connectivity and image management, including bi-directional communication and networking between workstations. In addition, the open architecture of the system's design provides for full integration with existing enterprise Picture Archiving and Communications Systems (PACS) and Radiology Information Systems (RIS). In April 2004 and September 2004 R2 Technology and iCAD, respectively, received FDA clearance for integration of their CAD (computer aided detection) products with Selenia.

SecurView. In 2005 we focused our product development activities on improving digital workflow in the breast imaging suite. To this end, we released SecurView$_{DX}$, a breast imaging softcopy workstation approved for interpretation of digital mammograms from all vendors as well as images from other diagnostic modalities. To complement this product, we also released SecurView$_{RT}$, a technologist workstation enabling bi-directional exchange of electronic communications between the reviewer and the technologist. Two new products extending the functionality of our SecurView$_{DX}$ are in late beta testing; (i) an Advanced Multimodality Package which allows simultaneous display and interpretation of digital mammograms, as well as breast images from other modalities, such as ultrasound and MR (magnetic resonance); and (ii) MR-CADWorks™, a sophisticated software package for advanced display, analysis, and interpretation of breast MR exams.

Screen-Film Mammography Systems

- *LORAD M-IV Series, includes the LORAD M-IV and the M-IV Platinum.* The LORAD M-IV has an installed base of over 5,000 units worldwide. Features of the LORAD M-IV include a bi-angular x-ray tube, dual filter capability, auto filter mode, three-cell Automatic Exposure Control (AEC) sensor, fully automatic collimation and isocentric C-arm rotation. Image quality can be further improved through use of the HTC Grid and Fully Automatic Self-adjusting Tilt (FAST) Paddle, which are standard features of the M-IV Platinum and optional components on the M-IV. Other features of the LORAD M-IV Series include integrated auto film identification and optional bar code reader. The LORAD M-IV has also been designed to be upgradeable to our Selenia full field digital mammography system.
- *LORAD Affinity*. We began full commercial production of the Affinity in late 2002. The Lorad Affinity is a screen-film mammography system developed to fill a market need for a cost-effective, high performance mammography product. The Affinity can be used with other LORAD innovations to improve mammographic image quality, including our HTC and FAST Paddle technology.

Stereotactic Breast Biopsy Systems

We provide clinicians with the flexibility of choosing from either upright or prone systems for breast biopsy. Our minimally invasive breast biopsy systems provide an alternative to open surgical biopsy, which is generally performed under general anesthesia.

We offer the StereoLoc II upright biopsy system, which is used in conjunction with our M-IV series of screen-film mammography systems. In addition, for physicians that perform a significant number of biopsies, we offer a dedicated, prone biopsy system called the LORAD MultiCare Platinum Breast Biopsy System (formerly called the StereoGuide). Both systems can be used with our digital "spot" mammography system, which enables a physician to position the sampling device at the site of the suspicious lesion. When performing a biopsy with any of our systems, a physician has a choice of tissue-sampling devices, which are not manufactured by us.

In October 2003, we entered into a distribution agreement with Suros Surgical Systems, Inc. to sell their breast biopsy tissue sampling devices directly to our customers and as a component of our biopsy system. In November 2005, we signed an agreement expanding our relationship with Suros, Inc. giving Hologic non-exclusive distribution rights in the Europe, North Africa, and the Middle East for the Suros automated breast biopsy and tissue excision system, the ATEC™. The agreement is for an initial term of two years, with automatic one-year renewal options.

Ultrasound Breast Imaging System

Alexa. In 2005, we modified an existing agreement with Aloka Corporation to provide for non-exclusive distribution rights in the United States for ultrasound products manufactured by Aloka and customized to our specifications. The Alexa system is designed to be used in conjunction with other screening and diagnostic systems to help increase the early detection of breast cancer.

Distribution and Strategic Alliances

Over the last several years we have expanded both the distribution of our products and the outsourcing of strategic products to be distributed through our existing channels. In 2002 we entered into a strategic alliance with Siemens AG whereby Siemens agreed to exclusively purchase from us digital detectors to be used with its full field digital mammography system during the five-year term of the agreement and we licensed display software from an affiliate of Siemens.

In March 2003 we agreed to manufacture, under a private label, a digital mammography system utilizing our patented direct-to-digital amorphous selenium technology for Agfa-Gevaert Group. Under this agreement, Agfa purchased our full field digital mammography acquisition platform and was responsible for all related installation, warranty and support requirements. We began shipping products under this agreement for non-United States customers during 2003. Effective August 30, 2005, Hologic and Agfa agreed to terminate this agreement. In the future, should Agfa require digital mammography systems to satisfy specific customer orders, Hologic, in cooperation with its international dealer organization, may sell a Selenia digital mammography system to fulfill the Agfa customer requirement. In addition, Hologic will continue to supply digital detectors and other parts for service and repair of Agfa's installed base.

In addition to the third party distribution of our technology and products, in July 2003 we entered into a distribution agreement with R2 Technologies, a leading provider of CAD products to assist in breast cancer detection. Under this agreement, R2, with assistance from Hologic, has customized R2's CAD system for use with our Selenia system and we received worldwide distribution rights to sell the customized product in combination with our Selenia system. R2 received FDA approval of this digital CAD product in April 2004. R2 has also granted us distribution rights for R2 CAD products that are designed to be used with conventional screen-film mammography systems and can be upgraded to be used with our digital mammography systems. This agreement has a term of five years with two one-year renewal options.

In September 2004 we entered into a distribution agreement with iCAD, Inc., another leading provider of CAD products. With the introduction of iCAD, we now have alternatives to offer our customers with respect to

CAD products. Under the agreement, iCAD and Hologic worked in cooperation to customize iCAD's Second Look Digital CAD system for use with our Selenia system. The agreement allows Hologic exclusive access to iCAD digital CAD when used with Selenia systems. The initial term of the agreement is four years and can be renewed for annual periods thereafter with the mutual consent of the parties.

In September 2005, we entered into an agreement with Esaote of Genoa, Italy for the exclusive distribution and service in the United States of extremity MRI Imaging systems manufactured by Esaote. Under the agreement, we will use our extensive sales network selling our bone density and mini C-arm systems to orthopedics and rheumatology, to also sell and service Esaote's line of extremity MRI systems, optimized for these applications. Pursuant to the agreement we have certain minimum inventory purchase obligations for the initial term, which are subject to renegotiation after the first eighteen-month period in the event of any unforeseen changes in the market dynamics. The agreement is for an initial term of three years, with automatic one-year renewal options.

Osteoporosis Assessment Products

Overview

Bone densitometry is the precise measurement of bone density to assist in the diagnosis and monitoring of osteoporosis and other metabolic bone diseases that can lead to debilitating bone fractures, often of the spine and hip. In October 2004 the U.S. Surgeon General published a comprehensive report on Bone Health and Osteoporosis, highlighting the fact that osteoporosis, fractures, and other chronic diseases no longer should be considered an inevitable result of aging. According to the report, an estimated 10 million Americans over age 50 have osteoporosis (the most common bone disease), while another 34 million are estimated to have low bone mass placing them at an increased risk for osteoporosis. Of the ten million Americans estimated to have osteoporosis, eight million are women and two million are men. The report estimated that 1.5 million people suffer an osteoporotic-related fracture every year, an event that often leads to a downward spiral in physical and mental health. According to the National Osteoporosis Foundation, 20 percent of senior citizens who suffer a hip fracture die within one year, and one out of every two women and one out of every four men over 50 will have an osteoporosis-related fracture in their lifetime, with risk of fracture increasing with age.

Due primarily to the aging of the population and the previous lack of focus on bone health, health care experts estimate that the number of hip fractures in the United States could double or even triple by the year 2020. In recognition of the importance of promoting bone health and preventing fractures, President George Bush declared 2002–2011 as the *Decade of the Bone and Joint*.

A significant boost for our osteoporosis assessment business was the 1995 introduction of the first drug therapies to treat and prevent osteoporosis. Since 1995, at least five other new therapies have been introduced in the U.S., and more have been introduced internationally. We believe that the introduction of new drug therapies, the aging of the population, and an increased focus on women's health issues and preventive medical practices has created a growing awareness among patients and physicians that osteoporosis is treatable. As a result, more women than ever are seeking assessment for osteoporosis. We believe that the demand for our bone densitometry systems will continue to be driven by an increase in the number of available therapies to treat osteoporosis, the increase in the at-risk population, and broader reimbursement coverage for bone density testing. In fiscal 2005, we shipped more than 1,300 dual-energy x-ray bone densitometry systems worldwide.

We introduced our first product serving the bone densitometry market in 1986, began commercial shipments in 1987, and quickly gained recognition for our superior technology. Our patented dual-energy x-ray technology remains a leading bone densitometry assessment tool, offering superior, cost-effective accuracy and reliability. In 1999, we introduced the Delphi QDR x-ray densitometer, the first system to perform both bone density measurements and Instant Vertebral Assessment, or IVA. Delphi's technology enables physicians to measure bone density and to visually identify vertebral (spine) fractures in a clinical setting. Spine fractures are typically

the first clinical manifestation of osteoporosis, and frequently occur in patients who do not yet have markedly reduced bone density. The ability to conduct these two diagnostic procedures with one system enables doctors to cost-effectively improve fracture risk assessment and to capture greater reimbursement fees. IVA has been widely embraced by the medical community, and we have installed over 3,000 systems worldwide with IVA capabilities. In May 2001, we received the 2001 Frost & Sullivan Technology Innovation Award in the osteoporosis diagnostics market, given for technical superiority within the industry.

In December of 2002, we introduced our next generation of bone densitometers, the Discovery QDR Series. Discovery reduces bone density scan times providing bone density and IVA imaging scans in just 10 seconds. In addition, Discovery provides our CAD*fx* feature, which automates the evaluation of spine fractures. Discovery's automation and connectivity features improve patient throughput and integrate with electronic information systems. In October 2003 we introduced our Explorer QDR bone densitometer, and began commercial shipments in February 2004. Explorer is an entry level fan-beam x-ray bone densitometer, which is designed for cost conscious practitioners, particularly in international markets. In fiscal 2004, we completed the phase-out of the Delphi, QDR-4500, and QDR-4000 product lines, and we fully transitioned to the Discovery and Explorer product lines. In September of 2004, the American Medical Association published a new procedure code specifically for vertebral assessment performed on dual energy x-ray densitometers.

In addition to sales of new bone densitometry systems, we also offer upgrade opportunities to purchasers of many of our earlier generation systems, in order to incorporate IVA imaging technology, automation, and electronic reporting features. We have sold over 1,300 bone densitometer system upgrades worldwide.

Products

Our osteoporosis assessment products include a family of QDR x-ray bone densitometers and the Sahara Clinical Bone Sonometer (referred to herein as the "Sahara"), a low-cost ultrasound device that assesses the bone density of the heel.

QDR x-ray Bone Densitometers. Since our first commercial shipment of a QDR system in October 1987, we have sold more than 12,000 QDR systems. We believe that advantages of our QDR systems include high precision, low patient radiation exposure equivalent to 1/10th of a conventional chest x-ray, a relatively fast scanning time, low operating cost, and the ability to measure bone density of the most important fracture sites, the spine and hip. Our studies and those of independent investigators have demonstrated that the systems can detect a change in spine bone density with a precision error of less than one percent.

All our QDR systems employ our proprietary Automatic Internal Reference System, which continuously calibrates each patient's bone density measurement to a known standard. This system virtually eliminates errors that might result from manual calibration and saves operators the time-consuming task of calibrating several times a day. The system automatically compensates for drift in the x-ray system, detectors or other electronic components, which ensures long-term measurement stability.

In November 1999, we introduced our Delphi QDR Series bone densitometer. Delphi was the first bone densitometer to offer physicians the ability to simultaneously assess two of the strongest risk factors for osteoporotic fracture: existing fractures of the spine and low bone density. Using high-resolution fan beam x-ray imaging technology, Hologic's IVA technology enables clinicians to perform a rapid, low-dose evaluation of the spine in a single office visit during a routine bone densitometry exam. The high-resolution, single-energy images obtained with IVA visually reveal spinal fractures, which substantially increase the risk of future fracture, and thereby affect a clinician's therapeutic decisions. Prior to the introduction of IVA, spine fractures were rarely evaluated in clinical osteoporosis assessment, primarily due to the inconvenience and high radiation dose associated with obtaining conventional x-ray films. IVA provides a simple, point of care tool for vertebral assessment, with only 1% of the radiation dose of standard radiographic assessment. The combination of bone mineral density assessment and spine fracture assessment improves the clinician's ability to accurately target therapy to those who can benefit most.

We have invested substantial resources in developing operating and applications software for our systems. The software includes calibration software, automated scan and analysis programs for each scan site, and a patient data base manager. In 2001 and 2002 we introduced a series of software tools for remote softcopy interpretation and electronic reporting of test results. We believe that electronic reporting is a critical feature for any medical imaging device, as medical providers move towards paperless storage and reporting systems.

In December of 2002, we introduced our Discovery QDR Series of bone densitometers. Discovery acquires bone density and IVA scans in just ten seconds, which we believe provides the most comprehensive assessment of fracture risk in the shortest amount of time. Discovery's CADfx feature automates the classification of spine fractures, and our Express Exam feature completely automates the patient examination procedure. Discovery also offers workflow and connectivity enhancements, including complete electronic integration with hospital information systems.

Discovery systems are modular in design, allowing customers to add features and capabilities, while protecting their investment in equipment and patient data. Discovery is available in six different configurations, including the Ci and Wi models, which do not include the IVA capability, the C and W models, which include IVA, and the more advanced A and SL models.

An important feature of the Discovery A and SL systems is their ability to perform lateral, side-to-side scans of the spine, without turning the patient on her side, in addition to back-to-front measurements. The A and SL systems are capable of producing high quality images of the spine, lateral spine, hip and other skeletal sites. A motorized rotating scan arm allows for multiple scan views without patient repositioning. By using either of the A or SL systems, high-quality IVA images of the entire spine can be obtained in as little as ten seconds.

In February of 2004, we began shipments of our Explorer QDR Series bone densitometer. Explorer is an entry level x-ray bone densitometer targeted at cost conscious practitioners, particularly in international markets. Like Discovery, Explorer is a fan-beam system that utilizes a high-density array of detectors, and can acquire a 2-dimensional x-ray in a single linear scan motion. Older generation lower-cost systems required scanning in a rectilinear pattern, which lengthens scan times and decreases image resolution. Explorer's design is based on the Discovery platform, and offers Discovery's workflow and connectivity enhancements.

In June of 2005, we introduced the Discovery P, the first system specifically configured for primary care physicians, including the capability of integrating bone density information with the patient's electronic medical record. In November 2005, we introduced High Definition Instant Vertebral Assessment (IVA-HD), which essentially doubled the resolution of imaging performed on the Discovery system improving diagnostic confidence. We also introduced a lower resolution version of IVA on our Explorer line, making IVA an essential component on all of Hologic's bone densitometry systems.

Ultrasound. In addition to our QDR x-ray bone densitometers, we have developed and sell a lightweight, portable ultrasound bone analyzer, called Sahara, that assesses the bone density of the heel. Clinical trials of ultrasound systems have indicated a significant association of low ultrasonic bone measurements of the heel and the risk of fracture. Since ultrasound devices do not use x-rays in making their measurements, they do not require x-ray licensed or registered operators. However, because ultrasound bone measurements currently are not as precise as x-ray and other measurements, they are less reliable for monitoring small changes in bone density or for assessing the response to therapies. In addition, they are generally limited to measurements at peripheral skeletal sites, not the spine or hip, which are considered the gold standard for the diagnosis of osteoporosis. We believe that our Sahara ultrasound system represents a relatively low cost, portable, easy-to-use, non-ionizing measurement technique to assist in initial screening for osteoporosis. Since our introduction of the Sahara, over 3,900 Sahara systems have been sold worldwide.

Direct-to-Digital Imaging Products

Overview

We believe that the advantages of digital radiography over conventional screen-film and computed radiography technologies have significant potential in general and in our core mammography systems market in particular.

Digital radiography technologies can be divided into two classes: those that employ direct methods to convert x-ray energy into an electrical charge and those that use indirect methods. Technologies using direct-conversion flat-panel digital detectors, such as our DirectRay flat panel detector, use a semiconductor coating—amorphous selenium (a-Se)—to directly convert x-ray photons into an electrical charge. No intensifying screens or additional processes are required to capture and convert the x-ray energy. Digital radiography technologies using indirect conversion detectors employ a two-step process for x-ray detection. Scintillator coatings, such as cesium iodide or gadolinium oxysulfide, capture x-ray energy and convert it to light. An array of thin-film diodes then converts the light energy to electrical signals. We believe that other digital x-ray imaging technologies that use light compromise image sharpness because light scatter can blur the image.

DirectRay amorphous selenium coated detectors developed and manufactured by our Direct Radiography Corp. subsidiary are particularly well suited for high-quality digital imaging because selenium has high x-ray absorption efficiency, very high intrinsic resolution and low noise. We believe that amorphous selenium technology results in high quality digital images across a wide range of general radiographic applications and is particularly valuable for mammography, which has high-resolution requirements. The wide dynamic range inherent in Hologic DirectRay direct-to-digital detectors allows a radiologist to adjust the image electronically at a workstation to enhance the desired anatomical view and gain more diagnostic information compared to traditional screen-film technology.

Amorphous selenium deposition is a well-developed technology. It has been used for decades in photocopiers, in photocells and exposure meters for photographic use, as well as in solar cells. It is also used as a photographic toner and as an additive in the glass and stainless steel industries.

In digital mammography and radiography, direct-to-digital imaging technology provides the opportunity for more expedient patient exam flow, fewer repeat exams and increased room utilization. Because radiography systems utilizing direct radiography technology capture and convert x-ray images into a digital format within seconds of exposure, the technologist can quickly preview the digitized image for quality assurance prior to completion of a patient's examination. The digital image can then be transmitted electronically for reviewing on a diagnostic workstation, printing on film, and electronic storage.

For healthcare providers, the benefits of digital radiography technology stem from fast and efficient production of diagnostic quality images. We believe digital radiography systems incorporating our direct-to-digital technology, when compared to film-based systems, offer improved patient care, increased staff and equipment productivity, and the potential to attract a greater number of referral patients and physicians. In spite of their high acquisition cost, digital radiography systems can be cost effective in the long-term when considering increased throughput, savings in film-related expenses, image storage and transfer costs as well as the benefits of enhanced diagnostic convenience.

A significant factor in the medical market's acceptance of digital technology is the current transition within the healthcare industry from conventional x-ray film archiving to PACS, to store x-ray images electronically. We expect the number the number of hospitals and outpatient care facilities adopting a PACS environment to accelerate over the next several years as imaging centers realize the value and cost savings of a film less infrastructure. While not all facilities in which x-ray units are installed will migrate to digital technology, we believe most large facilities will, particularly those in the U.S. where PACS is an important initiative.

Products

In fiscal 2005 we directly offered DirectRay digital detectors in Hologic designed, manufactured, installed and serviced systems and we offered such systems to Original Equipment Manufacturers (OEMs), to incorporate into their own equipment. In fiscal 2004 we moved away from selling our own general radiography digital x-ray systems in competition with our OEM partners in general digital radiography, and began to shift resources to our core women's health products mammography and osteoporosis assessment systems while selling our DirectRay digital detectors to OEM for incorporation in their own line of digital radiography systems. In fiscal 2005, our OEMs customers included Analogic Corporation, Eastman Kodak, Del Global, Neusoft and FirstTech for digital radiography systems, and Siemens for digital mammography systems. We expect that sales of Direct Ray digital detectors to OEM's for general radiography purposes will begin to decline as we shift our focus and resources to our digital mammography products.

Mini C-arm Imaging Products

Overview

We manufacture and distribute Fluoroscan mini C-arm imaging systems. Mini C-arms provide low intensity, real-time x-ray imaging, with high-resolution images at radiation levels and at a cost well below those of conventional x-ray and fluoroscopic equipment. Mini C-arm systems are used primarily by orthopedic surgeons to perform minimally invasive surgical procedures on a patient's extremities, such as the hand, wrist, knee, foot and ankle.

Products

Premier Encore. We introduced the original Premier mini C-arm system in August 1998. The Premier's .045 mm focal spot x-ray tube, currently the smallest in the mini C-arm industry, provides clear resolution and detailed images on a six-inch field of view. The Premier's mini C-arm is designed to rotate 360 degrees. The Premier also features dual video channels that allow a surgeon to display different views of the anatomy for side-by-side comparison; four image buffer memories for instant recall of previous images; and built-in video and Ethernet connections that allow the user to output images to a printer or workstation, send to or receive from remote workstations, or record, review and archive images using existing Windows NT or hospital PACS.

At the Radiological Society of North America trade show held in December 2002, we introduced the Premier Encore system. The Premier Encore system builds upon the strengths of the Premier system, while retaining the high resolution imaging that makes Premier a leading mini C-arm system. Premier Encore streamlines system operation using a touch screen interface, configurable physician preference pre-sets, complete DICOM connectivity software capabilities, and CD image storage. The Premier Encore system is available with a laser-positioning pointer and offers 60-degree monitor rotation for maximum operating room flexibility.

In September 2005, we introduced the Fluoroscan Insight, a new premium level mini C-arm designed for orthopedic extremity surgery. The Insight utilizes a new higher resolution digital imaging chain, along with the industry's first flat panel display on a mini C-arm. The flat panel display is positioned on an extendable, swiveled arm that allows the surgeon to physically bring the image far closer to their work in the surgical field further easing the task of fluoroscopic imaging during a surgical procedure. The Insight also utilizes the latest computer advances in multi-language graphical user interfaces ideal for international distribution.

Conventional General Radiography Products

In January 2002 we officially closed our conventional x-ray equipment manufacturing facility in Littleton, Massachusetts and relocated some of the Littleton product lines and sales and service support personnel to our corporate headquarters in Bedford, Massachusetts. This consolidation was part of our previously announced plan to phase-out non-core and unprofitable product lines. We are continuing to provide service and supply spare parts for our discontinued product lines.

Marketing and Sales

In the United States, we sell and service our products through a combination of a direct sales and service force and a network of independent distributors. In early fiscal 2002, we centralized our management of these sales channels for all of our product lines. PSS World Medical, Inc. and its affiliates, our largest distributor network in the United States, accounted for approximately 12% of our product sales for fiscal 2003. In fiscal 2004 and 2005, no customer accounted for more than 10% of our product sales for any business segment.

As of November 19, 2005 our direct sales and service force, consisted of over 54 people in sales, and 137 field service engineers, plus internal technical support and associated administrative functions. Over the past three years we have expanded our direct sales and service efforts for mammography into territories that were previously covered by independent distributors, and we are continuing to consider further expansion of our direct sales and service coverage in the United States.

