We are women's health

HOLOGIC®

CLARITY OF VISION

CORPORATE OVERVIEW

We are a leading developer, manufacturer and supplier of premium diagnostic and medical imaging systems dedicated to serving the healthcare needs of women, and a leading developer of state-of-the-art digital imaging technology for general radiography and mammography applications. Hologic's core business units are focused on osteoporosis assessment, mammography and breast biopsy, direct-to-digital X-ray for general radiography applications and mini C-arm imaging for orthopedic applications.

"There is no doubt digital mammography allows you to be more efficient in terms of patient throughput, and that is why we are looking at switching soon to a complete digital environment."

Alan Semine, MD,
Newton-Wellesley Medical Center

"Our goal has been to reduce the time that a patient has to wait for a screening appointment, and these digital units have helped us accomplish this."

Monte Clinton, CRA,
Director of Radiology,
Dartmouth-Hitchcock Medical Center

CORPORATE MISSION STATEMENT

We seek to provide innovative medical imaging products, utilizing superior imaging technology, that improve the quality of healthcare. We pledge to display candor, honor commitments and achieve consistency in products and services to the highest quality standards and to all applicable regulatory requirements. We strive to continuously improve the efficiency and effectiveness of our business processes to create value for our customers, shareholders and Hologic associates.

"We recognize that, as we continue to make the transition to a digital environment, we will save money, not only by being able to take on a greater case load more efficiently, but also by consolidating equipment and space."

Zeeshan Shah, MD,
Assistant Professor of Radiology,
Indiana University School of Medicine

"The radiologists, as well as the technologists, now overwhelmingly prefer the digital system."

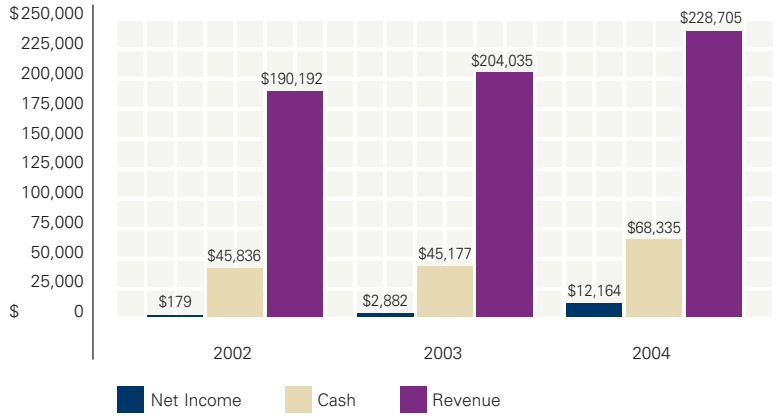
Cindy Ellingson, CRA,
Director of Radiology,
St. Joseph Outpatient Center