Our United States marketing efforts also include the use of two national account managers which are focused on obtaining purchasing contracts from large purchasing entities, such as managed care organizations, integrated delivery networks (IDN) and government healthcare facilities. The rise of these large purchasing organizations and IDN's has significantly altered our focus and the way we are organized. We believe that our success in capturing managed care accounts will have a significant impact on our growth. We believe that we have made excellent progress penetrating these key accounts as evidenced by contracts obtained from Consorta, Broadlane/Kaiser, HealthTrust Purchasing Group, Novation, Premier, U.S. Department of Veterans Affairs and the Defense Supply Center of Philadelphia (DSCP).

We sell our systems in international markets through a network of independent distributors, as well as a direct sales and service force in Belgium. In October 2003, we expanded our sales and service presence in Belgium by acquiring the mammography distribution business, including key service and application personnel, inventory and other related assets, from our independent distributor VH Services NV. We offer our broad range of products in Latin America, including Argentina, Brazil and Chile, and into Pacific Rim countries, including Japan, Australia, The Peoples Republic of China, South Korea, Thailand and Taiwan, by working with local sales representatives and distributors or entering into strategic marketing alliances in those territories. In fiscal 2005, 2004, and 2003 foreign sales accounted for approximately 33%, 39% and 32% of our product sales, respectively. See Note 9 of Notes to Consolidated Financial Statements for geographical information concerning those sales.

In fiscal 2005, we entered into a number of agreements, which have strengthened the sales and distribution channels for our core product lines, including the following:

- We signed contracts with Novation, a leading supply chain management company in healthcare, to extend our current contracts for sales of our Lorad mammography product line and our bone densitometry systems to Novation's member institutions for three years to August 2008.
- We signed two new contracts with HealthTrust Purchasing Group (HPG), L.P., for sales of the entire Lorad mammography line, Hologic bone densitometry products and mini C-arms to HPG members through April of 2008.
- We extended our Broadlane, Inc. group purchasing contract for the sale of bone densitometry products for three months to December 2005. Hologic, Inc. and Broadlane, Inc. continue to maintain an agreement for Lorad mammography products through August 2006.
- We extended our current group purchasing agreement with Resource Optimization & Innovation for the sale of our mammography and mini C-arm products for eight months to December 2005.
- We signed and completed two successful Group Buy Promotions for our Lorad mammography products with Novation, LLC and Consorta, Inc.
- We received the extension of our contract with the Defense Supply Center of Philadelphia (DSCP), which is the main contracting arm of the Veterans Affairs and Department of Defense Medical facilities.

Competition

The healthcare industry in general, and the market for diagnostic imaging and osteoporosis assessment products in particular, is highly competitive and characterized by continual change and improvement in technology, and multiple technologies that have been or are under development. A number of companies have developed, or are expected to develop products that compete or will compete with our products. Many of these competitors offer a range of products in areas other than those in which we compete, which may make such competitors more attractive to hospitals, radiology clients, group purchasing organizations and other potential customers. In addition, many of our competitors and potential competitors are larger and have greater financial resources than we do and offer a range of products broader than our products. Some of the companies with whom we compete have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. The companies that have significantly greater resources and product breadth than we do include General Electric Medical Systems (GE), Siemens, Philips, Fuji, Kodak and Toshiba. Competitors may develop superior products or products of similar quality for sale at the same or lower prices. Moreover, our products could be rendered obsolete by new industry standards or changing technology. We cannot assure that we will be able to compete successfully with existing or new competitors.

Our mammography products and subsystems compete on a worldwide basis with products offered by a number of competitors, including GE, Siemens, Philips, PlanMed, Agfa, Kodak, Fuji, IMS Giotto, Sectra and Toshiba. GE received FDA approval to commercialize their own indirect conversion digital mammography systems in January 2000 and currently markets its Senograph 2000 DS and 2000 D systems. We received FDA approval for our full field digital mammography system, Selenia™ in October 2002. Siemens has adopted the Hologic DirectRay direct-to-digital detectors for use in their Novation digital mammography system. In August 2004, Siemens received FDA clearance for their full field digital mammography system with the Hologic detector and commenced sales activities in the U.S. this past year. Agfa and Kodak have both introduced approved mammography workstations and are marketing these in competition with our line of radiologist review stations. Sectra is currently marketing its MicroDose digital mammography system in Europe and may eventually apply for FDA clearance in the U.S. While we offer a broad product line of breast imaging products, we compete most effectively in the high-end segment of the mammography market. We believe that our continued success will depend in part upon our ability to market and sell Selenia, our full field digital mammography system. Although Selenia systems are priced higher than competing technologies, we believe Selenia provides outstanding performance in aiding physicians in the early detection of breast cancer due to its image quality and workflow features and functionality. We believe that our mammography products compete primarily on the basis of image quality, product features, cost and ease of operation, price, reputation, product reliability and quality of service. We believe that growth of the digital mammography market will accelerate as product offerings improve image quality over existing systems. We expect additional participants to enter this digital mammography market over the next several years. Our minimally invasive breast biopsy systems compete with products offered by GE, Siemens, PlanMed, IMS Giotto and with conventional surgical biopsy procedures. Our Alexa ultrasound breast imaging system competes with ultrasound products offered from GE, Philips, Siemens, Toshiba, Hitachi and Sonosite. We believe that competition for our mammography, breast biopsy and ultrasound breast imaging products is based largely on image quality, product features, ease of use, product reliability and reputation as well as price and quality of service.

International clinical guidelines recognize spine and hip bone density measurements as the standard for diagnosis of osteoporosis. GE is our primary competitor in the osteoporosis assessment market with bone density of the hip and spine systems. Other companies have developed lower priced x-ray and ultrasound based systems that assess bone status of peripheral skeletal sites, such as the heel, hand or wrist. Measurements of bone density at peripheral sites are utilized for screening for osteoporosis risk, and patients identified as at risk by peripheral testing are commonly referred for spine and hip bone density testing. We believe that competition in the field of osteoporosis assessment is based upon product versatility and features, price, precision, speed of measurement,

reputation, cost and ease of operation, product reliability and quality of service. While we are generally not the lowest cost provider of dual-energy x-ray systems, we believe that we have been able to compete effectively because of our advanced technology and product features, including Vertebral Assessment imaging. We offer our Explorer™ system for the more price sensitive segment of the x-ray based osteoporosis assessment market, and our Sahara™ ultrasound bone analyzer for screening applications. We believe that competition in the field of osteoporosis assessment ultrasound systems is based on price, precision, speed of measurement, cost and ease of operation, reputation, product reliability and quality of service. We believe that advantages of our Sahara ultrasound bone analyzer system include the system's dry operation, simple single-button operation, and a compact and self-contained design that does not require the use of a separate computer. Because ultrasound systems can only measure peripheral skeletal sites and do not have the precision of dual-energy x-ray systems, we believe dual-energy x-ray systems will continue to be the predominant means of diagnosis and monitoring of bone density changes for patients being treated for osteoporosis.

Our direct-to-digital radiography detectors compete with traditional x-ray systems as well as indirect-conversion systems, such as computed radiography systems, which are less expensive than our products. Many of these competitors have established relationships with hospitals and other of our potential customers in our targeted markets. The larger competitors in these markets include GE, Siemens, Fuji, Kodak, Canon, Philips, Agfa, Analogic, SwissRay and Varian.

Our mini C-arm products compete directly with mini C-arms manufactured and sold by a limited number of companies including GE. We also compete with manufacturers of conventional C-arm image intensifiers including Philips, Siemens and GE. We believe that competition for our mini C-arm systems is based largely on price, quality, reputation, service and production capabilities. We believe that advantages of our mini C-arm systems include low levels of radiation, image quality or resolution, low product life cycle costs, mobility, quality and durability.

Manufacturing

We manufacture our osteoporosis assessment and mini C-arm imaging systems at our headquarters in Bedford, Massachusetts. We manufacture our mammography and breast biopsy systems at our manufacturing facilities in Danbury, Connecticut. Manufacturing operations for our systems consist primarily of assembly, test, burn-in and quality control. We purchase a major portion of the parts and peripheral components for these products, and manufacture some subsystems, such as high-voltage x-ray power supply, from raw materials. Parts and materials for these systems are generally readily available from several supply sources. However, we rely on one supplier for the HTC grid, an important component for our more advanced mammography systems.

We manufacture our direct radiography detectors at our manufacturing facility in Newark, Delaware. Our manufacture of detectors consists primarily of vapor deposition coatings in clean rooms, microelectronics fabrication, assembly, test, burn-in and quality control. We rely on one or only a limited number of suppliers for key components or subassemblies for our plates. In particular, we have only a limited number of suppliers for our thin-film transistors (TFT) and for our proprietary selenium coatings. The manufacturing of our direct radiography detectors is highly complex requiring precision, assembly and process control. This manufacturing location has recently gone through a transformation into a production facility. Product design changes and process improvements, along with new capital equipment have allowed us to increase our production rates while reducing scrap and improving yields.

Effective September 12, 2005, we entered into a supply agreement with AEG Elektrofotografie GmbH ("AEG") pursuant to which we agreed to purchase and AEG has agreed to manufacture and supply 75% of the annual requirements of selenium coatings used in the digital X-ray image capture radiographic systems of Direct Radiography Corp., a wholly owned subsidiary of Hologic. Our minimum purchases are subject to reduction if certain pricing and quality measures are not met. The term of the Supply Agreement is through the year 2012, subject to automatic renewal periods and earlier termination pursuant to the terms of the agreement. Failure of AEG to provide us with acceptable quantities of selenium coatings on a timely basis could materially harm our business and results of operations.

Backlog

Our backlog as of November 19, 2005 totaled $128.4 million and as of November 30, 2004 totaled $67.6 million. Backlog consists of customer orders for which a delivery schedule within the next twelve months has been specified. Orders included in backlog may be canceled or rescheduled by customers without significant penalty. Backlog as of any particular date should not be relied upon as indicative of our net revenues for any future period.

Research and Development

Our research and development efforts are focused on enhancing our existing products and developing new products. Our current emphasis is further development of digital detectors, the engineering and design of new end use systems, and software and hardware improvements for our existing products. This research and development includes continuing engineering and new product development of technologies that benefit our full field digital mammography system, and in particular the development of systems to perform breast tomosynthesis which is a 3-dimensional x-ray imaging technique. In addition to product development, our research and development personnel play an active role in the review of product specifications, clinical protocols and FDA submissions. Our research and product development expenses were approximately $18.6 million in fiscal 2005, $16.7 million in fiscal 2004 and $18.4 million in fiscal 2003.

In fiscal 2005, we entered into a number of research and development agreements, including the following:

- An Investigator's Agreement with Massachusetts General Hospital for a 2-year period beginning January 2005 to do research using Hologic's prototype tomosynthesis equipment.
- A Collaborative Research Agreement with the University of Sheffield for a 12-month period starting August 2005 to develop an algorithm to measure bone strength.
- A Collaborative Research Agreement with Johns Hopkins University to develop a 3D modeling capability for the femur using DXA technology.

Patents and Proprietary Rights

We rely primarily on a combination of trade secrets, patents, copyright and trademark laws, and confidentiality procedures to protect our technology. Due to the rapid technological change that characterizes the medical device industry, we believe that the improvement of existing products, reliance upon trade secrets and unpatented proprietary know-how and the development of new products are generally as important as patent protection in establishing and maintaining a competitive advantage. Nevertheless, we have obtained patents and will continue to make efforts to obtain patents, when available, in connection with our product development program.

As of November 19, 2005, we owned 50 United States patents relating to our densitometry technology, 41 patents relating to our direct radiography technology, 5 patents relating to our mini C-arm technology and 21 patents relating to our mammography business. Also, we license patents from others on a variety of terms, and own approximately 57 additional U. S. patents relating to other matters. Five patents will expire in 2006, including four relating to bone densitometry and one relating to other x-ray technologies. Two patents will expire in 2007, one relating to bone densitometry and one relating to other x-ray technologies. We do not believe that any of these expirations will have a material effect on our business. Our other patents have expiration dates ranging from 2008 to 2022. In addition, we have applied for an additional 56 U.S. patents on our technologies. We have also obtained or applied for corresponding patents and patent applications for some of our patents in selected foreign countries. During September 2005, we acquired the intellectual property of Fischer Imaging Corporation, a medical imaging firm based in Denver, CO., including 26 U.S. patents and applications, their associated foreign filings, and a variety of licenses and contracts related to Fischer's mammography and breast biopsy positioning business.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device and related industries. In the early 1990s, we were involved in extensive patent litigation with Lunar Corporation, which has since been acquired by GE. This litigation was settled by agreement dated November 22, 1995. The agreement provided that neither party would engage the other party in patent litigation respecting bone densitometry for a period of ten years, regardless of the infringement claimed and regardless of whether the technology in question currently existed at the time or was developed or acquired by the other party in the future. Neither party was required to disclose to the other any of its technology. During the last fiscal year, we entered into an eight year extension of this agreement through September 26, 2013. Upon expiration of this period on September 26, 2013, there will be no restrictions by either party on the assertion of an infringement claim against the other.

We are engaged in intellectual property litigation as described in Item 3, Legal Proceedings, and may be notified in the future, that we may be infringing intellectual property rights possessed by other third parties. In connection with any such litigation or if any claims are asserted against us or our products, we may seek to enter into royalty or licensing arrangements. There is a risk in these situations that no license will be available or that a license will not be available on reasonable terms. Alternatively, we may decide to litigate such claims or to design around the patented technology. These actions could be costly and would divert the efforts and attention of our management and technical personnel. As a result, any infringement claims by third parties or other claims for indemnification by customers resulting from infringement claims, whether or not proven to be true, may harm our business and prospects.

Regulation

The medical devices manufactured and marketed by us are subject to regulation by the FDA and, in many instances, by foreign governments. Under the Federal Food, Drug and Cosmetic Act, known as the FD&C Act, manufacturers of medical devices must comply with certain regulations governing the design, testing, manufacturing, packaging, servicing and marketing of medical devices. Some of our products are also subject to the Radiation Control for Health and Safety Act, administered by the FDA, which imposes performance standards and record keeping, reporting, product testing and product labeling requirements for devices that emit radiation, such as x-rays.

The FDA generally must clear the commercial sale of new medical devices. Commercial sales of our medical devices within the United States must be preceded by either a premarket notification filing pursuant to Section 510(k) of the FD&C Act or the granting of a premarket approval. The 510(k) notification filing must contain information that establishes the device to be substantially equivalent to a device commercially distributed prior to May 28, 1976.

The premarket approval procedure involves a more complex and lengthy testing and review process by the FDA than the 510(k) premarket notification procedure and may require several years to obtain. We may need to first obtain an investigational device exemption, known as an IDE, for the product to conduct extensive clinical testing of the device to obtain the necessary clinical data for submission to the FDA. The FDA will thereafter only grant premarket approval if, after evaluating this clinical data, it finds that the safety and effectiveness of the product has been sufficiently demonstrated. This approval may restrict the number of devices distributed or require additional patient follow-up for an indefinite period of time. We received premarket approval of our Selenia full field digital mammography system in October 2002. This premarket approval permitted us to begin marketing efforts in the United States and launch our commercialization efforts with respect to this product.

Our systems are also subject to approval by certain foreign regulatory and safety agencies. Some of our technology is governed by the International Traffic in Arms Regulations of the United States Department of State. As a result, the export of some of our systems to some countries may be limited or prohibited.

Our manufacturing processes and facilities are subject to continuing review by the FDA and foreign governments or their representatives. Adverse findings could result in various actions against Hologic, including withdrawal of approvals and product recall.

We cannot assure that the FDA or foreign regulatory agencies will give the requisite approvals or clearances for any of our medical devices under development on a timely basis, if at all. Moreover, after clearance is given, these agencies can later withdraw the clearance or require us to change the device or its manufacturing process or labeling, to supply additional proof of its safety and effectiveness, or to recall, repair, replace or refund the cost of the medical device, if it is shown to be hazardous or defective. The process of obtaining clearance to market products is costly and time-consuming and can delay the marketing and sale of our products.

As a manufacturer of medical devices, we are subject to additional FDA regulations, including the Radiation Control for Health and Safety Act of 1968, which specifically regulates radiation-emitting products. Most states and many other foreign countries monitor and require licensing of x-ray devices. Federal, state and foreign regulations regarding the manufacture and sale of medical devices are subject to future change. We cannot predict what impact, if any, such changes might have on our business.

Reimbursement

In the United States, the Centers for Medicare & Medicaid Services (formerly the Health Care Financing Administration), known as CMS, establishes guidelines for the reimbursement of healthcare providers treating Medicare and Medicaid patients. Under current CMS guidelines, varying reimbursement levels have been established for bone density assessment, mammography and other imaging and diagnostic procedures performed by our products. The actual reimbursement amounts are determined by individual state Medicare carriers and, for non-Medicare and Medicaid patients, private insurance carriers. There are often delays between the reimbursement approvals by CMS and by a state Medicare carrier and private insurance carriers. Moreover, states as well as private insurance carriers may choose not to follow the CMS reimbursement guidelines. The use of our products outside the United States is similarly affected by reimbursement policies adopted by foreign regulatory and insurance carriers.

Employees

As of November 19, 2005, we had 870 full-time employees, including 257 in manufacturing operations, 125 in research and development, 374 in marketing, sales and support services, and 114 in finance and administration. None of our employees are represented by a union.

Item 2. Properties.

We own and lease the real property identified below. We believe that we have adequate space for our anticipated needs and that suitable additional space will be available at commercially reasonable prices as needed.

Owned Real Property

We own a 168,000 square foot research and development, manufacturing and administrative site in Newark, Delaware at which DRC conducts its research and development and plate manufacture. We currently occupy approximately 63,000 square feet of this building, which houses our plate manufacturing facility, including both a class 1 and a class 2 clean room. We lease approximately 105,000 square feet of the facility to Dade Behring under a lease which expires in April 2015.

Leased Real Property

In September 2002, we completed a sale/leaseback transaction for our 200,000 square foot headquarters and manufacturing facility located in Bedford, Massachusetts and our 62,500 square foot LORAD manufacturing facility in Danbury, Connecticut. The lease for these facilities, including the associated land, has a term of 20 years, with four-five year renewal options. We sublease approximately 10,000 square feet of the Bedford facility to a subtenant, CMP Media, under a lease which expires in May 2006. We also sublease approximately 11,000 square feet of the Bedford facility to a subtenant, Genesys Conferencing, under a lease which expires in February 2008.

We lease a 60,000 square feet of office and manufacturing space in Danbury, Connecticut near our Lorad manufacturing facility. This lease expires in December 2012.

We also lease a sales and service office in Belgium.

Item 3. Legal Proceedings.

In March 2005, we were served with a Complaint filed on November 12, 2004 by Oleg Sokolov with the United States District Court for the District of Connecticut alleging that our HTC™ grid infringes U.S. Patent Number 5,970,118. The plaintiff is seeking to preliminarily and permanently enjoin us from infringing the patent, as well as damages resulting from the alleged infringement, treble damages and reasonable attorney fees, and such other and further relief as may be available. On April 25, 2005, we filed an Answer and Counterclaims in response to the complaint in which we denied the plaintiff's allegations and, among other things, sought declaratory relief with respect to the patent claims and damages, as well as other relief. On October 28, 1998, the plaintiff had previously sued Lorad, asserting, among other things, that Lorad had misappropriated the plaintiff's trade secrets relating to the HTC Grid. This previous case was dismissed on August 28, 2000. The dismissal was affirmed by the Appellate Court of the State of Connecticut, and the United States Supreme Court refused to grant Certiorari. We do not believe that we infringe any valid or enforceable patents of the plaintiff. However, while we intend to vigorously defend our interests, ongoing litigation can be costly and time consuming, and we cannot guarantee that we will prevail.

Item 4. Submission of Matters to a Vote of Security Holders.

At a special meeting of stockholders held November 15, 2005, our stockholders approved a proposal to amend our Certificate of Incorporation to increase the number of shares of common stock the Company has authority to issue from 30 million to 90 million. The voting results for the proposal, not adjusted for the effect of the stock split, were as follows:

For	Against	Abstained	Broker Non-Votes
17,695,228	963,202	155,213	0

As a result of the amendment, the previously announced two-for-one stock split to be effected as a stock dividend, was paid on November 30, 2005 to stockholders of record on November 16, 2005.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer's Purchases of Equity Securities.

Market Information. Our common stock is traded on the Nasdaq National Market under the symbol "HOLX." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock, as reported by the Nasdaq National Market. This stock price information has been adjusted to give effect for the stock split referenced above.

Fiscal Year Ended September 25, 2004	High	Low
First Quarter	$ 8.81	$6.34
Second Quarter	10.50	8.39
Third Quarter	11.61	9.25
Fourth Quarter	11.89	8.88

Fiscal Year Ended September 24, 2005	High	Low
First Quarter	$14.50	$ 8.89
Second Quarter	19.42	12.31
Third Quarter	20.36	14.77
Fourth Quarter	27.40	18.34

Number of Holders. As of December 1, 2005, there were approximately 1,497 holders of record of our common stock, including multiple beneficial holders at depositaries, banks and brokers listed as a single holder in the street name of each respective depositary, bank or broker.

Dividend Policy. We have never declared or paid cash dividends on our capital stock and do not plan to pay any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance future growth.

Recent Sales of Unregistered Securities. We did not sell unregistered securities during fiscal 2005.

Issuer's Purchases of Equity Securities. We did not repurchase any of our equity securities during the fourth quarter of fiscal 2005.

Item 6. Selected Financial Data.

In fiscal 2000 we acquired the U.S. assets of Trex Medical. The purchase accounting method under APB No. 16 was used for this transaction. Included in the fiscal 2001 financial data are (i) a $2.5 million reduction in expenses as a result of the settlement of the final purchase price and reassessment of reserves from the Trex Medical acquisition, (ii) the recognition of $2.1 million of other revenue previously deferred and a $500,000 reduction to cost of product sales due to excess warranty reserves related to the settlement of the litigation with Fleet Business Credit, LLC, (iii) restructuring charges of approximately $1.0 million for severance related expenses resulting from reductions in our workforce and (iv) a $500,000 charge from the relocation of the Fluoroscan mini C-arm manufacturing facility from Illinois to Massachusetts. Included in the fiscal 2002 financial data are restructuring costs of approximately $2.1 million related to closing the conventional general radiography manufacturing facility and to our continued efforts to streamline operations. In the fourth quarter of 2003, we adopted Emerging Issues Task Force (EITF) 00-21, *Revenue Arrangements with Multiple Deliverables*, as a cumulative effect adjustment for a change in accounting principle. Accordingly, the revenue representing the fair value of services not performed at the time of product shipment such as installation and training are deferred and recognized as performed.