HOLOGIC®
CLARITY OF VISION

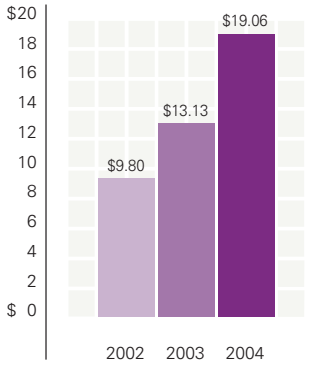
SELECTED FINANCIAL HIGHLIGHTS

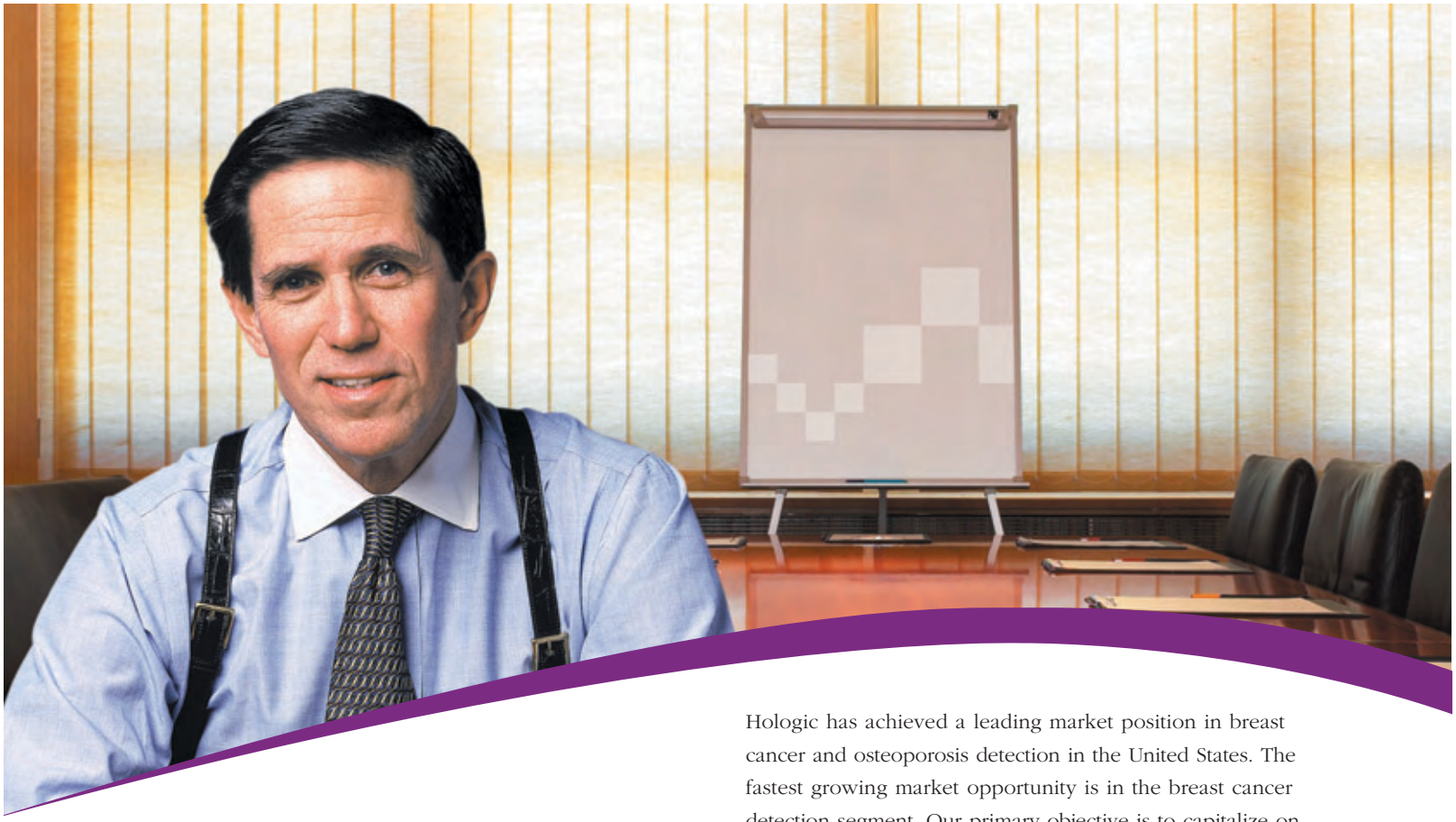
Fiscal Years Ended (In thousands, except per share data)	September 28, 2002	September 27, 2003	September 25, 2004
Consolidated Statement of Income Data			
Revenues	$190,192	$204,035	$228,705
Costs and expenses	188,035	201,010	216,119
Income from operations	2,157	3,025	12,586
Net income	$ 179	$ 2,882	$ 12,164
Diluted net income per common and common equivalent share	$ 0.01	$ 0.14	$ 0.57
Weighted average number of diluted common shares outstanding	19,192	20,130	21,296
Consolidated Balance Sheet Data			
Working capital	$ 98,472	$103,862	$121,049
Total assets	184,275	188,603	211,751
Long-term debt	2,268	1,550	472
Total stockholders' equity	$142,409	$148,927	$166,275

Financial Summary
(in thousands)



Closing Stock Price





DEAR FELLOW SHAREHOLDER:

We are pleased to report that fiscal 2004 was an outstanding year for Hologic. We continued to focus on the needs of our customers and on the fulfillment of our mission: to improve the quality of healthcare for women. We met or exceeded the goals we set forth for this fiscal year – revenue growth, profitability, and positive cash flow from operations. You can read more about our financial performance throughout this annual report.

Women's Health

Our business is women's health. We are a company of individuals from varying backgrounds who share a common goal – the desire to extend women's lives through the development of technologically superior diagnostic imaging systems that will facilitate the early detection of breast cancer and osteoporosis. We are proud of the work we do every day to preserve and extend the lives of countless women throughout the world.

Each year, more than one million women are diagnosed with breast cancer, while hundreds of thousands of them fall victim to this dreaded disease. In addition, osteoporosis affects more than 200 million women worldwide. The rising number of osteoporotic fractures and their associated morbidity place an increasingly heavy burden on future healthcare resources, as it is estimated that the annual cost of managing osteoporosis will be more than $15 billion.

Hologic has achieved a leading market position in breast cancer and osteoporosis detection in the United States. The fastest growing market opportunity is in the breast cancer detection segment. Our primary objective is to capitalize on this opportunity through current and future generations of our Selenia full-field digital mammography system, while responding to the increasing demand of the digital workflow. There is nothing more important than for us to remain dedicated to the principle of applying highly sophisticated technology to medical imaging challenges, and we are committed to being an active voice and a corporate role model in promoting women's health initiatives.

Highlights of Fiscal 2004

In August 2004, Hologic was granted marketing clearance from the FDA for its SecurViewDX breast imaging workstation. The SecurViewDX workstation is a dedicated, multi-modality system for display and interpretation of any screening or diagnostic digital mammogram, as well as other images such as MRI, CT-PET, and ultrasound. The SecurViewDX system represents an important milestone in our breast imaging development program and sets the stage for a family of productivity tools that we intend to introduce.

In September 2004, the Company received FDA approval to use iCAD's new Second Look Digital CAD technology with Hologic's full-field digital mammography system, the Selenia.

In fiscal Q1 2005, Hologic was honored to receive the Frost & Sullivan Technology Leadership of the Year award in the field of women's health for achievement in the detection of breast cancer through digital tomosynthesis, a 3-D imaging technology.

HOLOGIC PRINCIPLES

At Hologic, we are driven to provide our customers with the highest level of service and responsiveness to create greater value for our stockholders. Each member of the Hologic team is required to embrace the following principles to achieve this goal:

CANDOR about our strategic direction, our true progress in product development and what we can deliver in services and support.

COMMITMENT to keeping our promises and ensuring all Hologic Team Members understand who the customers and stockholders are, and the importance of honoring our commitments to you.

CONSISTENCY in the quality of the products we produce, market and support. We are committed to continuously seek new ways to improve all facets of our operations. We will not tolerate complacency.

COMMUNITY service is the fabric that binds people to common goals to build a better society. We expect all Hologic associates will support various individual causes with the same enthusiasm as in our collected efforts in the fight against breast cancer and osteoporosis. We all know the difference one can make and we all have a passion to share.

2004 Radiological Society of North America (RSNA) Scientific Assembly

The RSNA Scientific Assembly and Technical Exhibition, held in Chicago the first week of December, was the culmination of a year of considerable planning and hard work. Associates in all departments collaborated to make this important event a success. Hologic exhibited its full product line, with emphasis on its core women's health business. Highlighting the Company's participation again this year was our development work in digital tomosynthesis. The clinical work we displayed illustrated our significant progress during the past year. The introduction of our SecureViewDX workstation, with its multi-modality capability, also received considerable attention. In the field of bone densitometry, we introduced a new modality called Radiologic Vertebral Assessment (RVA). RVA is a vital companion procedure to the conventional bone mineral density measurement, affording a superior assessment of a patient's osteoporotic fracture risk. Hologic's theme for this year's show was "Simply the Best," and we believe that is exactly what we demonstrated.