	Fiscal Years Ended				
	September 24, 2005	September 25, 2004	September 27, 2003	September 28, 2002	September 29, 2001
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Revenues:					
Product sales	$229,075	$177,936	$156,734	$144,684	$135,067
Service and other revenue	58,609	50,769	47,301	45,508	45,129
	287,684	228,705	204,035	190,192	180,196
Costs and Expenses:					
Cost of product sales	116,478	94,762	86,506	84,230	85,712
Cost of service and other revenue	58,181	48,574	43,949	34,146	33,734
Research and development	18,617	16,659	18,381	20,362	23,328
Selling and marketing	34,199	31,761	29,978	28,319	33,858
General and administrative	27,578	24,363	22,196	18,908	20,852
Restructuring and relocation	—	—	—	2,070	1,518
	255,053	216,119	201,010	188,035	199,002
Income (loss) from operations	32,631	12,586	3,025	2,157	(18,806)
Interest income	2,219	540	685	573	1,027
Interest/other expense	(155)	(199)	(445)	(2,980)	(2,902)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle	34,695	12,927	3,265	(250)	(20,681)
Provision (benefit) for income taxes	6,439	763	176	(429)	169
Income (loss) before cumulative effect of change in accounting principle	28,256	12,164	3,089	179	(20,850)
Cumulative effect of change in accounting principle	—	—	(207)	—	—
Net income (loss)	$ 28,256	$ 12,164	$ 2,882	$ 179	$ (20,850)

	Fiscal Years Ended				
	September 24, 2005	September 25, 2004	September 27, 2003	September 28, 2002	September 29, 2001
	(In thousands, except per share data)				
Basic income (loss) per common and common equivalent share (1):					
Income (loss) before cumulative effect of change in accounting principle	$ 0.66	$ 0.30	$ 0.08	$ 0.00	$ (0.67)
Cumulative effect of change in accounting principle	—	—	(0.01)	—	—
Net income (loss)	$ 0.66	$ 0.30	$ 0.07	$ 0.00	$ (0.67)
Diluted income (loss) per common and common equivalent share (1):					
Income (loss) before cumulative effect of change in accounting principle	$ 0.63	$ 0.29	$ 0.08	$ 0.00	$ (0.67)
Cumulative effect of change in accounting principle	—	—	(0.01)	—	—
Net income (loss)	$ 0.63	$ 0.29	$ 0.07	$ 0.00	$ (0.67)
Weighted average number of common shares outstanding (1):					
Basic	42,824	40,516	39,258	36,837	30,949
Diluted	45,126	42,593	40,261	38,383	30,949
Consolidated Balance Sheet Data					
Working capital	$167,841	$121,049	$103,862	$ 98,472	$ 44,679
Total assets	279,839	211,751	188,603	184,147	194,863
Long-term debt	—	472	1,550	2,268	28,416
Total stockholders' equity	217,834	166,275	148,927	142,409	111,807

(1) All share and per share data have been retroactively restated to reflect the 2-for-1 stock split effected on November 30, 2005.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the "Selected Financial Data" and the Consolidated Financial Statements included elsewhere in this report and the information described under the caption "Risk Factors" below.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these 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, accounts receivable reserves, inventories, investments, long-lived assets, intangible assets and goodwill, income taxes, warranty obligations, restructuring, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Inventory

Our inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out) or market. As a designer and manufacturer of high technology medical equipment, we may be exposed to a number of economic and industry factors that could result in portions of our inventory becoming either obsolete or in excess of anticipated usage. These factors include, but are not limited to, technological changes in our markets, our ability to meet changing customer requirements, competitive pressures in products and prices, reliability and replacement of and the availability of key components from our suppliers. Our policy is to establish inventory reserves when conditions exist that suggest that our inventory may be in excess of anticipated demand or is obsolete based upon our assumptions about future demand for our products and market conditions. We regularly evaluate our ability to realize the value of our inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, product end of life dates, estimated current and future market values and new product introductions. Assumptions used in determining our estimates of future product demand may prove to be incorrect, in which case the provision required for excess and obsolete inventory would have to be adjusted in the future. If inventory is determined to be overvalued, we would be required to recognize such costs as cost of goods sold at the time of such determination. Although every effort is made to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand could have a significant negative impact on the value of our inventory and our reported operating results. Additionally, purchasing requirements and alternative usage avenues are explored within these processes to mitigate inventory exposure. When recorded, our reserves are intended to reduce the carrying value of our inventory to its net realizable value.

Provisions for excess or obsolete inventory are primarily based on management's estimates of forecasted net sales and service usage levels. A significant change in the timing or level of demand for the Company's products as compared to forecasted amounts may result in recording additional provisions for excess or expired inventory in the future. The Company records provisions for excess or obsolete inventory as cost of sales.

Accounts Receivable Reserves

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We regularly evaluate the collectibility of our trade receivables based on a combination of factors, which may include dialogue with the customer to determine the cause of non-payment, the use of collection agencies, and/or the use of litigation. In the event it is determined that the customer may not be able to meet its full obligation to us, we record a specific allowance to reduce the related receivable to the amount that we expect to recover given all information present. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and our assessment of the customer's current credit worthiness. We continuously monitor collections from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates in the future. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We also record a provision for estimated sales returns and allowances on product and service related sales in the same period as the related revenues are recorded. These estimates are based on the specific facts and circumstances of particular orders, analysis of credit memo data and other known factors. If the data we use to calculate these estimates do not properly reflect reserve requirements, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be adversely affected.

Our accounts receivable reserves were $2.6 million, $2.8 million and $3.5 million in fiscal 2005, 2004 and 2003, respectively. The decrease in the reserves in fiscal 2005 and 2004 were primarily attributable to our write-off of reserves and accounts receivable related to financed sales in Latin America, and for fiscal 2004, a decrease to our bad debt expense.

Revenue Recognition

Revenue. We recognize 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 and collection of the resulting receivable is probable. Generally, our product arrangements are multiple element arrangements, including services such as installation and training. Beginning in the fourth quarter of fiscal 2003, we began accounting for these arrangements in accordance with EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables.* Based on the terms and conditions of the product arrangements, we have concluded that these services and undelivered products can be accounted for separately from the delivered product element as our delivered product has value to our customers on a stand-alone basis and we have objective and reliable evidence of the fair value of such services and undelivered products based on the consistency of prices charged when these elements are sold separately. Accordingly, service revenue representing the fair value of services not yet performed at the time of product shipment is deferred and recognized as such services are performed. The fair value of the undelivered products is also deferred at the time of product shipment and recognized when these products are delivered. The undelivered elements of service to be performed and products to be delivered are all probable, perfunctory in nature and under our control. The residual revenue under the product arrangement will be recognized as product revenue upon shipment. We adopted EITF 00-21 as a cumulative effective of a change in accounting principle in accordance with Accounting Principles Board (APB) 20, *Accounting Changes*.

We recognize product revenue upon the completion of installation for shipments that require more than perfunctory obligations at the time of shipment, specifically for certain of our digital imaging systems. A provision is made at that time for estimated warranty costs to be incurred.

Service and other revenues, which primarily includes maintenance contracts, replacement parts, non-warranty repair services, installation and training services, and fee-per-scan revenue are recognized ratably over the contract period for maintenance contracts, at the time of shipment for replacement parts, as the service is rendered for repair, installation and training services and as the fees are collected for fee-per-scan revenue.

Product Warranties. Products sold are generally covered by a warranty for a period of one year. We accrue a warranty reserve at the time of revenue recognition for estimated costs to provide warranty services. Our estimate of costs to service our warranty obligations is based on historical experience and expectation of future conditions. To the extent we experience increased or decreased warranty claim activity or increased or decreased costs associated with servicing those claims, our warranty accrual will increase or decrease, respectively, resulting in decreased or increased gross profit. Our warranty accrual was approximately $6.7 million, $4.5 million and $4.5 million in fiscal 2005, 2004 and 2003, respectively. The increase in the warranty accrual in fiscal 2005 is primarily attributable to an increase in the number of digital mammography systems sold.

Income Taxes

We account for income taxes under Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes*. This statement requires that we recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences and carryforwards to the extent they are realizable. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

The valuation allowance as of September 24, 2005 primarily relates to certain state net operating losses for which we can only realize a benefit through the generation of future taxable income in the specific state and where realization is currently uncertain. In fiscal 2005, we reduced our valuation allowance by $6.2 million as we determined that based on our operating history and projections of future taxable income, it is more likely than not our remaining net deferred tax asset of $4.6 million is fully realizable. The benefit of the release in valuation allowance was realized through reductions to tax expense and increases to additional paid in capital.

The valuation allowance as of September 25, 2004 primarily related to federal and state net operating losses and research and development tax credits generated in fiscal 2003, 2002, 2001 and 2000 for which we could only realize a benefit through the generation of future taxable income and to certain deferred tax assets in foreign jurisdictions, for which realization was uncertain as of September 25, 2004.

We establish tax reserves based on our assessment of exposure associated with permanent tax differences and tax credits. These tax reserves are analyzed periodically and adjustments are made as events occur to warrant adjustment to the reserve. Based on the annual evaluations of tax positions, we believe we have appropriately filed our tax returns and accrued for possible exposures. To the extent we were to prevail in matters for which accruals have been established or be required to pay amounts in excess of reserves, our effective tax rate in a given financial period might be materially impacted. During the fourth quarter of fiscal 2005, we received notification that the Joint Committee on Taxation had no exceptions with the Internal Revenue Service's conclusions on several tax returns under examination. Therefore, we released $750,000 of tax reserves related to these returns further reducing our effective tax rate for fiscal 2005.

The American Jobs Creation Act of 2004 (the "Act") introduced a special one-time dividend received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. The President signed the Act into law on October 22, 2004. Even in light of the Act, we did not provide for U.S. income taxes on earnings of our subsidiaries outside of the U.S. Our current intention is to reinvest the total amount of our approximately $1.1 million of unremitted earnings permanently or repatriate the earnings only when tax-effective to do so. It is not practical to estimate the amount of additional taxes that might be payable upon repatriation of foreign earnings.

Legal Contingencies

We are currently involved in certain legal proceedings. In connection with these legal proceedings, management periodically reviews estimates of potential costs to be incurred by us in connection with the adjudication or settlement, if any, of these proceedings. These estimates are developed in consultation with outside counsel and are based on an analysis of potential litigation outcomes and settlement strategies. In accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*, loss contingencies are accrued if, in the opinion of management, an adverse outcome is probable and such outcome can be reasonably estimated. We do not believe that these proceedings will have a material adverse effect on our financial position; however, it is possible that future results for any particular quarter or annual period may be materially affected by changes in our assumptions or the effectiveness of our strategies relating to these proceedings.

OVERVIEW

We are engaged in the development, manufacture and distribution of proprietary x-ray, digital x-ray and other medical imaging systems. Our businesses are reported as four segments: mammography; osteoporosis assessment; digital detectors; and other.

Our mammography products include a broad product line of breast imaging products, including film-based and digital mammography systems and breast biopsy systems. Our osteoporosis assessment products primarily consist of dual-energy x-ray bone densitometry systems and, to a lesser extent, an ultrasound-based osteoporosis

assessment product. Bone densitometry is the precise measurement of bone density to assist in the diagnosis and monitoring of osteoporosis and other metabolic bone diseases that can lead to debilitating bone fractures. Our digital detector products are a digital component for original equipment manufacturers to incorporate into their own equipment. Our other business segment includes our mini C-arm, conventional general radiography service and digital general radiography systems businesses. Our mini C-arm products are low intensity, real-time mini C-arm x-ray systems used primarily for minimally invasive surgery on a patient's extremities. In January 2002, we closed the manufacturing facility for the conventional general radiography products; however, we continue to service and support most of these product lines. During fiscal 2004, we phased out our digital general radiography systems and have continued to focus on supplying our digital detectors, reported under our digital detector segment, to other original equipment manufacturers.

RECENT DEVELOPMENTS

On September 29, 2005, we completed the acquisition of Fischer Imaging Corporation's intellectual property relating to its mammography business and products, including the rights to their SenoScan digital mammography and MammoTest stereotactic breast biopsy systems. The purchase price for the intellectual property was $32 million, approximately $26.9 million of which was paid out of existing cash with the remaining amount paid through the cancellation of the principal and interest outstanding under a $5 million secured loan we previously provided to Fischer Imaging on June 22, 2005. As previously reported we expect to incur an up-front charge of approximately $4 million to write off in-process research and development in the first quarter of fiscal 2006, which ends on December 24, 2005. In addition, we expect to incur an annual charge of approximately $2.5 million beginning in fiscal 2006 to amortize certain intangible assets acquired in the transaction.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of total revenues represented by items as shown in our consolidated statements of operations.

	Fiscal Years Ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Revenues:			
Product sales	79.6%	77.8%	76.8%
Service and other revenue	20.4	22.2	23.2
	100.0	100.0	100.0
Cost and expenses:			
Cost of product sales	40.5	41.4	42.4
Cost of service and other revenue	20.2	21.2	21.5
Research and development	6.5	7.3	9.0
Selling and marketing	11.9	13.9	14.7
General and administrative	9.6	10.7	10.9
	88.7	94.5	98.5
Income from operations	11.3	5.5	1.5
Interest income	0.8	0.2	0.3
Interest/other expense	(0.1)	(0.1)	(0.2)
Income before income taxes and cumulative effect of accounting change	12.0	5.6	1.6
Provision for income taxes	2.2	0.3	0.1
Income before cumulative effect of accounting change	9.8	5.3	1.5
Cumulative effect of accounting change	—	—	(0.1)
Net income	9.8%	5.3%	1.4%

Fiscal Year Ended September 24, 2005 Compared to Fiscal Year Ended September 25, 2004

Product Sales.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Product Sales						
Mammography	$140,830	49%	$ 93,536	41%	$ 47,294	51%
Osteoporosis Assessment	$ 56,065	20%	$ 51,376	23%	$ 4,689	9%
Digital Detectors	$ 18,639	6%	$ 12,370	5%	$ 6,269	51%
Other	$ 13,541	5%	$ 20,654	9%	($7,113)	(34%)
	$229,075	80%	$177,936	78%	$ 51,139	29%

In fiscal 2005 our product sales increased 29% compared to fiscal 2004 primarily due to an increase in revenues from our mammography products, and to a lesser extent, an increase in digital detector and osteoporosis assessment sales. Partially offsetting these increases was a decrease in our other segment product sales, primarily attributable to our continued phase-out of our general radiography systems business. We have discontinued taking orders for these systems but continue to service the installed base.

Mammography product sales increased 51% in fiscal 2005 compared to fiscal 2004 primarily due to a $33.5 million increase in digital mammography system sales, a $9.8 million increase in Multicare stereotactic table sales and a $3.6 million increase in analog mammography systems sales. The increase in our digital mammography product sales was primarily attributable to an increase in the number of Selenia systems sold in the United States and by the inclusion of the CAD (Computer Aided Detection) software option on almost all of the units sold in the United States during the current year offset in part, by a slight decrease in the number of Selenia systems sold in Europe and a slight decrease in the average selling price for Selenia systems in fiscal 2005 as compared to fiscal 2004. In fiscal 2005, we sold 239 digital mammography systems compared to 143 systems in fiscal 2004. We attribute the increase in digital mammography system sales primarily to the growing acceptance of our Selenia mammography system and of digital mammography in general. The increase in sales of our analog mammography systems was primarily attributable to an increase in the number of systems sold internationally and for our Multicare stereotactic tables was primarily attributable to an increase in the number of systems sold worldwide in the current fiscal year compared to fiscal 2004.

Osteoporosis assessment product sales increased 9% in fiscal 2005 compared to fiscal 2004. This increase was primarily due to an increase in the number of systems and upgrades sold in the United States and an increase in the number of our lower-priced Explorer bone densitometry systems sold internationally, that was offset in part by a slight decrease in the average selling prices.

Digital detector product sales increased 51% in fiscal 2005 compared to fiscal 2004. The increase was primarily due to a $3.9 million increase in Europe, a $1.6 million increase in the United States, and an $800,000 increase in Asia compared to fiscal 2004. The increase in the United States and Asia primarily reflects the increase in the number of digital detectors sold for general radiography systems, while the increase for Europe primarily reflects the higher number of digital detectors sold for the mammography systems of our OEM partner. We continue to supply our digital detectors to other original equipment manufacturers. In fiscal 2006 we plan to focus more heavily on our digital detectors for mammography and expect that sales of our digital detectors for general radiography may begin to decline reflecting our primary focus on mammography markets. In the current fiscal year, sales of digital detectors for general radiography accounted for $10.4 million of digital detector product sales and sales of digital detectors for mammography accounted for $8.2 million of digital detector product sales.

Other product sales decreased 34% in fiscal 2005 compared to fiscal 2004. This decrease was primarily attributable to a $5.9 million decrease in worldwide digital general radiography product sales and a $1.1 million decrease in our worldwide mini C-arm product sales. The decrease in general radiography product sales reflect our decision to phase out our digital general radiography systems. As a result of this decision, we expect our product sales for our digital general radiography systems to be negligible going forward. In the current fiscal year, sales of digital general radiography systems accounted for $2.3 million of other product revenues. The decrease in sales of our mini C-arm products for the current fiscal year was primarily due to a reduction in the number of systems sold in the United States and in Europe as a result of increased competition as well as the deferral of purchases in anticipation of our pending release of Insight, our new mini C-arm system.

In fiscal 2005, approximately 67% of product sales were generated in the United States, 19% in Europe, 10% in Asia, and 4% in other international markets. In fiscal 2004, approximately 61% of product sales were generated in the United States, 21% in Europe, 11% in Asia, and 7% in other international markets. We believe the shift in sales dollars to the United States market is primarily due to an increase in demand for our Selenia digital mammography system as digital mammography is becoming more widely accepted in the United States. The decrease in sales in other international markets in fiscal 2005 was primarily attributable to the fulfillment of a large order for our Selenia digital mammography systems in Mexico in fiscal 2004.

Service and Other Revenue.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Service and Other Revenue	$58,609	20%	$50,769	22%	$7,840	15%

Service and other revenue is primarily comprised of revenue generated from our field service organization to provide ongoing service, installation and repair of our products. Service and other revenue increased 15% in fiscal 2005 compared to fiscal 2004. This increase was primarily due to increases in the number of service contracts sold, training revenues and spare parts in our mammography segment and, to a lesser extent, in our osteoporosis assessment and digital detector segments. We believe that these increases reflect the continued growth in our installed base of systems and digital detectors.

Cost of Product Sales.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Product Sales	Amount	% of Product Sales	Amount	%
Cost of Product Sales	$116,478	51%	$94,762	53%	$21,716	23%

Cost of product sales decreased as a percentage of product sales to 51% in fiscal 2005 from 53% in fiscal 2004. These costs decreased as a percentage of product sales primarily due to increased revenues and improved profitability associated with the shift in mammography product sales to Selenia, our full field digital mammography systems, and the increase in revenues for digital detectors resulting in an improved absorption of fixed manufacturing costs. The Selenia systems have significantly higher selling prices, more than offsetting the higher costs of the product, when compared to analog mammography. This improvement was partially offset by a slight reduction in the average selling prices for digital mammography systems worldwide, a significant increase in the number of analog mammography systems sold internationally, which earn a lower gross margin than digital mammography, and a shift in sales to lower margin bone densitometry systems, sold both internationally and into the primary care market in the United States.

Cost of Service and Other Revenue.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Service Revenue	Amount	% of Service Revenue	Amount	%
Cost of Service and Other Revenue	$58,181	99%	$48,574	96%	$9,607	20%

Cost of service and other revenue increased as a percentage of service and other revenue to 99% in fiscal 2005 from 96% in fiscal 2004. These costs increased as a percentage of service and other revenue primarily due to increased warranty costs of $5.4 million and $2.3 million in our digital detector and mammography businesses, respectively, and due to additional personnel and other costs to expand our service capabilities, especially in the United States, to support our growing installed base of products. We expect our costs of service and other revenue to remain relatively high as a percentage of service and other revenue, reflecting our need to employ the required personnel for warranty, non-warranty and installation activities to service our growing installed base of products. We also expect an increase in customers entering into service agreements in connection with our transition to digital mammography and direct service coverage.

Operating Expenses.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Operating Expenses						
Research and Development	$18,617	6%	$16,659	7%	$1,958	12%
Selling and Marketing	$34,199	12%	$31,761	14%	$2,438	8%
General and Administrative	$27,578	10%	$24,363	11%	$3,215	13%
	$80,394	28%	$72,783	32%	$7,611	10%

Research and Development Expenses. Research and development expenses increased 12% in fiscal 2005 compared to fiscal 2004. The increase was primarily due to an increase in mammography related expenses of $1.1 million and in digital detectors of $776,000 primarily related to our tomosynthesis development project and, to a lesser extent, an increase in mini C-arm related expenses of $825,000. These increases were primarily due to increased headcount and compensation related expenses that were partially offset by a decrease in research and development spending and personnel costs of $834,000 primarily related to our phase-out of the digital general radiography systems product line. We expect total research and development expenses to continue to increase as we accelerate our development efforts in tomosynthesis technology for mammography in fiscal 2006.

Selling and Marketing Expenses. Selling and marketing expenses increased 8% in fiscal 2005 compared to fiscal 2004. The increase was primarily due to an increase of approximately $1.8 million of salaries, benefits and travel expenses from an increase in our direct sales force, $1.1 million of increased commissions to our direct sales force due to the increased product sales in direct territories and $557,000 of additional freight charges due to increased sales to customers in group purchasing organizations. These increases were partially offset by a $921,000 decrease of international distributor commissions primarily related to the sale of Selenias in Mexico in fiscal 2004. Sales and marketing expenses have also shifted between the operating segments for the current fiscal year by increasing in mammography reflecting our increased revenues from that segment, and decreasing for each of our osteoporosis assessment, digital detectors and other business segments.

General and Administrative Expenses. General and administrative expenses increased 13% in fiscal 2005 compared to fiscal 2004. The increase was primarily due to an increase of $1.5 million in compensation and

related benefits, an increase of $1.1 million in legal expenses primarily related to the settlement of two disputes and an increase of $645,000 in accounting and tax expenses associated with additional corporate governance required by the Sarbanes-Oxley Act of 2002.

Interest Income.

	Years Ended			
	September 24, 2005	September 25, 2004	Change	
	Amount	Amount	Amount	%
Interest Income	$2,219	$540	$1,679	311%

Interest income increased in fiscal 2005 compared to fiscal 2004 primarily due to a higher investment balance and an increase in the interest rate earned in the current year compared to last year.

Interest and Other Income (Expense)

	Years Ended			
	September 24, 2005	September 25, 2004	Change	
	Amount	Amount	Amount	%
Interest and Other Income (Expense)	($155)	($199)	$44	22%

In fiscal 2005, these expenses were primarily comprised of the interest costs on the Wells Fargo Foothill, Inc. note payable of $376,000 partially offset by foreign currency transaction gains of $221,000. In fiscal 2004, these expenses were primarily comprised of interest costs on the Wells Fargo Foothill, Inc. note payable. In September 2005, we paid off the Wells Fargo Foothill, Inc. note payable. To the extent that foreign currency exchange rates fluctuate in the future, we may be exposed to continued financial risk. Although we have established a borrowing line of credit denominated in the foreign currency, the euro, in which our subsidiaries currently conduct business to minimize this risk, we cannot assure that we will be successful or can fully hedge our outstanding exposure.

Provision for Income Taxes.

	Years Ended			
	September 24, 2005	September 25, 2004	Change	
	Amount	Amount	Amount	%
Provision for Income Taxes	$6,439	$763	$5,676	744%

We account for income taxes under SFAS No. 109. This statement requires that we recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences and carryforwards to the extent they are realizable. We had recorded a valuation allowance to reduce our deferred tax assets to the amount that was more likely than not to be realized. In fiscal 2005, we considered our recent operating results, future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. As a result, we have determined that we are able to realize a portion of our deferred tax assets in excess of the net recorded amount, and therefore, an adjustment of $6.2 million was made to reduce the valuation allowance. The benefit of the release in valuation allowance was realized through reductions to tax expense and increases to additional paid in capital in the current fiscal year. However, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. In addition, during the fourth quarter of 2005 we received notification that the Joint

Committee on Taxation had no exceptions with the Internal Revenue Service's conclusions on several tax returns under examination. Therefore, we released $750,000 of tax reserves related to these returns further reducing our provision for income taxes in fiscal 2005. We provided for nominal federal, state and foreign income taxes in fiscal 2004 and certain minimum taxes where net-operating losses could not be used.

Segment Results of Operations

Our businesses are reported as four segments: mammography; osteoporosis assessment; digital detectors and other. The accounting policies of the segments are the same as those described in the footnotes to the accompanying consolidated financial statements. We measure segment performance based on total revenues and operating income or loss. Revenues from product sales of 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.

Mammography.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Amount	%
Total Revenues	$167,368	100%	$114,579	100%	$52,789	46%
Operating Income	$ 23,861	14%	$ 9,592	8%	$14,269	149%

Mammography revenues increased primarily due to the $47.3 million increase in product sales discussed above and an increase of $5.5 million in service and other revenues primarily related to the increased number of installed systems reaching warranty expiration. Operating income for this business segment increased primarily due to the increased revenues. Our gross margin in this business segment remained constant at 41% in fiscal 2005 and fiscal 2004. In fiscal 2005 our gross margins improved from the increase in product revenues of our more profitable Selenia systems versus our analog mammography systems. This improvement in the gross margin was offset by a reduction in the average selling prices for the base digital mammography systems without the CAD option and a significant increase in the sales of lower end analog mammography systems sold internationally at lower margin rates than in the United States and compared to the digital mammography product line, and an increase in service related costs. In general, we expect improved gross margins in fiscal 2006 from the shift in product revenues to our more profitable Selenia full field digital mammography systems from our analog mammography systems. Partially offsetting the gross margin increase in absolute dollars was increased operating expenses associated with growing the business, including increased headcount and our tomosynthesis technology development efforts.

Osteoporosis Assessment.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Amount	%
Total Revenues	$74,957	100%	$68,483	100%	$6,474	9%
Operating Income	$11,175	15%	$ 7,500	11%	$3,675	49%

Osteoporosis assessment revenues increased in fiscal 2005 compared to fiscal 2004 primarily due to the $4.7 million increase in product sales discussed above and a $1.8 million increase in service revenues. The

increase in service revenues was primarily due to the increased number of systems in our installed base. Operating income for osteoporosis assessment increased primarily due to increased revenues and, to a much lesser extent, a reduction in operating expenses. Our gross margin in this business segment was 44% in fiscal 2005 compared to 43% in fiscal 2004. The increase in osteoporosis assessment gross margins was primarily attributable to the increase in revenues and related improved absorption of manufacturing costs. The reduction in operating expenses of $337,000 was primarily attributable to reduced commissions expense, primarily related to the shift to international sales.

Digital Detectors.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Amount	%
Total Revenues	$ 21,945	100%	$ 15,047	100%	$ 6,898	46%
Operating Loss	($6,401)	(29%)	($4,833)	(32%)	($1,568)	(32%)

Digital detector revenues increased primarily due to the increased number of digital detectors sold as discussed above and a $629,000 increase in service revenues. The service revenues increase is due to the increase in the number of detectors in the installed base. The increase in the digital detector business operating loss is primarily due to increases in our warranty expenses, and, to a lesser extent, increases in research and development and general and administrative expenses partially offset by the improved gross profit from the increased revenues. Our gross margin in this business segment decreased to 10% in fiscal 2005 compared to 15% in fiscal 2004. The decrease in gross margin was primarily due to increased warranty expenses. The increase in research and development spending was primarily related to our tomosynthesis development project.

Other.

	Years Ended					
	September 24, 2005		September 25, 2004		Change	
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Amount	%
Total Revenues	$23,414	100%	$30,596	100%	($7,182)	(23%)
Operating Income	$ 3,996	17%	$ 327	1%	$ 3,669	1,122%

Revenues for this business segment, which includes the mini C-arm business, the digital general radiography business and the conventional general radiography service business, decreased primarily due to a $5.9 million decrease in digital general radiography systems sold worldwide, as a result of our phase out of that business, and a $1.1 million decrease in product sales of our mini C-arm products as discussed above. The improvements in operating income were primarily due to lower operating expenses as a result of our decision to de-emphasize the digital general radiography systems business, which has been substantially phased out, and to reallocate resources and costs in order to focus on the more profitable and faster growing digital mammography systems.

Fiscal Year Ended September 25, 2004 Compared to Fiscal Year Ended September 27, 2003

Product Sales.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Product Sales						
Mammography	$ 93,536	41%	$ 68,739	34%	$ 24,797	36%
Osteoporosis Assessment	$ 51,376	23%	$ 51,900	26%	($524)	(1%)
Digital Detectors	$ 12,370	5%	$ 6,843	3%	$ 5,527	81%
Other	$ 20,654	9%	$ 29,252	14%	($8,598)	(29%)
	$177,936	78%	$156,734	77%	$ 21,202	14%

In fiscal 2004 our product sales increased 14% compared to fiscal 2003 primarily due to the continued growth in the number of our Selenia full field digital mammography systems sold and to a lesser extent, our increase in digital detector sales. Partially offsetting these increases was the decrease in sales attributable to our continued phasing out of our general radiography systems business, which is included in our other segment. We continue to service the installed base of such equipment.

Mammography product sales increased 36% compared to fiscal 2003 primarily due to a $32.9 million increase in worldwide digital mammography system sales and a $2.8 million increase in Multicare stereotactic tables sold in the United States. The increase in our digital mammography product sales was primarily attributable to an increase in the number of Selenia systems sold and, to a lesser extent, a modest increase in the average selling price for those systems. In fiscal 2004 we sold 143 digital mammography systems compared to 57 systems in fiscal 2003. The increase in the average selling price of the Selenia contributed $7.0 million to our digital mammography product sales during fiscal 2004. We attribute the increase in digital mammography system sales primarily to the growing acceptance of our Selenia mammography system and of digital mammography in general. The increase in sales of our Multicare stereotactic tables, in the United States, was primarily attributable to an increase in the number of tables sold in the first two quarters of fiscal 2004 as compared to the corresponding quarters of the prior year. The increases in digital mammography and table sales were partially offset by a $14.4 million decrease in analog mammography systems sales in the United States, primarily as a result of reduced unit sales of those systems related to the increased market acceptance of digital mammography.

Osteoporosis assessment product sales decreased 1% in fiscal 2004 compared to fiscal 2003. This decrease was primarily attributable to a $3.0 million decrease in sales of our dual-energy x-ray bone densitometry systems in the United States and a decrease of $417,000 due to a reduction in the number of Sahara ultrasound systems sold in the United States. The decrease in United States sales of dual-energy x-ray bone densitometry systems was primarily attributable to a decrease in the number of systems sold and a shift to our lower priced systems sold into the primary care market. These reductions were partially offset by a $2.7 million increase in sales in international markets, primarily attributable to an increase in the number of our lower priced Explorer systems sold, and a $427,000 increase in upgrade sales.

Digital detector product sales increased 81% in fiscal 2004 compared to fiscal 2003. This increase was primarily due to an increase in the number of digital detectors sold in the United States and Europe, partially offset by a decrease in the number of detectors sold in Asia. Product sales of digital detectors in fiscal 2004 increased $3.8 million in the United States, $3.2 million in Europe and decreased $1.4 million in Asia compared to fiscal 2003. The increase in the United States primarily reflects the increase in the number of digital detectors sold for general radiography systems, while the increase for Europe primarily reflects the increase in the number of digital detectors sold for mammography systems. The decrease in Asia is primarily due to a reduction in the number of digital general radiography detectors sold.

Other product sales decreased 29% in fiscal 2004 compared to fiscal 2003. This decrease was primarily attributable to a $6.7 million decrease in worldwide digital general radiography product sales and a $2.0 million decrease in our mini C-arm product sales, primarily in the United States. The decrease in general radiography product sales reflects our decision to phase out our digital general radiography systems. In the current year, sales of digital general radiography systems accounted for $8.2 million of other product revenues. We attribute the decrease in sales of our mini C-arm products primarily to a reduction in the number of systems sold as a result of increased competition and competitive pricing pressure.

In fiscal 2004, approximately 61% of product sales were generated in the United States, 21% in Europe, 11% in Asia, 6% in Latin America and 1% in other international markets. In fiscal 2003, approximately 68% of product sales were generated in the United States, 17% in Europe, 13% in Asia, 1% in Latin America and 1% in other international markets. We believe the shift in sales to Europe and other international markets was primarily due to the timing of an increase in demand from those territories. The increase in sales in Latin America during fiscal 2004 was primarily attributable to a large sale of our Selenia digital mammography systems in Mexico in the first six months of fiscal 2004. In the second half of fiscal 2004 our product sales to Latin America constituted approximately 2% of our total product sales.

Service and Other Revenue.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Service and Other Revenue	$50,769	22%	$47,301	23%	$3,468	7%

Service and other revenue is primarily comprised of revenue generated from our field service organization to provide ongoing service, installation and repair of our products. Service and other revenue increased 7% in fiscal 2004 compared to the prior year. The increase in service and other revenue in fiscal 2004 was primarily due to a $3.3 million increase in service contract revenues in our mammography segment compared to fiscal 2003, primarily as a result of our assuming service responsibilities previously performed by a former distributor and the continued growth in our installed base of mammography systems and digital detectors. The increase in mammography service revenue was partially offset by a $1.2 million decrease in osteoporosis assessment service revenues. We attribute this decrease primarily to the completion of a multi-year service contract in Europe during fiscal 2004 that has not been renewed.

Cost of Product Sales.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Product Sales	Amount	% of Product Sales	Amount	%
Cost of Product Sales	$94,762	53%	$86,506	55%	$8,256	10%

The cost of product sales decreased as a percentage of product sales to 53% in fiscal 2004 from 55% in fiscal 2003. Cost of product sales decreased as a percentage of product sales primarily due to increased revenues and improved gross margins recognized on the shift in mammography product sales to Selenia. These systems have significantly higher selling prices, more than offsetting the higher costs of the product, when compared to analog mammography. This improvement was partially offset by reduced margins associated with the decrease in our product sales, a shift to international sales where we generally sell at lower prices through distributors and a shift to lower priced systems sold into the United States primary care market in our osteoporosis assessment segment and the decrease in mini C-arm systems sales.

Cost of Service and Other Revenue.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Service Revenue	Amount	% of Service Revenue	Amount	%
Cost of Service and Other Revenue	$48,574	96%	$43,949	93%	$4,625	11%

Cost of service and other revenue increased both in percentage of service revenue and absolute dollars, primarily related to additional personnel and other costs to expand our service capabilities, especially in the United States, as we continue to assume direct coverage of territories previously assigned to distributors and to support our growing installed base of products and due to increased warranty costs in our digital detector business.

Operating Expenses.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Operating Expenses						
Research and Development	$16,659	7%	$18,381	9%	($1,722)	(9%)
Selling and Marketing	$31,761	14%	$29,978	15%	$ 1,783	6%
General and Administrative	$24,363	11%	$22,196	11%	$ 2,167	10%
	$72,783	32%	$70,555	35%	$ 2,228	3%

Research and Development Expenses. Research and development expenses decreased in fiscal 2004 compared to fiscal 2003 primarily due to a decrease in research and development spending and personnel costs of $2.4 million primarily related to our phase-out of the digital general radiography systems product line announced in the fourth quarter of fiscal 2003. These decreases were offset in part from an increase in mammography related research and development expenses of $1.3 million, including our tomosynthesis development project.

Selling and Marketing Expenses. Selling and marketing expenses increased 6% in fiscal 2004 compared to fiscal 2003. These expenses decreased as a percentage of revenue to 13.9% in fiscal 2004 from 14.7% in fiscal 2003. The increase in fiscal 2004 was primarily due to an increase of approximately $778,000 of international distributor commissions primarily related to the sale of Selenias in Mexico in the first six months of fiscal 2004, $601,000 of increased commissions to our direct sales force due to the increased product sales in direct territories and $388,000 of tradeshow expenses related to the promotion of our new, Selenia system. Sales and marketing expenses have also shifted between the operating segments for fiscal 2004 as compared to fiscal 2003 by increasing in mammography, reflecting our increased revenues from that segment, and decreasing for our digital general radiography systems which are being phased-out.

General and Administrative. General and administrative expenses increased 10% in fiscal 2004 compared to fiscal 2003. As a percentage of revenue these expenses decreased to 10.7% in fiscal 2004 from 10.9% in fiscal 2003. The increase in the dollar amount of these expenses was primarily due to an increase of approximately $2.3 million in bonus and profit sharing expense in accordance with the applicable plans as a result of continued improved financial results. In addition, we incurred $741,000 of due diligence expenses in the third quarter of fiscal 2004 in connection with a potential acquisition. Prior to the end of the third quarter we decided not to pursue this potential acquisition further and accordingly expensed all acquisition costs in that quarter. Partially offsetting these increases were a $448,000 decrease in the bad debt provision as a result of strong cash collections in fiscal 2004, a $253,000 decrease of legal fees and a $251,000 decrease in the fees associated with our note payable to Wells Fargo Foothill, Inc. due to an amendment executed in July 2003.

Interest Income.

	Years Ended			
	September 25, 2004	September 27, 2003	Change	
	Amount	Amount	Amount	%
Interest Income	$540	$685	($145)	(21%)

Interest income decreased in fiscal 2004 compared to the prior year primarily due to a decrease in the interest rate earned in fiscal 2004 compared to fiscal 2003, partially offset by higher investment balances.

Interest and Other Income (Expense).

	Years Ended			
	September 25, 2004	September 27, 2003	Change	
	Amount	Amount	Amount	%
Interest and Other Income (Expense)	$(199)	$(445)	$246	55%

Interest and other income (expense) primarily consist of interest costs on the Wells Fargo Foothill, Inc. note payable. The decrease in these expenses was primarily due to the amendment made to the Wells Fargo Foothill, Inc. note payable in the third quarter of fiscal 2003 that significantly reduced the costs related to this facility. Other expense also includes foreign currency transaction gains and losses and interest costs on a bank line of credit used by our European subsidiaries to borrow funds in their local currencies to pay for intercompany sales, thereby reducing the foreign currency exposure in these transactions. In fiscal 2004 and 2003 we did not recognize any significant foreign exchange gains or losses or incur any interest charges under our foreign currency line of credit. To the extent that foreign currency exchange rates fluctuate in the future, we may be exposed to continued financial risk. Although we have established a borrowing line of credit denominated in the foreign currency, the euro, in which our subsidiaries currently conduct business to minimize this risk, we cannot assure that we will be successful or can fully hedge our outstanding exposure.

Provision for Income Taxes.

	Years Ended			
	September 25, 2004	September 27, 2003	Change	
	Amount	Amount	Amount	%
Provision for Income Taxes	$763	$176	$587	334%

We account for income taxes under SFAS No. 109. This statement requires that we recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences and carryforwards to the extent they are realizable. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. We have provided for nominal federal, state and foreign income taxes in fiscal 2004 and 2003 and certain minimum taxes where net-operating losses cannot be used.

Cumulative Effect of Change in Accounting Principle.

	Years Ended			
	September 25, 2004	September 27, 2003	Change	
	Amount	Amount	Amount	%
Cumulative Effect of Change in Accounting Principle . . .	$0	($207)	$207	(100%)

During the fourth quarter of fiscal 2003, we adopted EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables,* as a cumulative effect of a change in accounting principle in accordance with APB 20, *Accounting Changes*, in fiscal 2003. In connection with the adoption of EITF 00-21, we recorded a cumulative effect adjustment of $207,000 in the first quarter of fiscal 2003.

Liquidity and Capital Resources

At September 24, 2005 we had approximately $167.8 million of working capital. At that date our cash and cash equivalents totaled $114.0 million. Our cash and cash equivalents balance increased $45.7 million during fiscal 2005 primarily due to cash provided by operating and financing activities partially offset by the use of cash in investing activities.

Our cash provided by operating activities was $44.4 million, which included net income of $28.3 million for fiscal 2005 increased by non-cash charges for depreciation and amortization of an aggregate of $7.6 million. Cash provided by operations due to changes in our current assets and liabilities included an increase in accrued expenses of $6.0 million, an increase in deferred revenue of $8.1 million, and an increase in accounts payable of $3.6 million. These sources of cash were partially offset by an increase in accounts receivable of $9.3 million and an increase in inventory of $4.4 million. The increase in accrued expenses and accounts payable were primarily due to the timing of payments. The increase in deferred revenue was primarily due to an increase in the number of deferred service contracts and an increase in customer deposits. The increase in accounts receivable was primarily due to the increased revenues during fiscal 2005. The increase in inventory was to support the increased sales volume, especially for digital mammography.

In fiscal 2005, we used approximately $13.5 million of cash in investing activities. This use of cash was primarily attributable to purchases of property and equipment of $7.7 million, which consisted primarily of manufacturing and test equipment, computer hardware and demonstration equipment. In addition, we extended a $5.0 million secured loan in connection with the definitive agreement to acquire the intellectual property related to the mammography business of Fischer Imaging Corporation. On September 29, 2005, we completed the acquisition of the intellectual property relating to Fischer Imaging's mammography business and the loan was credited toward the purchase price at closing. The note bore interest at an annual rate equal to the prime rate (6.75% at September 24, 2005) plus 2.00%. In the first quarter of fiscal 2006, we used $27.4 million of cash to complete the acquisition of this intellectual property.

In fiscal 2005, financing activities provided us with $14.9 million of cash. These cash flows included approximately $15.9 million from the exercise of stock options partially offset by $947,000 of repayments, of our term loan with Wells Fargo Foothill, Inc.

We maintain an unsecured line of credit with a European bank for the equivalent of $3.0 million, which bears interest at the Europe Interbank Offered Rate (2.11% at September 24, 2005) plus 1.5%. The borrowings under this line are primarily used by our European subsidiaries to settle intercompany sales and are denominated in the respective local currencies of its European subsidiaries. The line of credit may be canceled by the bank with 30 days notice. At September 24, 2005, there were no outstanding borrowings under this line.

In September 2001 we obtained a secured loan from Wells Fargo Foothill, Inc. On September 21, 2005, we repaid the loan in full. The loan agreement with Wells Fargo Foothill, Inc., provided for a term loan of approximately $2.4 million, which we borrowed at signing, and a revolving line of credit facility. Following repayment, the loan agreement was terminated in accordance with its terms.

In September 2002, we completed a sale/leaseback transaction for our headquarters and manufacturing facility located in Bedford, Massachusetts and our LORAD manufacturing facility in Danbury, Connecticut. The transaction resulted in net proceeds to us of $31.4 million. The lease for these facilities, including the associated land, has a term of 20 years, with four five-year year renewal terms, which we may exercise at our option. The basic rent for the facilities is $3.2 million per year, which is subject to adjustment for increases in the consumer price index. The aggregate total minimum lease payments during the initial 20-year term are $62.9 million. In addition, we are required to maintain the facilities during the term of the lease and to pay all taxes, insurance, utilities and other costs associated with those facilities. Under the lease, we make customary representations and warranties and agree to certain financial covenants and indemnities. In the event we default on the lease, the landlord may terminate the lease, accelerate payments and collect liquidated damages. We were in compliance with all covenants as of September 24, 2005.

In October 2005, we received a request from the Federal Trade Commission, the FTC, that asks us to voluntarily produce certain information and material to the FTC. The FTC's request, which does not allege any wrongdoing, is part of an FTC non-public investigation to determine whether our recent acquisition of certain assets owned by Fischer Imaging Corporation may be anticompetitive and in violation of Section 7 of the Clayton Act or Section 5 of the Federal Trade Commission Act. We are in the process of responding to the FTC request. Because the investigation is at an early stage, we cannot predict its outcome or its effect, if any, on our business.

The following table summarizes our contractual obligations and commitments as of September 24, 2005:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in thousands)		
Operating Leases	$56,040	$ 4,844	$ 7,223	$ 6,365	$37,608
Purchase Obligations (1)	43,792	12,638	27,259	3,895	—
Total Contractual Obligations	$99,832	$17,482	$34,482	$10,260	$37,608

(1) The purchase obligations primarily relate to an exclusive distribution and service agreement in the United States under which we will sell and service a line of extremity MRI systems. Pursuant to the terms of this contract, we have certain minimum inventory purchase obligations for the initial term and are subject to renegotiation after the first eighteen month period in the event of any unforeseen changes in the market dynamics.

Except as set forth above, we do not have any other significant capital commitments. We are working on several projects, with an emphasis on digital mammography. In addition, we expect to continue to review and evaluate potential acquisitions of businesses, products or technologies, and strategic alliances that we believe will complement our current or future business. Subject to the risk factors set forth below and the general disclaimers set forth in our Special Note Regarding Forward-Looking Statements at the outset of this Report, we believe that we have sufficient funds in order to fund our expected operations over the next twelve months.

The expected timing of payment and amounts of the obligations discussed above are estimated based on current information.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, which amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities.

Statement 151 must be adopted for fiscal years starting after June 15, 2005. We expect to adopt Statement 151 starting in our fiscal first quarter of 2006, which begins on September 25, 2005. We do not believe the adoption of this statement will have any material impact on our results of operations or financial condition.

On December 16, 2004 the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. Statement 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach on Statement 123R is similar to the approach described in Statement 123. However, Statement 123R *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123R must be adopted for fiscal years starting after June 15, 2005. We expect to adopt Statement 123R starting in our fiscal first quarter of 2006, which begins on September 25, 2005.

As permitted by Statement 123R we currently account for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Statement 123R's fair value method will have a significant impact on our results of operations, although it will have no impact on our overall financial position. We estimate that the stock-based compensation cost will be approximately $4.0 million in fiscal 2006 as a result of the adoption of Statement 123R.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS No. 154 supersedes APB Opinion No.20, *Accounting Changes*, which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFAS No. 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under APB No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

Risk Factors

This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report should be read as applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this report.

The markets for our direct radiography products are in the early stage of development.