Work in Progress

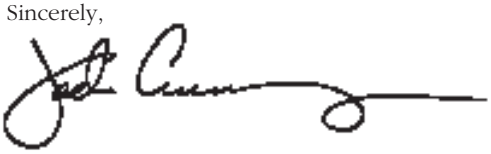
We continue our important work in the area of tomosynthesis, a major new development in mammography. Tomosynthesis should make it possible to obtain three-dimensional images of the breast and to view one slice at a time by removing the images of the overlying and underlying tissue that confuses an ordinary breast x-ray. The greater clarity of the resulting image is expected to lead to the achievement of important clinical benefits such as increasing the breast cancer detection rate and decreasing the number of false positives that result in unnecessary and emotionally stressful call backs for additional examinations. In addition, because tomosynthesis reduces the confusion caused by images of overlapping tissue in the breast, it may be possible to significantly reduce the amount of compression now used for mammography.

Looking Ahead

We enter fiscal 2005 in a position of strength. The number of all-digital hospitals continues to rise, driven by the need to increase productivity, reduce costs, and improve patient care. X-rays and manila file folders, which have characterized health care for decades, are being replaced with desktop computers and flat-screen monitors. The healthcare needs of today require diagnostic imaging service providers that can produce the highest quality images, transmit them broadly, display them in alternative ways, and archive and retrieve them efficiently. Hologic will play a major role in this revolution as we continue to focus our resources on new product platforms and innovative technological development, which we expect will drive our business in the future.

In closing, I would like to thank our customers, our business partners, our employees, and our shareholders for their ongoing support. We look forward to updating you on our progress throughout the coming fiscal year.

Sincerely,



Jack W. Cumming
Chairman and Chief Executive Officer

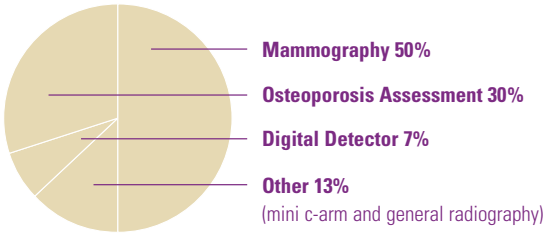
The growth in our top line and the resulting increase in our profitability have provided us with the resources to continue our investment in R&D activities. This, in turn, has led to our introduction of truly innovative product platforms that we believe will ultimately enhance shareholder value.

FISCAL 2004 FINANCIAL REVIEW

We ended fiscal 2004 on a high note. In the fourth quarter, we achieved record revenues of $63.9 million, record earnings of $5.2 million, record cash flow of over $11 million, and record shipments of 44 Selenia digital mammography systems. We also ended the year with a record backlog of $61 million, including orders for 88 Selenia systems.

For the year, revenues increased to $228.7 million, compared to $204 million in fiscal 2003. Net income increased to $12.2 million, or $0.57 per diluted share, compared to net income of $2.9 million, or $0.14 per diluted share, for fiscal 2003. These results were driven by the continued growth in our mammography segment, led by the increasing sales of the Selenia system.

SALES BY BUSINESS SEGMENT (Percent)



Our businesses are reported as four segments – mammography, osteoporosis assessment, digital detectors and other. Mammography revenues were $114.6 million for fiscal year 2004, compared to $86.5 million for fiscal 2003. This increase was due primarily to the continued increase in sales of the Selenia system in both the domestic and international markets.

Osteoporosis assessment revenues were $68.5 million for fiscal 2004, compared to $71.0 million for fiscal 2003. This decrease was due primarily to a reduction in service revenue.