In 1998, our subsidiary, Direct Radiography Corp., was the first company to introduce direct-to-digital x-ray imaging products in the United States. The markets for these products are relatively new. There is a significant installed base of conventional x-ray imaging products in hospitals and radiological practices. The use of our direct-to-digital x-ray imaging products, including digital mammography products, in many cases would require these potential customers to either modify or replace their existing x-ray imaging equipment. Moreover, we believe that a major factor in the market's acceptance of direct-to-digital x-ray technology is the trend toward transition by the healthcare industry from conventional film archiving systems to hospital Picture Archiving and Communications Systems, known as PACS, to store x-ray images electronically. Because the benefits of our direct-to-digital technology may not be fully realized by customers until they install a PACS platform, a large potential market for these products may not develop until PACS environments are more widely used. Because of the early stage of the markets for these products, it is likely that our evaluation of the potential markets for these products will materially vary with time. We cannot assure that the markets for our direct radiography products will continue to develop.

If we fail to achieve and maintain the high manufacturing standards that our direct radiography products require, we will not be successful in developing and marketing those products.

The manufacture of our direct radiography detectors is highly complex and requires precise high quality manufacturing that is difficult to achieve. We have in the past and may in the future experience difficulties in manufacturing these detectors in commercial quantities, primarily related to delays and difficulties in obtaining critical components for these detectors that meet our high manufacturing standards. Our initial difficulties have led to increased delivery lead-times and increased costs of manufacturing these products. Our failure, including the failure of our contract manufacturers, to achieve and maintain the required high manufacturing standards could result in further delays or failures in product testing or delivery, cost overruns, product recalls or withdrawals, or other problems that could harm our business and prospects.

We continue to incur significant losses in our digital detector business segment and cannot assure that the segment will become profitable.

Our digital detector business segment incurred net losses of $6.4 million in fiscal 2005, $4.8 million in fiscal 2004 and $5.8 million in fiscal 2003. At the beginning of fiscal 2004 we started to move away from selling our own general digital x-ray systems in competition with our OEM partners in general digital radiography. Notwithstanding this shift in focus, we have continued to experience significant losses in our digital detector business segment and cannot assure that the operating results of this segment will improve.

Our success depends on new product development.

We have a continuing research and development program designed to develop new products and to enhance and improve our products. We are expending significant resources on the development of digital x-ray imaging products, including the development of a digital mammography product to perform breast tomosynthesis, a 3-dimensional imaging technique. The successful development of our products and product enhancements are subject to numerous risks, 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, including, for example, changes requested by the FDA in connection with pre-market approval applications for our products or 510(k) notification.

Given the uncertainties inherent with product development and introduction, we cannot assure 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 business and prospects.

Our business could be harmed if our products contain undetected errors or defects or do not meet customer specifications.

We are continuously developing new products and improving our existing products. Newly introduced products can contain undetected errors or defects. In addition, these products may not meet their performance specifications under all conditions or for all applications. If, despite our internal testing and testing by our customers, any of our products contains errors or defects or any of our products fails to meet customer specifications, then we may be required to enhance or improve those products or technologies. We may not be able to do so on a timely basis, if at all, and may only be able to do so at considerable expense. In addition, any significant reliability problems could result in adverse customer reaction, negative publicity or legal claims and could harm our business and prospects.

Our reliance on one or only a limited number of suppliers for some key components or subassemblies for our products could harm our business and prospects.

We rely on one or only a limited number of suppliers for some key components or subassemblies for our products. In particular we have a limited number of suppliers for each of the panel and the coating of that panel for our direct radiography products. In addition, we have only limited sources of supply for some key components used in our mini C-arm systems. Obtaining alternative sources of supply of these components could involve significant delays and other costs, and may not be available to us on reasonable terms, if at all. The failure of a component supplier or contract assembler to provide acceptable quality and timely components or assembly service at an acceptable price, or an interruption of supplies from such a supplier could harm our business and prospects. Any disruption of supplies of key components could delay or reduce shipments, which could result in lost or deferred sales.

If we are unable to satisfy our financial covenants under our long-term leases for our headquarters and Lorad facilities, the rent due under those leases may be accelerated and we could be required to pay liquidated damages.

Our long-term leases contain financial and other covenants. If we do not comply with our covenants under our long-term leases, the remaining rent payable under those leases could be accelerated and we could be required to pay liquidated damages. Our failure to meet any of our covenants under our long-term leases could significantly harm our liquidity and financial position.

We may not be able to compete successfully.

A number of companies have developed, or are expected to develop, products that compete or will compete with our products. Many of these competitors offer a range of products in areas other than those in which we compete, which may make such competitors more attractive to hospitals, radiology clients, general purchasing organizations and other potential customers. In addition, many of our competitors and potential competitors are larger and have greater financial resources than we do and offer a range of products broader than our products. Some of the companies with which we now compete or may compete in the future have or may have more extensive research, marketing and manufacturing capabilities and significantly greater technical and personnel resources than we do, and may be better positioned to continue to improve their technology in order to compete in an evolving industry. Our failure to compete successfully could harm our business and prospects.

Our mammography systems compete with products offered by GE, Siemens, PlanMed, Giotto, Toshiba and Agfa. Our minimally invasive breast biopsy systems compete with products offered by GE, Siemens, Philips,

PlanMed, Giotto and with conventional surgical biopsy procedures. Our mini C-arm products compete directly with mini C-arms manufactured and sold by a limited number of companies including GE. We also compete indirectly with manufacturers of conventional C-arm image intensifiers including Philips, Siemens and GE.

The primary competitor for our osteoporosis assessment products is General Electric Medical Systems (GE). Our direct-to-digital imaging products compete with traditional x-ray systems as well as indirect conversion systems, such as computed radiography systems, which are less expensive than our products, and other direct-to-digital systems. The larger competitors in these markets include GE, Siemens, Kodak, Canon, Philips, SwissRay, Fuji and Varian. At the beginning of fiscal 2004, we started to move away from selling our own general digital x-ray systems in competition with our OEM partners in general digital radiography and focus more on expanding our OEM sales for our DirectRay panel.

Our success depends upon our ability to adapt to rapid changes in technology and customer requirements.

The market for our products has been characterized by rapid technological change, frequent product introductions and evolving customer requirements. We believe that these trends will continue into the foreseeable future. Our success will depend, in part, upon our ability to enhance our existing products, successfully develop new products that meet increasing customer requirements and gain market acceptance. If we fail to do so our products may be rendered obsolete or uncompetitive by new industry standards or changing technology.

Our business may be harmed by acquisitions we have completed and may complete in the future.

We have acquired related businesses, technologies, product lines, and products and may pursue additional acquisitions in the future. Our identification of suitable acquisition candidates involves risks inherent in assessing the values, strengths, weaknesses, risks and profitability of acquisition candidates, including the effects of the possible acquisition on our business, diversion of our management's attention and risks associated with unanticipated problems or latent liabilities. In fiscal 2004, we incurred approximately $740,000 of professional fees, which we expensed, in connection with the analysis and negotiation of a potential acquisition that we decided not to complete. If we are successful in pursuing future acquisitions, we will be required to expend significant funds, incur additional debt or issue additional securities, which may negatively affect our results of operations and be dilutive to our stockholders. If we spend significant funds or incur additional debt, our ability to obtain financing for working capital or other purposes could decline, and we may be more vulnerable to economic downturns and competitive pressures. We cannot guarantee that we will be able to finance additional acquisitions or that we will realize any anticipated benefits from acquisitions that we complete. Should we acquire another business, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our existing business.

We may incur significant additional and unforeseen expenses and costs to defend or pursue litigation, investigations or other inquiries in connection with acquisitions that we complete.

We cannot guarantee that we will not become subject to litigation, investigations or inquiries in connection with acquisitions that we complete, which may cause us to incur significant additional and unforeseen costs to defend or pursue litigation or investigations or other inquiries relating to the acquisition. In October 2005, we received a request from the FTC that asks us to voluntarily produce certain information and material to the FTC. The FTC's request, which does not allege any wrongdoing, is part of an FTC non-public investigation to determine whether our recent acquisition of certain assets owned by Fischer Imaging Corporation may be anticompetitive and in violation of Section 7 of the Clayton Act or Section 5 of the Federal Trade Commission Act. We are in the process of responding to the FTC request. Because the investigation is at an early stage, we cannot predict its outcome or its effect, if any, on our business.

Our failure to manage current or future alliances or joint ventures effectively may harm our business and prospects.

We have entered into strategic alliances with Agfa, Siemens, R2 Technologies and iCAD. We are also exploring other potential alliances, joint ventures or other business relationships. Agfa and Siemens compete with us in some of our business segments, and are competitors or potential competitors to some of our customers or potential customers. Our alliance with Agfa, Siemens or any other person could enhance their business to our detriment or make it more difficult for us to enter into advantageous business transactions or relationships with others. Moreover, we may not be able to:

- identify appropriate candidates for alliances or joint ventures;
- assure that any alliance or joint venture candidate will provide us with the support anticipated;
- successfully negotiate an alliance or joint venture on terms that are advantageous to us; or
- successfully manage any alliance or joint venture.

Furthermore, any alliance or joint venture may divert management time and resources. Our entering into a disadvantageous alliance or joint venture or failure to manage an alliance or joint venture effectively could harm our business and prospects.

The uncertainty of healthcare reform could harm our business and prospects.

In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including efforts at national healthcare reform, trends toward managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements by office-based healthcare practitioners. Healthcare reform proposals and medical cost containment measures in the United States and in many foreign countries could:

- limit the use of our products;
- reduce reimbursement available for such use; or
- adversely affect the use of new therapies for which our products may be targeted.

These reforms or cost containment measures, including the uncertainty in the medical community regarding their nature and effect, could harm our business and prospects and make it difficult for us to raise additional capital on advantageous terms, if at all.

We depend on third party reimbursement to our customers for market acceptance of our products. Failure of third party payors to provide appropriate levels of reimbursement for use of our products could harm our business and prospects.

Sales of medical products largely depend on the reimbursement of patients' medical expenses by government healthcare programs and private health insurers. The costs of our products are substantial, and market acceptance of our products depends upon our customers' ability to obtain appropriate levels of reimbursement from third-party payors for use of our products. In the United States, the Centers for Medicare & Medicaid Services, known as CMS, establishes guidelines for the reimbursement of healthcare providers treating Medicare and Medicaid patients. Under current CMS guidelines, varying reimbursement levels have been established for bone density assessment, mammography and other imaging and diagnostic procedures performed by our products. The actual reimbursement amounts are determined by individual state Medicare carriers and, for non-Medicare and Medicaid patients, private insurance carriers. There are often delays between the reimbursement approvals by CMS and by a state Medicare carrier and private insurance carriers. Moreover, states as well as private insurance carriers may choose not to follow the CMS reimbursement guidelines. The use of our products outside the United States is similarly affected by reimbursement policies adopted by foreign regulatory and insurance carriers. A reduction or other adverse change in reimbursement policies for the use of our products could harm our business and prospects.

The future growth of our bone densitometry business depends in large part on the continued development and more widespread acceptance of complementary therapies as well as our ability to expand into the primary care market.

Our bone densitometers and related products are used to assist physicians in diagnosing patients at risk for osteoporosis and other bone disorders, and to monitor the effectiveness of therapies to treat these disorders. As a result, the future growth of the market for these products and of this business will in large part be dependent upon the development and more widespread acceptance of drug therapies to prevent and to treat osteoporosis, and in addition, our ability to expand into the primary care market. Over the last several years, the FDA has approved a number of drug therapies to treat osteoporosis. We also understand that a number of other drug therapies are under development. While sales of our bone densitometry products have benefited from the increased availability and use of these therapies, most patients who are at risk for osteoporosis continue to go untreated. We cannot assure that any therapies under development or in clinical trials will prove to be effective, obtain regulatory approval, or that any approved therapy will gain wide spread acceptance, or that we will be able to expand into the primary care market. Even if these therapies gain widespread acceptance, we cannot assure that this acceptance will increase the sales of our products.

Reductions in revenues could harm our operating results because a high percentage of our operating expenses is relatively fixed.

A high percentage of our operating expenses is relatively fixed. We likely will not be able to reduce spending to compensate for adverse fluctuations in revenues. As a result, shortfalls in revenues are likely to harm our operating results.

Our results of operations are subject to significant quarterly variation and seasonal fluctuation.

Our results of operations have been and may continue to be subject to significant quarterly variation. The results for a particular quarter may vary due to a number of factors, including:

- the overall state of healthcare and cost containment efforts;
- the development status and demand for drug therapies to treat osteoporosis;
- the development status and demand for our direct-to-digital imaging products;
- economic conditions in our markets;
- foreign exchange rates;
- the timing of orders;
- the timing of expenditures in anticipation of future sales;
- the mix of products sold by us;
- the introduction of new products and product enhancements by us or our competitors; and
- pricing and other competitive conditions.

Customers may also cancel or reschedule shipments. Production difficulties could also delay shipments. Any of these factors also could harm our business and prospects.

Our delay or inability to obtain any necessary United States or foreign regulatory clearances or approvals for our products could harm our business and prospects.

Our products are medical devices that are the subject of a high level of regulatory oversight. Our delay or inability to obtain any necessary United States or foreign regulatory clearances or approvals for our products

could harm our business and prospects. The process of obtaining clearances and approvals can be costly and time-consuming. There is a risk that any approvals or clearances, once obtained, may be withdrawn or modified. Medical devices cannot be marketed in the United States without clearance or approval by the FDA. Medical devices sold in the United States must also be manufactured in compliance with FDA Good Manufacturing Practices, which regulate the design, manufacture, packing, storage and installation of medical devices. Moreover, medical devices are required to comply with FDA regulations relating to investigational research and labeling. States may also regulate the manufacture, sale and use of medical devices, particularly those that employ x-ray technology. Our products are also subject to approval and regulation by foreign regulatory and safety agencies.

Fluctuations in the exchange rates of European currencies and the other foreign currencies in which we conduct our business, in relation to the U.S. dollar, have harmed and could continue to harm our business and prospects.

Foreign sales accounted for approximately 33% of our product sales in fiscal 2005, 39% of our product sales in fiscal 2004 and 32% of product sales in fiscal 2003. We maintain a sales and service office in Belgium and a support office in France. The expenses and sales of these offices are denominated in local currencies. We anticipate that foreign sales and sales denominated in foreign currencies will continue to account for a significant portion of our total sales. Fluctuations in the value of local currencies have caused, and are likely to continue to cause, amounts translated into U.S. dollars to fluctuate in comparison with previous periods. We have hedged our foreign currency exposure by borrowing funds in local European currencies to pay the expenses of our foreign offices. There is a risk that these hedging activities will not be successful in mitigating our foreign exchange risk exposure.

We conduct our business worldwide, which exposes us to a number of difficulties in coordinating our international activities and dealing with multiple regulatory environments.

We sell our products to customers throughout the world. Our worldwide business may be harmed by:

- difficulties in staffing and managing operations in multiple locations;
- greater difficulties in trade accounts receivable collection;
- possible adverse tax consequences;
- governmental currency controls;
- changes in various regulatory requirements;
- political and economic changes and disruptions;
- export/import controls; and
- tariff regulations.

Our business could be harmed if we are unable to protect our proprietary technology.

We rely primarily on a combination of trade secrets, patents, copyright and trademark laws and confidentiality procedures to protect our technology. Despite these precautions, unauthorized third parties may infringe, copy or reverse engineer portions of our technology. We do not know if current or future patent applications will be issued with the scope of the claims sought, if at all, or whether any patents issued will be challenged or invalidated. In addition, we have obtained or applied for corresponding patents and patent applications in several foreign countries for some of our patents and patent applications. There is a risk that these patent applications will not be granted or that the patent or patent application will not provide significant protection for our products and technology. Our competitors may independently develop similar technology that our patents do not cover. In addition, because patent applications in the United States are not publicly disclosed

until the patent is issued, applications may have been filed which relate to our technology. Moreover, there is a risk that foreign intellectual property laws will not protect our intellectual property rights to the same extent as United States intellectual property laws. In the absence of significant patent protection, we may be vulnerable to competitors who attempt to copy our products, processes or technology.

Our business could be harmed if we infringe upon the intellectual property rights of others.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device and related industries. We are and have been engaged, and may be in the future, notified that we may be infringing intellectual property rights possessed by third parties. For example, in March 2005, we were served with a complaint alleging that our HTC™ grid infringes U.S. Patent Number 5,970,118. The plaintiff is seeking to preliminarily and permanently enjoin us from infringing the patent, as well as damages resulting from the alleged infringement, treble damages and reasonable attorneys fees, and such other and further relief as may be available. We do not believe that we infringe any valid or enforceable patents of the plaintiff and we intend to vigorously defend our interests.

In connection with litigation or claims are asserted against our intellectual property rights, we may seek to enter into royalty or licensing arrangements. There is a risk in these situations that no license will be available or that a license will not be available on reasonable terms. Alternatively, we may decide to litigate such claims or to design around the patented technology. These actions could be costly and would divert the efforts and attention of our management and technical personnel. As a result, any infringement claims by third parties or claims for indemnification by customers resulting from infringement claims, whether or not proven to be true, may harm our business and prospects.

Our future success will depend on the continued services of our key personnel.

The loss of any of our key personnel, particularly our key research and development personnel, could harm our business and prospects. Our success will also depend upon our ability to attract and retain other qualified managerial and technical personnel. Competition for such personnel, particularly software engineers and other technical personnel, is intense. We may not be able to attract and retain personnel necessary for the development of our business. We do not have any key man life insurance for any of our officers or other key personnel.

Recently issued regulations related to equity compensation could adversely affect our ability to attract and retain key personnel.

We have historically used stock options and other long-term equity incentives as a fundamental component of our compensation packages. We believe that equity awards directly motivate our employees to maximize long-term stockholder value and, through the use of vesting, encourage employees to remain with us. The recent changes in the accounting for employee stock options and other share-based payments under Statement 123R requires us to record a charge to earnings for new and unvested employee stock option grants beginning on September 25, 2005. In addition, rules of the Nasdaq National Market that require shareholder approval for stock option plans, and regulations implemented by the New York Stock Exchange that prohibit NYSE member organizations from giving a proxy to vote on equity-compensation plans unless the beneficial owner of the shares has given voting instructions, could make it more difficult for us to grant options to employees in the future. If these new regulations make it more difficult or expensive to grant stock options or other equity awards to employees, we may need to change our equity compensation strategy and we may find it difficult to attract, retain and motivate employees, each of which could materially and adversely affect our business.

We are exposed to potential risks and we will continue to incur increased costs as a result of the internal control testing and evaluation process mandated by Section 404 of the Sarbanes-Oxley Act of 2002.

We assessed the effectiveness of our internal control over financial reporting as of September 24, 2005 and assessed all deficiencies on both an individual basis and in combination to determine if, when aggregated, they constitute more than an inconsequential deficiency. As a result of this evaluation, no significant deficiencies or material weaknesses were identified. Although we have completed the documentation and testing of the effectiveness of our internal control over financial reporting for fiscal 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002, we expect to continue to incur costs, including increased accounting fees and increased staffing levels, in order to maintain compliance with that section of the Sarbanes-Oxley Act. We continue to monitor controls for any additional weaknesses or deficiencies. No evaluation can provide complete assurance that our internal controls will detect or uncover all failures of persons within our company to disclose material information otherwise required to be reported. The effectiveness of our controls and procedures could also be limited by simple errors or faulty judgments. In addition, if we continue to expand globally, the challenges involved in implementing appropriate internal controls will increase and will require that we continue to improve our internal controls.

In the future, if we fail to complete the Sarbanes-Oxley 404 evaluation in a timely manner, or if our independent registered public accounting firm cannot attest in a timely manner to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal controls. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Future acquisitions of companies, some of which may have operations outside the United States, may provide us with challenges in implementing the required processes, procedures and controls in our acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities law in the United States. Although we intend to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, we cannot be certain that we will be successful in complying with Section 404.

There is a risk that our insurance will not be sufficient to protect us from product liability or other claims, or that in the future liability insurance will not be available to us at a reasonable cost, if at all.

Our business involves the risk of product liability and other claims inherent to the medical device business. We maintain product liability insurance subject to deductibles and exclusions. There is a risk that our insurance will not be sufficient to protect us from product and other liability claims, or that product liability insurance will not be available to us at a reasonable cost, if at all. An under-insured or uninsured claim could harm our operating results or financial condition.

We use hazardous materials and products.

Our research and development involves the controlled use of hazardous materials, such as toxic and carcinogenic chemicals and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by federal, state and local regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of this type of accident, we could be held liable for any resulting damages, and any such liability could be extensive. We are also subject to substantial regulation relating to occupational health and safety, environmental protection, hazardous substance control, and waste management and disposal. The failure to comply with such regulations could subject us to, among other things, fines and criminal liability.

Provisions in our Certificate of Incorporation and By-laws and our stockholder rights plan may have the effect of discouraging advantageous offers for our business or common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

Our Certificate of Incorporation, By-laws and the provisions of Delaware corporate law include provisions that may have the effect of discouraging or preventing a change in control. In addition, we have a stockholder rights plan that may have the effect of discouraging or preventing a change in control. These provisions could limit the price that our stockholders might receive in the future for shares of our common stock.

Our stock price is volatile.

The market price of our common stock has been, and may continue to be, highly volatile. We believe that a variety of factors could cause the price of our common stock to fluctuate, perhaps substantially, including:

- announcements and rumors of developments related to our business, or the industry in which we compete;
- quarterly fluctuations in our actual or anticipated operating results and order levels;
- general conditions in the worldwide economy;
- announcements of technological innovations;
- new products or product enhancements by us or our competitors;
- developments in patents or other intellectual property rights and litigation; and
- developments in our relationships with our customers and suppliers.

In addition, in recent years the stock market in general and the markets for shares of small capitalization and "high-tech" companies in particular, have experienced extreme price fluctuations which have often been unrelated to the operating performance of affected companies. Any such fluctuations in the future could adversely affect the market price of our common stock, and the market price of our common stock may decline.

We may incur significant stock-based compensation charges related to certain stock options and restricted stock in future periods.

The Financial Accounting Standards Board (FASB) issued in December 2004 Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment,* an amendment of FASB Statements Nos. 123 and 95, that addresses the accounting treatment for employee stock options and other share-based payment transactions. The statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) Opinion No. 25, "*Accounting for Stock Issued to Employees*," and requires that such transactions be accounted for using a fair-value-based method and recognized as expenses. The statement and the change in accounting treatment will result in our reporting increased operating expenses beginning for our next fiscal quarter ending December 24, 2005, which would decrease any reported net income or increase any reported net loss, and could adversely affect the market price of our common stock. In fiscal 2006, we expect that the stock-based compensation cost will be approximately $4.0 million as a result of the adoption of Statement 123R.

Item 7A. Quantitative and Qualitative Disclosures 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, short and long-term investments, accounts receivable, accounts payable and debt obligations. The fair value of these financial instruments approximates their carrying amount.

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 interest expense on loans made under a loan and security agreement with Wells Fargo Foothill, Inc. (the Foothill Agreement) which was repaid in full and terminated on September 21, 2005, and a European line of credit. The Foothill Agreement term loan accrued interest at the prime rate plus 1.0% and the European Line of Credit accrues interest at the Europe Interbank Offered Rate plus 1.50%. At September 24, 2005, we had no amounts outstanding under the Foothill Agreement or under the European line of credit.

Foreign Currency Exchange Risk. Internationally, we currently operate in Belgium and France. 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, foreign exchange rate volatility and other risks identified under the heading "Risk Factors" in Part II, Item 7a above. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Substantially all of our sales outside the United States are conducted in U.S. dollar denominated transactions. We do operate two European subsidiaries, which incur expenses denominated in local currencies (Euro). As such, our operating results and certain assets and liabilities that are denominated in Euros are affected by changes in the relative strength of the United States dollar against the Euro. Our expenses are positively affected when the United States dollar strengthens against the Euro and adversely affected when the United States dollar weakens. However, based on the level of operating expenses, we believe that the foreign currency exchange risk is not significant. During fiscal 2005, 2004 and 2003, we incurred foreign currency exchange gains (losses) of $221,000, $(192,000) and $(134,000) respectively.

Item 8. Financial Statements and Supplementary Data.

The consolidated Financial Statements and Supplementary Data of Hologic are listed under Part IV, Item 15, in this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure 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 September 24, 2005, 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 in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Report of Management on Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of our principal executive and principal financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have assessed the effectiveness of our internal control over financial reporting as of September 24, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, we believe that, as of September 24, 2005, our internal control over financial reporting is effective at a reasonable assurance level based on these criteria.

Ernst & Young, our independent registered public accounting firm, has issued an audit report on our assessment of our internal control over financial reporting. This report, in which they expressed an unqualified opinion is included below.

Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting

The Board of Directors and Stockholders of Hologic, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Hologic, Inc. maintained effective internal control over financial reporting as of September 24, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hologic Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Hologic, Inc. maintained effective internal control over financial reporting as of September 24, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hologic, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 24, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hologic, Inc. as of September 24, 2005 and September 25, 2004 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 24, 2005 of Hologic, Inc. and our report dated December 2, 2005, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
December 2, 2005

Changes in Internal Controls over financial reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, we have adopted a Code of Ethics for Senior Financial Officers that applies to our principal executive officer and principal financial officer, principal accounting officer and controller, and other persons performing similar functions. Our Code of Ethics for Senior Financial Officers is publicly available on our website at *www.hologic.com.* We intend to satisfy the disclosure requirement under Item 5.05 of Current Report on Form 8-K regarding an amendment to, or waiver from, a provision of this code by posting such information on our website, at the address specified above.

The additional information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

We maintain a number of equity compensation plans for employees, officers, directors and others whose efforts contribute to our success. The table below sets forth certain information as our fiscal year ended September 24, 2005 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our stockholders, and (ii) were not approved by our stockholders. The number of securities and the exercise price of the outstanding securities have been adjusted to reflect our two-for-one stock split effected on November 30, 2005.

Equity Compensation Plan Information

Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights (a)	Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights (b)	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	3,841,008	$7.84	1,016,520
Equity compensation plans not approved by security holders (2)	863,604	$6.44	0
Total	4,704,612	$7.58	1,016,520

(1) Includes the following plans: 1986 Combination Stock Option Plan; Amended and Restated 1990 Non-employee Director Stock Option Plan; 1995 Combination Stock Option Plan; Amended and Restated 1999 Equity Incentive Plan; and 2000 Employee Stock Purchase Plan. Also includes the following plans which we assumed in connection with our acquisition of Fluoroscan Imaging Systems in 1996: FluoroScan Imaging Systems, Inc. 1994 Amended and Restated Stock Incentive Plan and FluoroScan Imaging Systems, Inc. 1995 Stock Incentive Plan. For a description of these plans, please refer to Footnote 5 contained in our consolidated financial statements.

(2) Includes the following plans: 1997 Employee Equity Incentive Plan and 2000 Acquisition Equity Incentive Plan. A description of each of these plans is as follows:

1997 Employee Equity Incentive Plan. The purposes of the 1997 Employee Equity Incentive Plan (the "1997 Plan"), adopted by the Board of Directors in May 1997, are to attract and retain key employees, consultants and advisors, to provide an incentive for them to assist us in achieving long-range performance goals, and to enable such person to participate in our long-term growth. In general, under the 1997 Plan, all employees, consultants, and advisors who are not executive officers or directors are eligible to participate in the 1997 Plan. The 1997 Plan is administered by a committee consisting of at least three members of the Board appointed by the Board of Directors. Participants in the 1997 Plan are eligible to receive non-qualified stock options, stock appreciation rights, restricted stock and performance shares. A total of 2,200,000 shares of our common stock were reserved for issuance under the 1997 Plan. Of the shares reserved for issuance under the 1997 Plan, options to purchase 502,784 shares have been granted and are outstanding. In September 2005, our Board of Directors determined that no further awards would be made under this plan and cancelled all remaining shares, 166,084, available for issuance under the 1997 Plan that are not subject to outstanding stock option awards.

2000 Acquisition Incentive Plan. The purpose of the 2000 Acquisition Equity Incentive Plan (the "2000 Plan"), adopted by the Board of Directors in April 2001, is to attract and retain (a) employees, consultants and advisors, of newly acquired businesses who have been or are being hired as employees, consultants or advisors of our company or any of our consolidated subsidiaries, and (b) employees, consultants and advisors, of our company who have or are anticipated to provide significant assistance in connection with the acquisition of a newly acquired business or its integration with our company, and to provide such persons an incentive for them to achieve long-range performance goals, and to enable them to participate in our long-term growth. In general, under the 2000 Plan, only employees, consultants and advisors who are not officers or directors of our company are eligible to participate in the 2000 Plan. The 2000 Plan is administered by the Board or, at its option, a committee consisting of at least three members of the Board appointed by the Board of Directors. Participants in the 2000 Plan are eligible to receive non-qualified stock options, stock appreciation rights, restricted stock and performance shares. A total of 1,600,000 shares of our common stock were reserved for issuance under the 2000 Plan. Of the shares reserved for issuance under the 2000 Plan, options to purchase 360,820 shares have been granted and are outstanding. In September 2005, the Board of Directors determined that no further awards would be made under this plan and cancelled all remaining shares, 417,704, available for issuance under the 2000 Plan that are not subject to outstanding stock option awards.

The additional information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Item 14. Principal Accountant Fees and Services.

The information required by this item is incorporated by reference to our Definitive Proxy Statement for our annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this report:

(1) Financial Statements

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Consolidated Balance Sheets as of September 24, 2005 and September 25, 2004

Consolidated Statements of Income for the years ended September 24, 2005, September 25, 2004 and September 27, 2003

Consolidated Statements of Stockholders' Equity for the years ended September 24, 2005, September 25, 2004 and September 27, 2003

Consolidated Statements of Cash Flows for the years ended September 24, 2005, September 25, 2004 and September 27, 2003

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All schedules have been omitted because they are not required or because the required information is given in the Consolidated Financial Statements or Notes thereto.

(b) Listing of Exhibits

Exhibit Number		Reference
3.01	Certificate of Incorporation of Hologic	A-3.01
3.02	Amendment to Certificate of Incorporation of Hologic	D-3.03
3.03	Certificate of Amendment to Certificate of Incorporation of Hologic	filed herewith
3.04	Amended and Restated By-laws of Hologic	O-3.03
4.01	Specimen Certificate for Shares of Hologic's Common Stock	B-1
4.02	Description of Capital Stock (Contained in the Certificate of Incorporation of Hologic, as Amended, Filed as Exhibits 3.01 and 3.02).	A-3.01; D-3.03
4.03	Rights Agreement dated September 17, 2002	K-4
4.04	Form of Rights Certificate	K-4
10.01	1986 Combination Stock Option Plan, as Amended	C-10.07*
10.02	Amended and Restated 1990 Non-Employee Director Stock Option Plan	D-10.26*
10.03	1995 Combination Stock Option Plan	D-10.25*
10.04	Amended and Restated 1999 Equity Incentive Plan	F-10*
10.05	Amendment No. 1 to Amended and Restated 1999 Equity Incentive Plan	R-10.33*
10.06	1997 Employee Equity Incentive Plan	E-99

Exhibit Number		Reference
10.07	2000 Acquisition Equity Incentive Plan	J-10.05
10.08	2000 Employee Stock Purchase Plan	I-99.3*
10.09	Form of Executive Officer Non-Qualified Stock Option Agreement	P-10.32*
10.10	Form of Indemnification Agreement for Directors and Certain Officers of Hologic	A-10.12*
10.11	Employment Agreement with an Officer of Hologic	C-10.22*
10.12	Employment Letter to an Officer of Hologic	J-10.12*
10.13	Executive Bonus Plan Description	filed herewith*
10.14	Promissory Note to an Officer of Hologic	J-10.13*
10.15	Form of Officer Separation Agreement including List of Officers to Whom Provided	J-10.14*
10.16	Form of Change in Control Agreement including list of officers to Whom Provided	Q-10.1*
10.17	Executive Employment Letter	L-10.29*
10.18	Supply Agreement	H-10.27
10.19	Facility Lease (Danbury)	G-10.14
10.20	Lease Agreement (Danbury and Bedford)	M-10.27
10.21	Officer Relocation Agreement	S-10.29*
10.22	Executive Financial Services Program	S-10.30*
10.23	Asset Purchase Agreement between Hologic and Fischer Imaging Corporation	T-21
10.24	Supply Agreement by and among AEG Elektrofotografie GmbH, Hologic and Direct Radiography Corp.	filed herewith**
21.01	Significant Subsidiaries of Hologic	M-21.01
23.01	Consent of Ernst & Young LLP	filed herewith
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

* Management compensation plan or arrangement

** Portions of this Agreement identified by *** have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission on December 6, 2005, pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

A We previously filed this exhibit on January 24, 1990 with the referenced exhibit number as an exhibit to our Registration Statement on Form S-1 (Registration No. 33-33128), and the previously filed exhibit is incorporated herein by reference.

B We previously filed this exhibit on January 31, 1990 with the referenced exhibit number as an exhibit to our Registration Statement on Form 8-A, and the previously filed exhibit is incorporated herein by reference.

C We previously filed this exhibit on December 22, 1994 with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 24, 1994, and the previously filed exhibit is incorporated herein by reference.

D We previously filed this exhibit on May 14, 1996, with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended March 30, 1996, and the previously filed exhibit is incorporated herein by reference.

E We previously filed this exhibit on August 20, 1997 with the referenced exhibit number as an exhibit to our Registration Statement on Form S-8 (SEC File No. 333-34003), and the previously filed exhibit is incorporated herein by reference.

F We previously filed this exhibit on May 11, 1999 with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended March 27, 1999, and the previously filed exhibit is incorporated herein by reference.

G Trex Medical Corporation previously filed this exhibit with the referenced exhibit number as an Exhibit to its Registration Statement on Form S-1 (Reg. No. 333-2926), and the previously filed exhibit is incorporated by reference.

H We previously filed this exhibit on December 22, 2000 with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 30, 2000, and the previously filed exhibit is incorporated by reference.

I We previously filed this exhibit on May 2, 2001 with the referenced exhibit number as an exhibit to our Registration Statement on Form S-8 (SEC File No. 333-60046), and the previously filed exhibit is incorporated herein by reference.

J We previously filed this exhibit on December 12, 2001 with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 29, 2001, and the previously filed exhibit is incorporated by reference.

K We previously filed this exhibit on September 17, 2002 with the referenced exhibit number as an exhibit to our Registration Statement on Form 8-A (SEC File No. 000-18281), and the previously filed exhibit is incorporated herein by reference.

L We previously filed this exhibit on May 13, 2003 with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended March 29, 2003, and the previously filed exhibit is incorporated herein by reference.

M We previously filed this exhibit on December 24, 2002 with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 28, 2002, and the previously filed exhibit is incorporated herein by reference.

N We previously filed this exhibit on December 23, 2003, with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 27, 2003, and the previously filed exhibit is incorporated herein by reference.

O We previously filed this exhibit on May 11, 2004 with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended March 27, 2004, and the previously filed exhibit is incorporated herein by reference.

P We previously filed this exhibit on September 23, 2004 with the referenced exhibit number as an exhibit to our Current Report on Form 8-K (SEC File No. 000-18281) dated as of September 23, 2004, and the previously filed exhibit is incorporated herein by reference.

Q We previously filed this exhibit on February 10, 2004 with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended December 27, 2003, and the previously filed exhibit is incorporated herein by reference.

R We previously filed this exhibit on December 8, 2004 with the referenced exhibit number as an exhibit to our Annual Report on Form 10-K (SEC File No. 000-18281) for the fiscal year ended September 25, 2004, and the previously filed exhibit is incorporated herein by reference.

S We previously filed this exhibit on February 3, 2005 with the referenced exhibit number as an exhibit to our Quarterly Report on Form 10-Q (SEC File No. 000-18281) for the quarter ended December 25, 2004, and the previously filed exhibit is incorporated herein by reference.

T We previously filed this exhibit on June 23, 2005 with the referenced exhibit number as an exhibit to our Current Report on Form 8-K (SEC File No. 000-18281) dated as of June 22, 2005, and the previously filed exhibit is incorporated herein by reference.

c) Financial Statement Schedules.

The financial statement schedules required are included as part of Item 15(a) (2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ JOHN W. CUMMING

JOHN W. CUMMING
Chairman of the Board
and Chief Executive Officer

Dated: December 6, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN W. CUMMING **JOHN W. CUMMING**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	December 6, 2005
/s/ GLENN P. MUIR **GLENN P. MUIR**	Director, Executive Vice President Finance and Administration and Treasurer (Principal Financial Officer)	December 6, 2005
/s/ JAY A. STEIN **JAY A. STEIN**	Chairman Emeritus and Chief Technical Officer	December 6, 2005
/s/ ROBERT H. LAVALLEE **ROBERT H. LAVALLEE**	Vice President, Corporate Controller (Principal Accounting Officer)	December 6, 2005
/s/ IRWIN JACOBS **IRWIN JACOBS**	Director	December 6, 2005
/s/ DAVID R. LAVANCE, JR. **DAVID R. LAVANCE, JR.**	Director	December 6, 2005
/s/ NANCY L. LEAMING **NANCY L. LEAMING**	Director	December 6, 2005
/s/ ARTHUR G. LERNER **ARTHUR G. LERNER**	Director	December 6, 2005

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hologic, Inc.

Years ended September 24, 2005, September 25, 2004

and September 27, 2003

Hologic, Inc.

Audited Consolidated Financial Statements

Years ended September 24, 2005, September 25, 2004 and September 27, 2003

Contents

Report of Independent Registered Public Accounting Firm
on Consolidated Financial Statements

The Board of Directors and Stockholders of Hologic, Inc.

We have audited the accompanying consolidated balance sheets of Hologic, Inc. and subsidiaries as of September 24, 2005 and September 25, 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 24, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hologic, Inc. and subsidiaries at September 24, 2005 and September 25, 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 24, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hologic, Inc.'s internal control over financial reporting as of September 24, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 2, 2005 expressed an unqualified opinion on both management's assessment of and the effective operation of internal control over financial reporting.

/s/ Ernst & Young LLP

Boston, Massachusetts
December 2, 2005

Hologic, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	September 24, 2005	September 25, 2004
Assets		
Current assets:		
Cash and cash equivalents	$113,994	$ 68,335
Accounts receivable, less reserves of $2,592 and $2,757 respectively	57,742	48,409
Inventories	44,520	40,174
Prepaid expenses and other current assets	12,119	9,135
Total current assets	228,375	166,053
Property and equipment, at cost:		
Land	1,500	1,500
Buildings and improvements	14,336	13,697
Equipment and software	43,282	38,038
Furniture and fixtures	3,805	3,591
Leasehold improvements	2,788	2,728
	65,711	59,554
Less—accumulated depreciation and amortization	32,382	26,677
	33,329	32,877
Other assets:		
Patented technology, net of accumulated amortization of $6,954 and $6,761, respectively	646	824
Developed technology and know-how, net of accumulated amortization of $4,592 and $3,681, respectively	4,516	5,427
Goodwill	6,285	6,285
Other, net	6,688	285
	18,135	12,821
Total assets	$279,839	$211,751
Liabilities		
Current liabilities:		
Current portion of notes payable	$ —	$ 475
Accounts payable	14,163	10,546
Accrued expenses	25,237	19,293
Deferred revenue	21,134	13,013
Total current liabilities	60,534	43,327
Note payable, net of current portion	—	472
Deferred income tax liabilities	1,471	1,677
Commitments and contingencies *(Note 8)*		
Stockholders' equity:		
Preferred stock, $0.01 par value–1,623 shares authorized; 0 shares issued	—	—
Common stock, $0.01 par value–90,000 shares authorized; 44,295 and 41,171 shares issued, respectively	443	412
Capital in excess of par value	172,642	149,246
Retained earnings	46,452	18,196
Accumulated other comprehensive loss	(1,239)	(1,115)
Treasury stock, at cost—90 shares	(464)	(464)
Total stockholders' equity	217,834	166,275
Total liabilities and stockholders' equity	$279,839	$211,751

See accompanying notes.

Hologic, Inc.

Consolidated Statements of Income

(In thousands, except per share data)

	Years ended		
	September 24, 2005	**September 25, 2004**	**September 27, 2003**
Revenues:			
Product sales	$229,075	$177,936	$156,734
Service and other revenue	58,609	50,769	47,301
	287,684	228,705	204,035
Costs and expenses:			
Cost of product sales	116,478	94,762	86,506
Cost of service and other revenue	58,181	48,574	43,949
Research and development	18,617	16,659	18,381
Selling and marketing	34,199	31,761	29,978
General and administrative	27,578	24,363	22,196
	255,053	216,119	201,010
Income from operations	32,631	12,586	3,025
Interest income	2,219	540	685
Interest and other income (expense), net	(155)	(199)	(445)
Income before income taxes and cumulative effect of accounting change	34,695	12,927	3,265
Provision for income taxes	6,439	763	176
Income before cumulative effect of change in accounting principle	28,256	12,164	3,089
Cumulative effect of change in accounting principle	—	—	(207)
Net income	$ 28,256	$ 12,164	$ 2,882
Basic income per common and common equivalent share:			
Income before cumulative effect of change in accounting principle	$ 0.66	$ 0.30	$ 0.08
Cumulative effect of change in accounting Principle	—	—	(0.01)
Net income	$ 0.66	$ 0.30	$ 0.07
Diluted income per common and common equivalent share:			
Income before cumulative effect of change in accounting principle	$ 0.63	$ 0.29	$ 0.08
Cumulative effect of change in accounting Principle	—	—	(0.01)
Net income	$ 0.63	$ 0.29	$ 0.07
Weighted average number of common shares outstanding:			
Basic	42,824	40,516	39,258
Diluted	45,126	42,593	40,261

See accompanying notes.

Hologic, Inc.

Consolidated Statements of Stockholders' Equity

(In thousands, except per share data)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
	Number of Shares	$0.01 Par Value			Number of Shares	Amount			
Balance at September 28, 2002	38,924	$389	$141,211	$ 3,150	90	$(464)	$(1,877)	$142,409	$ —
Exercise of stock options	939	10	2,654	—	—	—	—	2,664	—
Issuance of common stock under employee stock purchase plan	74	1	390	—	—	—	—	391	—
Expiration of restricted stock awards	(5)	—	—	—	—	—	—	—	—
Net income	—	—	—	2,882	—	—	—	2,882	2,882
Translation adjustments	—	—	—	—	—	—	581	581	581
Comprehensive income									3,463
Balance at September 27, 2003	39,932	400	144,255	6,032	90	(464)	(1,296)	148,927	
Exercise of stock options	1,175	12	4,578	—	—	—	—	4,590	—
Issuance of common stock under employee stock purchase plan	64	—	413	—	—	—	—	413	—
Net income	—	—	—	12,164	—	—	—	12,164	12,164
Translation adjustments	—	—	—	—	—	—	181	181	181
Comprehensive income									12,345
Balance at September 25, 2004	41,171	412	149,246	18,196	90	(464)	(1,115)	166,275	
Exercise of stock options	3,077	31	15,324	—	—	—	—	15,355	—
Issuance of common stock under employee stock purchase plan	47	—	511	—	—	—	—	511	—
Tax benefit related to exercise of nonqualified stock options	—	—	7,561	—	—	—	—	7,561	—
Net income	—	—	—	28,256	—	—	—	28,256	28,256
Translation adjustments	—	—	—	—	—	—	(124)	(124)	(124)
Comprehensive income									$28,132
Balance at September 24, 2005	44,295	$443	$172,642	$46,452	90	$(464)	$(1,239)	$217,834	

See accompanying notes.

Hologic, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Years ended		
	September 24, 2005	**September 25, 2004**	**September 27, 2003**
Operating activities			
Net income	$ 28,256	$12,164	$ 2,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	6,421	5,712	5,491
Amortization	1,153	1,877	1,914
Noncash interest expense	133	123	186
Tax benefit related to exercise of non-qualified stock options	7,561	—	—
Deferred income taxes	(135)	(2,436)	(1,255)
Changes in assets and liabilities:			
Accounts receivable	(9,310)	(4,435)	(4,096)
Inventories	(4,381)	3,428	(5,074)
Prepaid expenses and other current assets	(3,059)	444	5,303
Accounts payable	3,623	(452)	(167)
Accrued expenses	5,972	5,935	(418)
Deferred revenue	8,139	3,522	(35)
Net cash provided by operating activities	44,373	25,882	4,731
Investing activities			
Net cash paid for acquisition of distributor	—	(341)	—
Deferred acquisition costs	(5,428)	—	—
Purchase of property and equipment	(7,699)	(7,187)	(9,200)
Disposal of property and equipment	805	744	1,054
(Increase) decrease in other assets	(1,172)	163	224
Net cash used in investing activities	(13,494)	(6,621)	(7,922)
Financing activities			
Repayments of notes payable	(947)	(1,083)	(718)
Net proceeds from sale of common stock pursuant to stock plans	15,868	5,003	3,055
Net cash provided by financing activities	14,921	3,920	2,337
Effect of exchange rate changes on cash	(141)	(23)	195
Net increase (decrease) in cash and cash equivalents	45,659	23,158	(659)
Cash and cash equivalents, beginning of year	68,335	45,177	45,836
Cash and cash equivalents, end of year	$113,994	$68,335	$45,177
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for income taxes	$ 1,118	$ 448	$ 178
Cash paid during the period for interest	$ 185	$ 91	$ 172

See accompanying notes.

1. Operations

Hologic, Inc. (the Company or Hologic) develops, manufactures and distributes diagnostic and medical imaging systems primarily serving the healthcare needs of women. The Company's core women's healthcare business units are focused on mammography, osteoporosis assessment and breast biopsy.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements reflect the application of certain accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements.