Digital detector revenues were $15.0 million for the fiscal year, compared to $8.0 million for fiscal year 2003. This increase was due primarily to a significant increase in the number of general radiography and mammography digital detectors sold to other OEMs.

Other revenues were $30.6 for fiscal 2004, compared to $38.5 million for fiscal 2003. This decrease was due primarily to the shipment of fewer general radiography tables, as this business was phased out in 2004.

Service and other revenue is comprised mainly of revenue generated from our field service organization, which provides ongoing service, installation, and repair of our products. Service and other revenue during fiscal 2004 was $50.8 million, compared to $47.3 million in fiscal 2003. This increase was due primarily to greater service contract revenues in our mammography segment, which resulted from our assuming service responsibilities previously performed by a former distributor and from continued growth in our installed base of mammography systems.

Thanks to a sound balance sheet and sufficient liquidity to grow our business, our financial condition continues to be strong. Current assets exceed current liabilities by $121.0 million, and we have virtually no debt. Our cash balance increased by $23.2 million this year to $68.3 million, chiefly from the increase in income and improved operational control over working capital. Our goal for fiscal 2005 is to generate additional cash flow each quarter and to continue to focus on our working capital by tightly controlling our production.

We are pleased with the progress made during fiscal 2004, and we are looking forward to an even more profitable 2005 as we gain additional traction in digital mammography from continued robust sales of Selenia systems.

Glenn P. Muir
Executive Vice President and Chief Financial Officer

With our Selenia system and our DirectRay direct-to-digital detector, the technology now exists to provide improved image quality, faster throughput and benefit from the higher reimbursement. These growth drivers will help accelerate the conversion from analog film-based mammography to digital mammography systems. There are more than 30,000 analog systems worldwide, making this a large and untapped market.

FISCAL 2004 OPERATIONS REVIEW

Fiscal 2004 represented a year of significant accomplishment. We focused heavily on near term profitability and asset utilization, while better positioning the Company for longer term, sustained growth.

The market for full-field digital mammography grew substantially this past year, and our Selenia system enjoyed double-digit market share gains due to the broader acceptance of our technology. In addition to having superior image quality in the industry, we have now directed our development efforts for the Selenia toward the workflow aspects of digital systems. With the release of the SecurViewDX workstation, we now offer the clinician full intra-suite connectivity, improved efficiencies, and the features and functionality required to manage higher patient volume with less overhead investment. We closed the year with record Selenia sales and an extremely strong backlog as a foundation for next year's revenue.

In the U.S. osteoporosis market, the distinct shift from acute care hospitals to primary care-based procedures continued to provide opportunity. In response to this market dynamic, we reorganized our sales efforts in order to better support our channel partner by focusing on direct sales to physicians' offices. In addition, we addressed competitive pressures abroad with the introduction of the Explorer, the world's first low-end, fan beam bone densitometry system. Sales of the Explorer realized substantial growth this past year, with unit sales exceeding 130 since its recent release.

Our factories contributed to our success through improved production processes and constant focus on asset management. To lower our product cost structure, we initiated a vendor consolidation program taking advantage of company-wide purchased input efficiencies. We also expanded our efforts in "lean manufacturing," with programs at multiple facilities. This resulted in profitability gains complemented by overall inventory and cycle time reductions. In short, we are learning to do more with less.

With constant focus on providing better customer service, we expanded our technical and clinical support infrastructure during the year. We established teams of specialists in the areas of connectivity, systems integration, and advanced applications, all with the goal of improving after-sale support.

To ensure sustained market leadership, we invested heavily in advanced technologies during 2004. Our tomosynthesis development program, which combines digital mammography with the advantages of 3-D imaging of the breast, was a primary emphasis for the year. We assembled a project team comprised of our leading scientists and engineers, installed two research systems to gather valuable clinical data, and plan to install additional prototype systems during fiscal 2005. Tomosynthesis has the potential to change the standard of care in breast cancer screening and diagnosis, ultimately leading to earlier detection.