The Company believes that a critical accounting policy is one that is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as the result of the need to make estimates about the effect of matters that are inherently uncertain.

Principles of Consolidation

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

Reclassifications

Certain prior-period amounts have been reclassified to conform with the current-period presentation.

Fiscal Year

The Company's fiscal year ends on the last Saturday in September. Fiscal 2005, 2004 and 2003 ended on September 24, 2005, September 25, 2004 and September 27, 2003, respectively.

Stock Split

On November 30, 2005, the Company effected a two-for-one stock split in the form of a stock dividend. The stock split has been retroactively reflected in the accompanying consolidated financial statements and notes for all periods presented.

Management's Estimates and Uncertainties

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.

Significant estimates relied upon in preparing these consolidated financial statements include revenue recognition for multiple-element arrangements, allowances for doubtful accounts, expected future cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of long-lived assets used to record

impairment charges related to intangible assets and goodwill, amortization periods, restructuring and other related charges, any contingent liabilities, and recoverability of the Company's net deferred tax assets and related valuation allowance.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if past experience or other assumptions do not turn out to be substantially accurate.

The company is subject to a number of risks similar to those of other companies of similar size in its industry, including, early stage of development of direct-to-digital products, rapid technological changes, competition, limited number of suppliers, customer concentration, integration of acquisitions, government regulations, management of international activities, protection of proprietary rights, patent litigation and dependence of key individuals.

Cash Equivalents

The Company considers its highly liquid investments with original maturities of three months or less at the time of acquisition to be cash equivalents. At September 24, 2005 and September 25, 2004 the Company's cash equivalents consisted of money market accounts.

Concentrations of Credit Risk

The Company has no significant off-balance-sheet risk such as foreign exchange contracts, option contracts or other foreign hedging arrangements. Financial instruments that subject the Company to credit risk primarily consist of cash and cash equivalents and trade accounts receivable. The Company's credit risk is managed by investing its cash in high-quality money market instruments and securities of the U.S. government and its agencies. The Company's customers are principally located in the United States, Europe and Asia. The Company performs ongoing credit evaluations of the financial condition of its customers and generally does not require collateral. Although, the Company is directly affected by the overall financial condition of the healthcare industry, management does not believe significant credit risk exists as of September 24, 2005. The Company generally has not experienced any material losses related to receivables from individual customers or groups of customers in the x-ray and medical device industry. The Company maintains an allowance for doubtful accounts based on accounts past due according to contractual terms and historical collection experience. Actual losses when incurred are charged to the allowance. The Company's losses related to collection of trade receivables have consistently been within management's expectations. Due to these factors, no additional credit risk beyond amounts provided for collection losses, which the Company reevaluates on a monthly basis based on specific review of receivable agings and the period that any receivables are beyond the standard payment terms, is believed by management to be probable in the Company's accounts receivable.

There were no customers with balances greater than 10% of accounts receivable as of September 24, 2005 or September 25, 2004, or customers that represented greater than 10% of product revenues for fiscal 2005 and 2004. A former distributor accounted for 12% of product revenues for fiscal 2003.

(In thousands, except per share data)

Disclosure of Fair Value of Financial Instruments

The Company's financial instruments mainly consist of cash and cash equivalents, accounts receivable, line of credit, accounts payable and notes payable. The carrying amounts of the Company's cash equivalents, accounts receivable, line of credit and accounts payable approximate fair value due to the short-term nature of these instruments. The note payable to Wells Fargo Foothill, Inc. was paid in full on September 21, 2005 and had a variable interest rate and, therefore, fluctuated based on market conditions prior to being repaid.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	September 24, 2005	September 25, 2004
Raw materials and work-in-process	$34,714	$31,252
Finished goods	9,806	8,922
	$44,520	$40,174

Work-in-process and finished goods inventories consist of materials, labor and manufacturing overhead. Provisions for excess or obsolete inventory are primarily based on management's estimates of forecasted net sales and service usage levels. A significant change in the timing or level of demand for the Company's products as compared to forecasted amounts may result in recording additional provisions for excess or expired inventory in the future. The Company records provisions for excess or obsolete inventory as cost of sales.

Concentration of Suppliers

The Company purchases certain components of the Company's products from a small number of suppliers. A change in or loss of these suppliers could cause a delay in filling customer orders and a possible loss of sales, which would adversely affect results of operations; however, management believes that suitable replacement suppliers could be obtained in such an event.

Property and Equipment

The Company provides for depreciation and amortization by charges to operations, using the straight-line method, which allocate the cost of property and equipment over the following estimated useful lives:

Asset Classification	Estimated Useful Life
Building and improvements	40 years
Equipment and software	3–10 years
Furniture and fixtures	5–7 years
Leasehold improvements	Shorter of the Original Term of Lease or Estimated Useful Life

Repair and maintenance costs are expensed as incurred.

The Company applies the provisions of American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 98-1, *Software Developed or Obtained for Internal Use.* SOP 98-1 requires

(In thousands, except per share data)

computer software costs associated with internal use software to be expensed as incurred until certain capitalization criteria are met. SOP 98-1 also defines which types of costs should be capitalized and which should be expensed. The Company capitalized $453, $140 and $1,433 during fiscal 2005, 2004 and 2003, respectively, related to a company wide Enterprise Resource Planning (ERP) systems implementation project and has included these amounts in equipment and software in the accompanying consolidated balance sheets.

The Company amortizes such costs when the ERP system and new functionality become operational. These costs are being amortized over an estimated useful life of ten years.

Goodwill and Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized but are evaluated for impairment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets that have finite lives are amortized over their useful lives.

Consistent with prior years, the Company conducted its annual impairment test of goodwill during the second quarter of fiscal 2005. The Company considered a number of factors, including an independent valuation, to conduct this test. The valuation is based upon expected future discounted operating cash flows of the mammography reporting unit as well as analysis of recent sales or offerings of similar companies. The timing and size of impairment charges involved the application of management's judgment and could significantly affect the Company's operating results. The Company determined that it met all of the criteria under SFAS No. 142 to carry-forward the prior year determination of reporting unit fair value and based on the applicable valuation determined that no impairment exists.

Goodwill by reporting segment consists of the following:

Reporting Segment	Balance as of September 24, 2005	Balance as of September 25, 2004
Mammography	$6,285	$6,285

Intangible assets consist of the following:

			As of September 24, 2005		As of September 25, 2004	
Reporting Segment	Description	Estimated Useful Life	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Osteoporosis Assessment	Patents	1–20 years	$4,952	$4,516	$4,952	$4,382
Mammography	Developed Technology	10 years	9,108	4,592	9,108	3,681
Digital Detectors	Patents	5 years	648	438	584	330
Other	Patents	4 years	2,000	2,000	2,000	2,000

The estimated remaining amortization expense for each of the five succeeding fiscal years:

September 30, 2006	1,133
September 29, 2007	1,099
September 27, 2008	1,043
September 26, 2009	942
September 25, 2010	888

Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*. This statement requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During this review, the Company re-evaluates the significant assumptions used in determining the original cost and estimated lives of long-lived assets. Although the assumptions may vary from asset to asset, they generally include operating results, changes in the use of the asset, cash flows and other indicators of value. Management then determines whether the remaining useful life continues to be appropriate or whether there has been an impairment of long-lived assets based primarily upon whether expected future undiscounted cash flows are sufficient to support the assets' recovery. If impairment exists, the Company would adjust the carrying value of the asset to fair value, generally determined by a discounted cash flow analysis. To date, the Company has not identified any impairments requiring adjustment.

Deferred Financing Costs

Included in other assets in the accompanying balance sheet as of September 25, 2004 are deferred financing costs of approximately $133 related to the Company's closing of the credit facility with Foothill Capital Corporation on September 21, 2001 which was repaid in full on September 21, 2005 (see Note 3.) The Company has fully amortized these amounts to interest expense over a four-year period, which approximated the level yield method. The Company amortized $133, $122 and $186 to interest expense related to these amounts during the years ended September 24, 2005, September 25, 2004 and September 27, 2003, respectively.

Research and Software Development Costs

Costs incurred in the research and development of the Company's products are expensed as incurred. Costs associated with the development of computer software that is embedded in the Company's products are expensed prior to establishing technological feasibility, as defined by SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, and capitalized thereafter until commercial release of the products. Software development costs eligible for capitalization have not been significant to date.

Foreign Currency Translation

The financial statements of the Company's foreign subsidiary are translated in accordance with SFAS No. 52, *Foreign Currency Translation.* The reporting currency for the Company is the U.S. dollar (dollar). The functional currency of the Company's subsidiary in Belgium is the Euro. Accordingly, the assets and liabilities of the Company's subsidiary are translated into U.S. dollars using the exchange rate in effect at each balance sheet date.

Revenue and expense accounts generally are translated using an average rate of exchange during the period. Foreign currency translation adjustments are accumulated as a component of other comprehensive loss as a separate component of stockholders' equity. Gains and losses arising from transactions denominated in foreign currencies are primarily related to intercompany accounts that have been determined to be temporary in nature. To date these amounts are not material and have been included in interest and other income (expense) on the Consolidated Statements of Income.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income,* requires disclosure of all components of comprehensive income on an annual and interim basis. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions, other events and circumstances from nonowner sources. Comprehensive income is disclosed in the accompanying consolidated statements of stockholders' equity. Foreign currency translation adjustments are the only items of other comprehensive income.

Revenue Recognition

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 and collection of the resulting receivable is probable. Generally, the Company's product arrangements are multiple-element arrangements, including services, such as installation and training and multiple products. Beginning in the fourth quarter of fiscal 2003, the Company is required to account for these arrangements in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. Based on the terms and conditions of the product arrangements, the Company concluded that these services and undelivered products can be accounted for separately from the delivered product element as the Company's delivered product has value to its customers on a stand-alone basis and the Company has objective and reliable evidence of the fair value of such services and undelivered products based on the consistency of prices charged when these elements are sold separately. Accordingly, service revenue representing the fair value of services not yet performed at the time of product shipment is deferred and recognized as such services are performed. The fair value of the undelivered products is also deferred at the time of product shipment and recognized when these products are delivered. The undelivered elements of service to be performed and products to be delivered are all probable, perfunctory in nature and under the Company's control. The residual revenue under the product arrangement is recognized as product revenue upon shipment. There is no customer right of return in the Company's sales agreements.

The Company recognizes product revenue upon the completion of installation for shipments that require more than perfunctory obligations at the time of shipment, specifically for certain of its digital imaging systems. A provision is made at that time for estimated warranty costs to be incurred.

Service revenues primarily consist of amounts recorded under maintenance contracts and repairs not covered under warranty, installation and training revenues, shipping and handling costs billed to customers, as well as fee-per-scan revenues. Maintenance contract revenues are recognized ratably over the term of the contract. Other service revenues are recorded when the services are completed. Fee-per-scan revenues represent overage payments on usage from equipment owned by a third-party leasing company. The leasing company collects these payments and remits these payments to the Company. Since the leasing company collects the payments directly from the customers and notifies the Company by remittance to the Company, the amount of fee-per-scan revenue is not fixed or determinable until notified of collection by the leasing company. As a result, fee-per-scan revenues have been recorded as the fees are collected.

Although the Company's products contain operating and application software, the Company has determined that the software element is incidental in accordance with AICPA SOP 97-2, *Software Revenue Recognition*, and EITF Issue No. 03-05, *Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software*.

(In thousands, except per share data)

Cost of Service and Other Revenues

Cost of service and other revenues primarily represents payroll and related costs associated with the Company's professional services' employees, consultants, infrastructure costs and overhead allocations, including depreciation and rent.

Stock-Based Compensation

At September 24, 2005, the Company has several stock-based employee compensation plans, which are more fully described in Note 5. The Company accounts for its stock-based compensation plans under the intrinsic method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based compensation cost is reflected in net income for the years ended September 24, 2005, September 25, 2004 or September 27, 2003 as all options granted under the plans for those years had an exercise price equal to the market value of the underlying common stock on the date of grant. Additionally, other than awards to members of the Company's Board of Directors, the Company has not issued any stock awards to non-employees.

The Company has adopted the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*; therefore, no compensation expense was recognized for the Company's stock option plans. Had compensation expense for the Company's stock option plans been determined based on the fair value at the grant date for awards under these plans, consistent with the methodology prescribed under SFAS No. 148, the Company's net income (loss) and earnings (loss) per share would have approximated the pro forma amounts indicated below for the fiscal years 2005, 2004 and 2003:

	Years ended		
	September 24, 2005	**September 25, 2004**	**September 27, 2003**
Net income as reported	$28,256	$12,164	$ 2,882
Less: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(9,614)	(3,563)	(3,198)
Pro forma net income (loss)	$18,642	$ 8,601	$ (316)
Diluted net income per share, as reported	$ 0.63	$ 0.29	$ 0.07
Pro forma diluted net income (loss) per share	$ 0.41	$ 0.20	$ (0.01)
Weighted-average fair value of options granted	$ 7.14	$ 4.47	$ 2.83
Weighted-average remaining contractual life of options outstanding	6.56 years	6.70 years	6.87 years

The Company granted 65 fully vested options in the fourth quarter of fiscal 2005 to employees with an exercise price equal to fair market value on the date of grant and expiring 10 years from the date of grant. Of the $9,614 pro forma expense in fiscal 2005, $1,270 relates to these options. In accordance with newly issued SFAS No. 123 (R), had the Company granted these options with longer time-based vesting, the Company would have incurred significant stock-based payment expenses in future years upon adoption of SFAS 123R.

(In thousands, except per share data)

Hologic has computed the pro forma disclosures required under SFAS No. 148 for stock options granted to employees and shares purchased under the Employee Stock Purchase (ESP) Plan using the Black-Scholes option-pricing model. The weighted-average fair value of each stock option included in the preceding pro forma amounts is amortized over the vesting period of the underlying options. The assumptions used to calculate the SFAS No. 148 pro forma disclosure for stock options granted to employees for the fiscal years ended 2005, 2004 and 2003 are as follows:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Risk-free interest rates	3.7%	2.9%	2.5%
Expected dividend yield	—	—	—
Expected life (in years)	4.5	4.0	4.0
Expected volatility	61.0%	70.0%	70.0%

The assumptions used to calculate the SFAS No. 148 pro forma disclosure for shares purchased under the ESP Plan for the fiscal years 2005, 2004 and 2003 are as follows:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Risk-free interest rates	2.3%	2.8%	2.9%
Expected dividend yield	—	—	—
Expected life (in years)	0.5	0.5	0.5
Expected volatility	39.7%	61.4%	70.0%

On February 28, 2005, the Board of Directors voted to discontinue the ESP Plan effective July 1, 2005.

Net Income Per Share

Basic and diluted net income per share is presented in conformity with SFAS No. 128, *Earnings per Share*. Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Dilutive net income per share in 2005, 2004 and 2003 includes the effects of all dilutive, potentially issuable common shares using the treasury stock method.

Basic and diluted weighted average common shares for fiscal years 2005, 2004, and 2003 are as follows:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Basic weighted-average common shares outstanding	42,824	40,516	39,258
Weighted-average common equivalent shares	2,302	2,077	1,003
Diluted weighted-average common shares outstanding	45,126	42,593	40,261

Dilutive weighted-average shares outstanding do not include 133, 1,335 and 2,390 common-equivalent shares for fiscal years 2005, 2004 and 2003, respectively, as their effect would have been antidilutive.

(In thousands, except per share data)

Product Warranties

The Company typically offers a one-year warranty for all of its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. 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 years ended September 24, 2005 and September 25, 2004 is as follows:

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-Offs/ Payments	Balance at End of Period
Period end:				
September 24, 2005	$4,528	$8,549	$(6,403)	$6,674
September 25, 2004	4,475	6,082	(6,029)	4,528

Advertising Costs

Advertising costs are charged to operations as incurred. The Company does not have any direct-response advertising. Advertising costs, which include trade shows and conventions, were approximately $4,000, $4,479 and $3,900 for fiscal 2005, 2004 and 2003, respectively, and were included in selling and marketing expense in the consolidated statements of income.

Recently Issued Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*, which amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities.

SFAS 151 must be adopted for fiscal years starting after June 15, 2005. The Company expects to adopt SFAS151 starting in its fiscal first quarter of 2006, which begins on September 25, 2005. The Company does not believe the adoption of this statement will have any material impact on its results of operations or financial condition.

On December 16, 2004 the FASB issued SFAS Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach on SFAS 123R is similar to the approach described in SFAS 123. However, SFAS 123R *requires* all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS 123R must be adopted for fiscal years starting after June 15, 2005. The Company expects to adopt SFAS 123R starting in its fiscal first quarter of 2006, which begins on September 25, 2005.

As permitted by SFAS 123R the Company currently accounts for share-based payments to employees using Opinion 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123R's fair value method will have a significant impact on the Company's result of operations, although it will have no impact on the Company's overall financial position.

The Company estimates that the stock-based compensation cost will be approximately $4,000 in fiscal 2006 as a result of the adoption of SFAS 123R.

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, which will require entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods' financial statements, unless this would be impracticable. SFAS No. 154 supersedes APB Opinion No. 20, *Accounting Changes*, which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFAS No. 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under APB No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005.

3. Credit Facilities

European Line of Credit

The Company maintains an unsecured line of credit with a bank for the equivalent of $3,000, which bears interest at the Europe Interbank Offered Rate (2.11% at September 24, 2005) plus 1.50%. There were no amounts outstanding during 2005 and 2004. The borrowings under this line are primarily used by the Company's European subsidiaries to settle intercompany sales and are denominated in the respective local currencies of its European subsidiaries. The line of credit may be canceled by the bank with 30 days' notice. No interest expense was incurred for 2005 and 2004 on this line of credit.

Foothill Note

On September 21, 2001, the Company signed a Loan and Security Agreement with Wells Fargo Foothill, Inc., as amended (the Foothill Agreement). The Foothill Agreement provided for a term loan in the amount of $2,360, payable monthly in equal installments over five years. The term loan accrued interest daily at an annual rate equal to the prime rate plus 1.00% and was repaid in full on September 21, 2005.

4. Income Taxes

The Company accounts for income taxes using the liability method as required by SFAS No. 109, "*Accounting for Income Taxes*." Under this method, deferred income taxes are recognized for the future tax consequences of differences between the tax and financial accounting of assets and liabilities at the end of each reporting period. Deferred income taxes are based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

(In thousands, except per share data)

The provision (benefit) for income taxes in the accompanying consolidated statements of income consists of the following:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Federal:			
Current	$5,153	$250	$—
Deferred	18	—	—
	5,171	250	—
State:			
Current	987	175	150
Deferred	(153)	—	—
	834	175	150
Foreign:			
Current	434	338	26
	$6,439	$763	$176

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Income tax provision at federal statutory rate	35%	35.0%	35.0%
Increase (decrease) in tax resulting from:			
Change in valuation allowance	(17.9)	(26.3)	(32.2)
Release of tax reserves	(2.2)	—	—
State tax provision, net of federal benefit	3.1	0.9	4.6
Tax Credits	(0.1)	(3.9)	(15.3)
Nondeductible expenses	0.5	1.4	13.3
Other	0.2	(1.2)	—
	18.6%	5.9%	5.4%

The components of domestic and foreign income before the provision for income taxes are as follows:

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Domestic	$33,662	$11,489	$2,204
Foreign	1,033	1,438	1,061
	$34,695	$12,927	$3,265

(In thousands, except per share data)

The components of the net deferred tax asset recognized in the accompanying consolidated balance sheets are as follows:

	September 24, 2005	September 25, 2004
Deferred tax assets		
Net operating loss carryforwards	$ 6,756	$10,438
Nondeductible accruals	1,580	1,305
Nondeductible reserves	4,065	3,741
Other temporary differences	1,044	575
Research credit	908	2,818
	14,353	18,877
Deferred Tax Liabilities		
Depreciation and amortization	(8,553)	(7,829)
	$ 5,800	$11,048
Valuation allowance	(1,248)	(7,448)
	$ 4,552	$ 3,600

The net deferred tax assets above are recorded in the consolidated balance sheet as follows: $6,023 and $5,277 as a deferred tax asset in prepaid expenses and other current assets as of September 24, 2005 and September 25, 2004, respectively, and $1,471 and $1,677 as a long-term deferred income tax liability as of September 24, 2005 and September 25, 2004, respectively.

The Company generated significant tax loss carryforwards during fiscal 2001 and 2000, which may be carried forward for 17 and 16 years, respectively. Under SFAS No. 109, the Company can only recognize a deferred tax asset for future benefit of its tax loss carryforward to the extent that it is "more likely than not" that these assets will be realized. The Company has a valuation allowance against a portion of its remaining potential deferred tax assets. The valuation allowance primarily related to the state operating net losses, for which realization is uncertain.

In determining the realizability of these assets, the Company considers numerous factors, including historical profitability, estimated future taxable income and the industry in which it operates. The Company believes that its net deferred tax asset as of September 24, 2005 is more likely than not realizable. As a result, the Company reduced the valuation allowance by $6,200 in fiscal 2005. The benefit of the release in valuation allowance was realized through reductions to tax expense and increases to additional paid in capital. A portion of the net deferred tax asset related to the excess benefit of stock options, and as such, was realized as an increase of $7,561 in stockholders' equity in fiscal 2005.

The following table summarizes the expiration dates of the net operating loss and credit carryforwards:

	Year of Expiration									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Net operating loss	$—	$—	$356	$4,916	$10,229	$5,075	$3,313	$197	$2,169	$26,255
R&D credit	308	305	—	—	—	—	—	—	—	613

(In thousands, except per share data)

	Year of Expiration					
	2007	2008	2009	No expiration	ITC Total	Total Credits
MA ITC credit	$71	$40	$40	$144	$295	$908

Hologic had previously recorded reserves for taxes that may become payable as a result of federal and state audits. The Company establishes reserves based on management's assessment of exposure associated with permanent tax differences and tax credits. The tax reserves are analyzed periodically and adjustments are made, as events occur to warrant adjustment to the reserve. During the fourth quarter of fiscal 2005, the Company received notification that the Joint Committee on Taxation had no exceptions with the Internal Revenue Service's conclusions on several tax returns under examination. Therefore, the Company released $750 of tax reserves related to these returns.

The American Jobs Creation Act of 2004 (the "Act") introduced a special one-time dividend received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. The President signed the Act into law on October 22, 2004. Even in light of the Act, the Company did not provide for U.S. income taxes on earnings of the Company's subsidiaries outside of the U.S. The Company's current intention is to reinvest the total amount of the Company's approximately $1.1 million of unremitted earnings permanently or repatriate the earnings only when tax-effective to do so. It is not practical to estimate the amount of additional taxes that might be payable upon repatriation of foreign earnings.

5. Common Stock

Stock Option Plans

The Company's 1994 Stock Option Plan (the 1994 Plan) and the 1995 Stock Option Plan (the 1995 Plan), both of which were originally adopted by Fluoroscan and assumed by the Company upon its combination with Fluoroscan, are administered by the Board of Directors. As of September 24, 2005, the Company had no shares available for future grant under this plan.

In June 1995, the Board of Directors adopted the 1995 Combination Stock Option Plan (the 1995 Combination Plan), pursuant to which the Company is authorized to issue 2,200 options to purchase shares of common stock. Under the terms of the 1995 Combination Plan, the Company may grant employees either incentive stock options or nonqualified stock options to purchase shares of the Company's common stock at a price not less than the fair market value at the date of grant. In addition, the Company may grant nonqualified options to other participants, such as consultants and advisors. As of September 24, 2005, the Company had no shares available for future grant under this plan.

The Company's 1990 Nonemployee Director Stock Option Plan (the Directors' Plan) allowed for eligible directors to receive options to purchase 20 shares of common stock upon election as a director. The options vest ratably over a five-year period. In addition, eligible directors were entitled to annual option grants to purchase 16 shares of common stock, which vest after six months. Option grants under the Directors' Plan were made at not less than fair market value on the date of grant. As of September 24, 2005, the Company had no shares available for future grant under this plan.

In May 1997, the Board of Directors adopted the 1997 Employee Equity Incentive Plan (the 1997 Plan), pursuant to which the Company is authorized to issue 2,200 shares of common stock. Under the terms of the 1997 Plan, the Company may grant employees, consultants and advisors who are not executive officers or directors of the Company either nonqualified stock options, stock appreciation rights, performance shares, restricted stock, or stock units. In September 2005, the Board of Directors determined that no further awards would be made under

(In thousands, except per share data)

this plan. As a result, the Board of Directors amended this plan to eliminate all remaining shares of common stock available for issuance under the plan that are not subject to outstanding stock option awards.

In March 1999, the Board of Directors adopted the 1999 Equity Incentive Plan (the 1999 Plan), pursuant to which the Company is authorized to issue 600 shares, plus an annual increase, as defined, on the first day of each fiscal year following the adoption of the 1999 Plan. Effective September 28, 2004 and September 25, 2005, the Board of Directors increased the number of shares available by 1,000 shares each year bringing the total shares available for issuance from 4,660 to 6,660. Under the terms of the 1999 Plan, the Company may grant employees either incentive stock options or nonqualified stock options. In addition, the Company may grant non-employee director's nonqualified stock options. The exercise price of the options granted under this plan may not be less than the fair market value of the Company's stock on the date on which the option was granted. As of September 24, 2005, the Company had 1,017 shares available for future grant under this plan.

In April 2001, the Board of Directors adopted the 2000 Acquisition Equity Incentive Plan (the 2000 Plan), pursuant to which the Company was authorized to issue 2,000 shares of common stock. On December 17, 2003, the Board of Directors approved a decrease of 400 shares of common stock available under the 2000 Plan reducing the authorized amount to 1,600 shares. Under the terms of the 2000 Plan, the Company may grant employees, consultants and advisors of newly acquired businesses either nonqualified stock options, stock appreciation rights, performance shares or restricted stock. In September 2005, the Board of Directors determined that no further awards would be made under this plan. As a result, the Board of Directors amended this plan to eliminate all remaining shares of common stock available for issuance under the plan that are not subject to outstanding stock option awards.

The following table summarizes all stock option activity under all of the plans for the three years in the period ended September 24, 2005:

	Number of Shares	Per Share Exercise Price	Weighted-Average Exercise Price
Outstanding at September 28, 2002	7,432	$0.91 – $22.13	$ 4.15
Granted	515	3.62 – 8.36	5.24
Terminated	(552)	1.41 – 8.35	4.02
Exercised	(939)	0.94 – 6.56	2.84
Outstanding at September 27, 2003	6,456	$ 0.91 – 22.13	4.43
Granted	1,987	6.57 – 11.50	8.20
Terminated	(416)	0.97 – 15.49	5.98
Exercised	(1,176)	0.91 – 7.94	3.91
Outstanding at September 25, 2004	6,851	1.59 – 22.13	5.52
Granted	1,060	9.02 – 26.44	13.47
Terminated	(129)	2.06 – 18.34	8.37
Exercised	(3,077)	1.59 – 15.29	4.99
Outstanding at September 24, 2005	4,705	$1.97 – $26.44	$ 7.58
Exercisable at September 24, 2005	3,069	$1.97 – $26.44	$ 7.42
Exercisable at September 25, 2004	3,729	$1.59 – $22.13	$ 4.52
Exercisable at September 27, 2003	4,036	$0.91 – $22.13	$ 4.46
Available for grant at September 24, 2005	1,017		

(In thousands, except per share data)

The range of exercise prices for options outstanding and options exercisable at September 24, 2005 are as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$ 1.97–$ 2.89	409	5.51	$ 2.63	407	$ 2.63
$ 2.94–$ 3.84	277	5.58	3.46	182	3.30
$ 3.88–$ 5.13	1,168	6.50	4.87	847	4.88
$ 5.25–$ 7.13	1,194	7.58	6.90	301	6.72
$ 7.15–$10.59	1,279	5.38	9.74	1,159	9.76
$10.66–$15.61	88	8.27	13.17	43	13.57
$15.95–$22.13	142	9.53	18.48	—	22.13
$22.64–$26.44	148	9.97	23.53	130	23.46
$ 1.97–$26.44	4,705	6.56	$ 7.58	3,069	$ 7.42

Employee Stock Purchase Plan

The Company had an Employee Stock Purchase Plan (the ESP Plan) in compliance with Section 423 of the Internal Revenue Code. 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 allowed participants to purchase common stock of the Company at 85% of the fair market value, as defined. During the fiscal years ended September 24, 2005, September 25, 2004 and September 27, 2003, the Company issued 47, 64 and 74 shares, respectively, under the ESP Plan. On February 28, 2005, the Board of Directors approved to discontinue the ESP Plan effective on July 1, 2005.

Rights Agreement

On September 17, 2002, the Board of Directors adopted a new shareholder rights plan (the 2002 Rights Plan) to replace the December 1992 Plan when it expired on December 31, 2002. In addition to certain other modifications, the 2002 Rights Plan uses preferred stock purchase rights rather than common stock purchase rights. To affect the 2002 Rights Plan, the Board of Directors declared a dividend distribution of one right for each share of the Company's common stock outstanding as of the close of business on December 31, 2002. Each right entitles the registered holder to purchase one-half of one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock (after taking into account the two-for-one stock split effected on November 30, 2005) at a purchase price of $60.00. The rights will be exercisable if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or announces a tender or exchange offer for 15% or more of the Company's common stock. At such time, each holder of a right (other than the 15% holder) will thereafter have a right to purchase, upon payment of the purchase price of the right, that number of shares of the Company's common stock, which have a market value of twice the purchase price of the right. The 2002 Rights Plan is designed to deter coercive or unfair takeover tactics and to ensure that all of the Company's shareholders receive fair and equal treatment in the event of an unsolicited attempt to acquire the Company.

6. Profit Sharing 401(k) Plan

The Company has a qualified profit sharing plan covering substantially all of its employees. Contributions to the plan are at the discretion of the Company's Board of Directors. The Company has recorded approximately $977, $692 and $636 as a provision for the profit sharing contribution for fiscal 2005, 2004 and 2003, respectively.

7. Related Party Transactions

Note Receivable from Officer

In fiscal 2000 and 2001, the Company loaned an officer an aggregate of $500, which is required to be repaid quarterly through April 2006. In the event of a change in control, as defined, the amounts outstanding will be forgiven. The note is unsecured and bears interest at 7% per annum.

In December 2002, the Compensation Committee of the Board of Directors approved a special bonus program to provide the officer with the funds necessary to pay the quarterly installments due under the loan. Under the special bonus program, for so long as the officer remains an officer of the Company and there are amounts remaining to be repaid under the loan, the Company will pay the officer a special quarterly bonus equal to the amount due under the loan, including interest due, plus an additional payment equal to the taxes due as a result of the special bonus and such additional payment, such that the net-after-tax special quarterly bonus to be received by the officer will equal the principal and interest then due under the loan. During the years ended September 24, 2005 and September 25, 2004 the Company recognized $313 and $334, respectively, in bonus expense in connection with this program.

8. Commitments and Contingencies

Operating Leases

The Company conducts its operations in leased facilities under operating lease agreements that expire through fiscal 2022. The Company leases certain equipment under operating lease agreements that expire through fiscal 2010.

In September 2002, the Company completed a sale/leaseback transaction of its headquarters and manufacturing facility located in Bedford, Massachusetts, and its manufacturing facility in Danbury, Connecticut. The transaction resulted in net proceeds to the Company of $31,400. The new lease for these facilities, including the associated land, has a term of 20 years, with four five-year renewal terms, which the Company may exercise at its option. The basic rent for the facilities is $3,200 per year, which is subject to adjustment for increases in the Consumer Price Index. In addition, the Company is required to maintain the facilities during the term of the lease and to pay all taxes, insurance, utilities and other costs associated with those facilities. Under the lease, the Company makes customary representations and warranties and agrees to certain financial covenants and indemnities. In the event the Company defaults on the lease, the landlord may terminate the lease, accelerate payments and collect liquidated damages. As of the end of fiscal 2005, the Company was not in default of any covenants contained in the lease.

(In thousands, except per share data)

Future minimum lease payments under all of the Company's operating leases are approximately as follows:

Fiscal Years Ending	Amount
September 30, 2006	$ 4,844
September 29, 2007	3,835
September 27, 2008	3,387
September 26, 2009	3,209
September 25, 2010	3,156
Thereafter	37,609
Total (not reduced by minimum sublease rentals of $474)	$56,040

The Company subleases a portion of its Bedford facility and has received rental income of $298, $277 and $410 for fiscal years 2005, 2004 and 2003, respectively, which has been recorded as an offset to rent expense in the accompanying statements of income. Rental expense, net of sublease income, was approximately $4,739, $4,660, and $4,963 for fiscal 2005, 2004 and 2003, respectively.

The Company subleases a portion of its Newark, DE facility and received rental income of $1.7 million, $1.8 million and $1.9 million for fiscal 2005, 2004 and 2003, respectively which has been recorded as an offset to rent expense in the accompanying statements of income. The future minimum annual rental income payments under these sublease agreements are approximately as follows:

Fiscal Years Ending	Amount
September 30, 2006	$ 1,545
September 29, 2007	1,541
September 27, 2008	1,531
September 26, 2009	1,531
September 25, 2010	1,531
Thereafter	7,020
Total	$14,699

The majority of this subrental income is from one tenant and per the terms of this subrental agreement, this income is being accounted for on a straight-line basis.

In September 2005, the Company entered into an exclusive distribution and service agreement in the United States under which the Company will sell and service a line of extremity MRI systems. Per the terms of this contract, the Company has certain minimum purchase obligations through December 31, 2008 as follows:

Fiscal Years Ending	Amount
September 30, 2006	$10,255
September 29, 2007	11,685
September 27, 2008	15,071
September 26, 2009	3,895
Total	$40,906

These minimum purchase obligations represent the minimum obligations of the Company for the initial term of the agreement and are subject to renegotiation after the first eighteen- month period in the event of unforeseen changes in the market dynamics.

(In thousands, except per share data)

9. 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*. 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 how to allocate resources and assess performance. The Company's chief decision-maker, as defined under SFAS No. 131, is the chief executive officer. To date, the Company has viewed its operations and manages its business as four principal operating segments: the manufacture and sale of Mammography products, Osteoporosis Assessment products, Digital Detectors, and Other products.

Identifiable assets for the four principal operating segments consist of inventories, intangible assets, and property and equipment. The Company has presented all other assets as corporate assets. Intersegment sales and transfers are not significant.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on revenues and operating income. Segment information for fiscal years 2005, 2004 and 2003 is as follows:

	Years ended		
	September 24, 2005	**September 25, 2004**	**September 27, 2003**
Total revenues:			
Mammography	$167,368	$114,579	$ 86,473
Osteoporosis Assessment	74,957	68,483	71,081
Digital Detectors	21,945	15,047	7,990
Other	23,414	30,596	38,491
	$287,684	$228,705	$204,035
Operating income (loss):			
Mammography	$ 23,861	$ 9,592	$ 4,331
Osteoporosis Assessment	11,175	7,500	10,236
Digital Detectors	(6,401)	(4,833)	(5,500)
Other	3,996	327	(6,042)
	$ 32,631	$ 12,586	$ 3,025
Depreciation and amortization:			
Mammography	$ 2,615	$ 2,226	$ 2,375
Osteoporosis Assessment	2,459	3,011	3,294
Digital Detectors	2,141	1,889	1,736
Other	359	463	—
	$ 7,574	$ 7,589	$ 7,405
Capital expenditures:			
Mammography	$ 2,279	$ 1,983	$ 2,426
Osteoporosis Assessment	3,241	2,817	4,690
Digital Detectors	2,179	2,387	2,084
	$ 7,699	$ 7,187	$ 9,200
Identifiable assets:			
Mammography	$ 31,729	$ 28,804	$ 32,097
Osteoporosis Assessment	9,278	12,305	16,575
Digital Detectors	32,685	28,189	25,149
Other	8,801	10,588	13,972
Corporate	197,346	131,865	100,810
	$279,839	$211,751	$188,603

(In thousands, except per share data)

Export sales from the United States to unaffiliated customers, primarily in Europe, Asia and Latin America during fiscal 2005, 2004 and 2003 totaled approximately $76,126, $68,651 and $49,887, respectively.

Transfers between the Company and its European subsidiaries generally are recorded at amounts similar to the prices paid by unaffiliated foreign dealers. All intercompany profit is eliminated in consolidation.

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

	Years ended		
	September 24, 2005	September 25, 2004	September 27, 2003
Europe	19%	21%	17%
Asia	10	11	13
All others	4	7	2
	33%	39%	32%

10. Accrued Expenses

Accrued expenses consist of the following:

	September 24, 2005	September 25, 2004
Accrued payroll and employee benefits	$10,143	$ 6,828
Accrued commissions	3,569	3,169
Accrued income taxes	447	386
Accrued warranty	6,674	4,528
Other accrued expenses	4,404	4,382
	$25,237	$19,293

11. Litigation and Other Matters

In March 2005, the Company was served with a Complaint filed on November 12, 2004 by Oleg Sokolov with the United States District Court for the District of Connecticut alleging that the Company's HTC™ grid infringes U.S. Patent Number 5,970,118. The plaintiff is seeking to preliminarily and permanently enjoin the Company from infringing the patent, as well as damages resulting from the alleged infringement, treble damages and reasonable attorney fees, and such other and further relief as may be available. On April 25, 2005, the Company filed an Answer and Counterclaims in response to the Complaint in which the Company denied the plaintiff's allegations and, among other things, sought declaratory relief with respect to the patent claims and damages, as well as other relief. On October 28, 1998, the plaintiff had previously sued Lorad, asserting, among other things, that Lorad had misappropriated the plaintiff's trade secrets relating to the HTC Grid. This previous case was dismissed on August 28, 2000. The dismissal was affirmed by the Appellate Court of the State of Connecticut, and the United States Supreme Court refused to grant Certiorari. The Company does not believe that it infringes any valid or enforceable patents of the plaintiff and intends to vigorously defend its interests. As such, no amounts have been accrued related to this matter as of September 24, 2005.

In the ordinary course of business, the Company is party to various types of litigation. The Company believes it has meritorious defenses to all claims, and, in its opinion, all litigation currently pending or threatened will not reasonably be likely to have a material effect on the Company's financial condition or results of operations.

(In thousands, except per share data)

In October 2005, the Company received a request from the Federal Trade Commission ("FTC") that asks the Company to voluntarily produce certain information and material to the FTC. The FTC's request, which does not allege any wrongdoing, is part of an FTC non-public investigation to determine whether the Company's recent acquisition of certain assets owned by Fischer Imaging Corporation may be anticompetitive and in violation of Section 7 of the Clayton Act or Section 5 of the Federal Trade Commission Act. The Company is in the process of responding to the FTC request. Because the investigation is at an early stage, the Company cannot predict its outcome or its effect, if any, on the Company's business.

12. Quarterly Statement of Income Information (Unaudited)

The following table presents a summary of quarterly results of operations for 2005 and 2004:

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$66,176	$69,237	$74,053	$78,217(1)
Gross profit	24,208	26,773	30,090	31,953
Net income	4,574	6,048	8,158	9,476
Diluted net income per common and common equivalent share	$ 0.11	$ 0.13	$ 0.18	$ 0.20

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$49,882	$55,648	$59,225	$63,950
Gross profit	19,422	20,591	22,187	23,169
Net income	1,040	2,589	3,325	5,210
Diluted net income per common and common equivalent share	$ 0.02	$ 0.06	$ 0.08	$ 0.12

(1) The sum of the quarterly total revenue does not agree with the Consolidated Statements of Income due to rounding.

As discussed in Note 2 the Company's financial statements are prepared on a fiscal year basis ending on the last Saturday in September. Each of the quarters presented above represents a thirteen-week period ending on the last Saturday of December, March, June and September.

(In thousands, except per share data)

13. Valuation and Qualifying Accounts

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-offs/ Payments	Balance at End of Period
Accounts Receivable Reserves (1)				
Period Ended:				
September 24, 2005	$2,757	$ (—)	$ (165)	$2,592
September 25, 2004	3,477	(175)	(545)	2,757
September 27, 2003	4,693	760	(1,976)	3,477
Accrued Acquisition Reserve				
Period Ended:				
September 24, 2005	$ —	$ —	$ —	$ —
September 25, 2004	—	—	—	—
September 27, 2003	907	—	(907)	—
Restructuring Accrual				
Period Ended:				
September 24, 2005	$ —	$ —	$ —	$ —
September 25, 2004	29	—	(29)	—
September 27, 2003	107	—	(78)	29

(1) Represents reserves for uncollectible accounts and sales returns and adjustments.

14. Subsequent Event

On September 29, 2005, the Company completed its acquisition of the intellectual property relating to a certain mammography business and products pursuant to an Asset Purchase Agreement dated June 22, 2005. Of the $32,000 purchase price, approximately $26,900 was paid out of existing cash with the remaining amount paid through the cancellation of the principal and interest outstanding under a $5,000 secured loan previously provided by the Company on June 22, 2005.

Corporate Directory

Board of Directors

John W. Cumming
Chairman of the Board and
Chief Executive Officer
Hologic, Inc.

Jay A. Stein, PhD
Chairman Emeritus and
Chief Technical Officer
Hologic, Inc.

Glenn P. Muir
Executive Vice President and
Chief Financial Officer
Hologic, Inc.

Irwin Jacobs
Retired President
Dataviews, Inc.

David R. LaVance, Jr.
President
Century Capital Associates

Nancy L. Leaming
Former Chief Executive Officer
Tufts Health Plan

Dr. Arthur G. Lerner
Breast Surgeon
Private Practice

Lawrence Levy
Senior Counsel
Brown Rudnick Berlack Israels LLP

Corporate Officers

John W. Cumming
Chairman of the Board and
Chief Executive Officer

Jay A. Stein, PhD
Chairman Emeritus and
Chief Technical Officer

Robert A. Cascella
President and
Chief Operating Officer

Glenn P. Muir
Executive Vice President and
Chief Financial Officer

David J. Brady
Senior Vice President,
Human Resources

Mark A. Duerst
Senior Vice President,
International Sales

Arthur Friedman
Vice President, Regulatory Affairs
and Quality Assurance

William Healy
Vice President,
Breast Imaging

Brad Herrington
Vice President,
Skeletal Health Imaging

Georgia Hitzke
Vice President,
Clinical and Product Management

Zhenxue Jing, PhD
Vice President,
Advanced Technologies

Robert H. Lavallee
Vice President, Corporate Controller
and Chief Accounting Officer

Roger Mills
Vice President, Customer Service

Michael Parrilla
Vice President, Manufacturing

John Pekarsky
Senior Vice President
North American Sales and
Strategic Accounts

David M. Rudzinsky
Vice President, Information Systems
and Chief Information Officer

Peter Soltani, PhD
Vice President and line of Business,
Digital Detector.

Thomas Umbel
Senior Vice President,
Business Development

Common Stock, Exchange Listing

The Company's Common Stock is listed on the Nasdaq National Market under the trading symbol "HOLX".

Website

www.hologic.com

Form 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission, is included with this report.

Annual Meeting of Stockholders

The Annual Meeting of Stockholders will be held on February 28, 2006.

Legal Counsel

Brown Rudnick Berlack Israels LLP
One Financial Center
Boston, Massachusetts 02111

Registrar and Transfer Agent

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10007

Independent Public Accountants

Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

Stockholder Information

Additional information about the Company may be obtained upon request from Frances Crecco, Director, Investor Relations at 781-999-7300.

Special Note Regarding Forward-Looking Statements

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include, but are not limited to statements regarding: our prospects for future sales growth and profitability; our goal of maintaining and strengthening our market positions; the development and market acceptance of new competitive technologies and products; the anticipated performance and benefits of our products; business strategies; any implication that our backlog may be indicative of future sales; and anticipated trends relating to our financial condition or results of operations. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to materially differ include, without limitation, manufacturing risks that may limit our ability to ramp-up commercial production of the Selenia and other of our digital products, including our reliance on a single source of supply 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 digital X-ray products in general; uncertainties inherent in the development of new products and the enhancement of existing products, including technical and regulatory risks, cost overruns and delays; the risk that newly introduced products may contain undetected errors or defects or otherwise not perform as anticipated; the ability of our sales force to successfully service our product offerings; our ability to successfully manage current or future alliances or joint ventures; our ability to predict accurately the demand for our products, and products under development, and to develop strategies to address our markets successfully; the early stage of market development for digital X-ray products; risks relating to acquisitions; expenses and uncertainties relating to litigation; technical innovations that could render our technology or products under development obsolete; competition; and reimbursement policies for the use of products, if and when developed. Additional factors that could affect these forward looking statements include without limitation those discussed in the risk factors set forth in our Form 10-K filed with the Securities and Exchange Commission and included in this report and in our other filings with the Securities and Exchange Commission. The forward-looking statements contained in this report speak only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based.

Design: Bill Glauner, Clementi Associates, Maynard MA, www.clementi.com

HOLOGIC®
CLARITY OF VISION

Corporate Headquarters
35 Crosby Drive,
Bedford, MA 01730-1401 USA
Tel: 781.999.7300
Fax: 781.280.0669
www.hologic.com

Lorad
36 Apple Ridge Road
Danbury, CT 06810 USA
Tel: 213.207.4500
Fax: 213.207.4501

Direct Radiography
600 Technology Drive
Newark, DE 19702 USA
Tel: 302.631.2700
Fax: 302.731.7438

Europe
Horizon Park
Leuvensesteenweg
510, BUS 31
1930 Zaventem, Belgium
Tel: 32.2.711.4680
Fax: 32.2.725.2087

Asia Pacific
3/F, 21 Li Yuen Street West
Central, Hong Kong
Tel: 852.3102.9200
Fax: 781.280.0668