We are pleased with our results for the year and believe we are well positioned to capitalize on future growth opportunities.

Robert A. Cascella
President and Chief Operating Officer

Protecting Women's Health Through EARLY DETECTION

Advanced Breast Imaging Solutions

LORAD®

M-IV™ SERIES

Selenia™

Full Field Digital Mammography

Affinity™ SERIES

Breast Ultrasound

Alexa™

Advanced Ultrasound Solutions

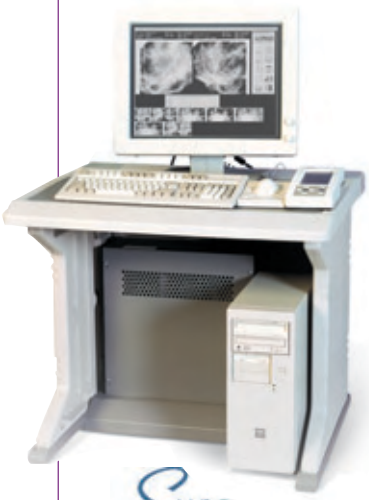
QDR Mobility Wireless Reporting Tools

Discovery™ QDR® SERIES

Osteoporosis Assessment

Stereotactic Breast Biopsy Solutions

MultiCare PLATINUM



Suros

Vacuum Assisted Breast Biopsy Systems

StereoLoc II

Image & Workflow Management Solutions

SecurView

Softcopy Review and Multi-Modality Workstations

CADstream

R2

iCAD

CAD Productivity Tools

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
President
Century Capital Associates

Nancy L. Leaming
Chief Executive Officer
Tufts Health Plan

William A. Peck, MD
Wolff Distinguished Professor and
Director of Center for Health Policy
Washington University School
of Medicine

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

Richard L. Follett
Vice President, Regulatory
Affairs and Quality Assurance

William Healy
Vice President and
General Manager, LORAD

Brad Herrington
Vice President and General
Manager, Osteoporosis Assessment
and Mini C-arm 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 General Manager,
Direct Radiography Corp.

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". Included in Standard & Poor's SmallCap 600 Index.

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, 2005.

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 expanding our market positions; the development of new competitive technologies and products; regulatory approval and clearances for our products; production schedules for our products; market acceptance of new 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: any implication that our backlog may be indicative of future sales; and anticipated trends relating to our financial condition or results of operations. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," expects," "plans," "anticipates," "believes," "estimates," "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. 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; our ability to predict accurately the demand for our existing 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; technical innovations that could render products marketed or under development by us obsolete; competition; and reimbursement policies for the use of our products. Additional factors that could affect these forward-looking statements include without limitation those discussed in the risk factors set forth in Item 7 of 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: MediaConcepts Corporation, Assonet, MA www.mediaconceptscorp.com

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 25, 2004

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 ☐

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant as of March 26, 2004 was $393,779,245 based on the price of the last reported sale on the Nasdaq National Market System on that date.

As of December 6, 2004 there were 20,765,736 shares of the registrant's Common Stock, $.01 par value, outstanding.

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 25, 2004 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;
- compliance with covenants contained in credit facilities and 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 bone densitometry and mammography. Our bone densitometry product line and our Lorad line of mammography systems 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 have begun to sell, distribute and service complementary products that were developed and manufactured by other original equipment manufacturers. Examples of these products include 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. 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 patented technology remains a leading bone densitometry assessment tool, offering superior, cost-effective accuracy and reliability. Starting in 1996, we embarked on an acquisition program intended to expand and diversify our business. 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 the U.S. assets of Trex Medical Corporation, which included the Lorad product line of mammography and minimally invasive breast biopsy systems used to detect breast cancer. We estimate that over 12,000 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.

As a result of these acquisitions and our commitment to develop digital radiography, particularly for mammography systems, we generated losses in fiscal 1999, 2000 and 2001. In August 2001, we implemented an extensive restructuring plan focused on returning to profitability and strengthening our competitive position in the women's health and emerging digital imaging markets. This restructuring plan included a company-wide cost savings initiative, that included a reduction of the workforce, reduction of operating expenses in each of our business units and the phase-out of non-core and unprofitable units. The second element of our restructuring plan focused on long-term revenue growth through new marketing programs, expanded distribution channels, and development of strategic business relationships. In January 2002, we officially closed our conventional x-ray equipment manufacturing facility located in Littleton, Massachusetts, which was acquired through our acquisition of the U.S. assets of Trex Medical. This business incurred significant losses during fiscal 2001. We relocated some of the Littleton product lines, and sales and service support personnel to our corporate headquarters in Bedford, Massachusetts. Since the beginning of fiscal 2001 through the end of fiscal 2003, we reduced our workforce by approximately 25%. We returned to profitability in the second quarter of fiscal 2002.

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 final approval from the FDA to commence marketing activities with respect to our Lorad Selenia full field digital mammography system. In fiscal 2003, double digit growth in our two major women's healthcare segments, bone densitometry and mammography, dramatically improved our profitability. In addition, we continued to focus on cost reductions and the expansion of our direct sales and service force 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 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 state-of-the-art 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: osteoporosis assessment products, mammography 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 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, RVA, Sahara, ScoutMarc, SecurView, Selenia, SmartWindow, StereoLoc, SureLock, Tech Tips, UBA, and XRE.

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 215,000 new cases of invasive breast cancer were expected to occur among women in the United States during 2004. Breast cancer ranks as the second leading cause of cancer-related deaths among women, causing an estimated 40,000 deaths in 2004. Over a lifetime, one in seven women will develop breast

cancer and today there are slightly over 2 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. Providing clinicians the tools necessary to assist in early detection of breast cancer represents a principal business of Hologic. With the acquisition of the U.S. assets of Trex Medical in September 2000, we gained access to the mammography and breast biopsy markets. Today we hold a leading share in the mammography market, primarily within the high-end segment.

In fiscal 2004, we shipped over 900 mammography products including 143 digital systems, and estimate our installed base of equipment at close to 12,000 systems worldwide.

Market

Leading industry sources estimate that the worldwide mammography imaging equipment market will be greater than $300 million in 2004, and anticipate it may grow to over $600 million by 2008. This 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 digital mammography may grow to over $400 million by 2008 from its introduction only three 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 – 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 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 sharpness 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 superior contrast and resolution without an increase in radiation dose. We also 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. The Affinity replaced our previous mid-tier system, the Elite, which we no longer manufacture.

We also offer two minimally invasive breast biopsy systems, the MultiCare Platinum prone stereotactic breast biopsy system and the StereoLoc II upright system. These systems provide an alternative to open surgical biopsy, which is sometimes performed under general anesthesia in the outpatient department of a hospital. Minimally invasive biopsies are most often performed in a physician's office or a breast-imaging center on an outpatient basis under local anesthesia. Stereotactic biopsies cause far less tissue trauma and are 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 which 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. In addition, our award-winning HTC Grid, which is integrated into the digital detector, significantly reduces radiation scatter and allows geometric magnification views, and our shifting Smart Paddle System permits all examination views to be taken minimizing changing compression paddles. In April 2004 and September 2004 R2 and iCAD, respectively, received FDA clearance for integration of their CAD (computer aided detection) products with Selenia.

The Selenia system facilitates efficient viewing and interpretation by physicians and provides multiple image manipulation options through the use and analysis of electronic and hard copy film printouts and the system's computer workstation. The system is configured to interface with a sophisticated intra-department image management system to handle routing, archival, and retrieval of studies, or can be integrated with existing enterprise Picture Archiving and Communications Systems (PACS) and Radiology Information Systems (RIS).

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 approaching 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 to sell their breast biopsy tissue sampling devices directly to our customers and as a component of our biopsy system.

Ultrasound Breast Imaging System

- *Alexa.* In 2004, we signed an agreement with Aloka Corporation for 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. During 2004 we began marketing this system and commenced initial sales.

Distribution and Strategic Alliances

Over the last two 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 focused on the development of direct-to-digital mammography systems. Under our agreements with Siemens, 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. Through this alliance we have combined our proprietary amorphous selenium direct-to-digital technology with their proprietary software to create a dedicated physician's workstation and bring to market a direct-to-digital mammography system.

In March 2003 we finalized an agreement with the Agfa-Gevaert Group whereby Hologic would manufacture for Agfa, under a private label, a digital mammography system utilizing our patented direct-to-digital amorphous selenium technology. Under this agreement, Agfa will purchase our full field digital mammography acquisition platform and is responsible for all related installation, warranty and support requirements. We began shipping products under this agreement for non-United States customers during 2003.

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. We have begun limited sales of these screen-film CAD products in conjunction with Hologic's digital-ready conventional screen-film mammography products. The 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., also a 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.

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 at risk. 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, healthcare 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 2004, we shipped more than 1,100 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 2,200 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 1,000 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 11,000 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 patented 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.

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 3,700 Sahara systems have been sold worldwide.

Direct-to-Digital Imaging Products

Overview

We continue to make a strategic commitment to digital radiography technology. 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. Semiconductor 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 the highest quality digital image 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 anatomy 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 digitized 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 Picture, Archive and Communication Systems, or PACS, to store x-ray images electronically. Although only a limited number of hospitals and outpatient care facilities have adopted the PACS environment to date, we expect this adoption rate 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 2004 Hologic offered DirectRay digital detectors in Hologic designed, manufactured, installed and serviced systems and 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 detectors to OEMs for incorporation in their own line of digital radiography systems. In fiscal 2004, our OEM customers included Analogic Corporation, Eastman Kodak, Tromp Medical, Sedecal, E-Com, Gold Mountain Neusoft, FirstTech, and Dong Kang for digital radiography systems, and Agfa and Siemens for digital mammography systems.

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.

OfficeMate. We introduced the OfficeMate imaging system in fiscal 1997. This system was designed specifically to meet the needs of the physician office. The OfficeMate features efficient, user-friendly operation, high resolution real-time and freeze frame images, and the choice of three or four inch field-of-view. Due to its compact size and portability, we believe the OfficeMate is well suited for the in-office extremity imaging requirements of hand and orthopedic surgeons.

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 24% of our product sales for fiscal 2002 and 21% of our product sales in fiscal 2001. In November 2002, PSS sold its Diagnostic Imaging, Inc. subsidiary, which was a distributor of our mammography product line, to Platinum Equity. Diagnostic Imaging (now known as SourceOne), as part of PSS, accounted for approximately 15% of our product sales for fiscal 2002. In January 2003, we terminated SourceOne, who represented almost one-half of the U.S. market for our mammography products in fiscal 2002 and assumed full sales and service responsibility in these geographic locations on a direct basis. For fiscal 2003, PSS accounted for 12% of our product sales. In fiscal 2004, PSS only accounted for 7% of our total product sales and accounted for 23% of our osteoporosis assessment product sales.

As of November 30, 2004 our direct sales and service force, consisted of over 61 people in sales, and 115 field service engineers, plus internal technical support and associated administrative functions. Over the past two years we have expanded our direct sales and service efforts for mammography into territories that were previously covered by SourceOne and other independent distributors, and we are considering 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 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. In fiscal 2002, we restructured our operations in Europe, which included entering into exclusive distribution agreements with Stephanix, one of the leading French manufacturers of medical x-ray equipment, and its affiliate, Radiologia, S.A., the oldest x-ray equipment manufacturer in Spain, for sales of our product lines in France, Spain and Portugal. 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 and Taiwan, by working with local sales representatives and distributors or entering into strategic marketing alliances in those territories. In fiscal 2004, 2003, and 2002 foreign sales accounted for approximately 39%, 32% and 20% of our product sales, respectively. See Note 9 of Notes to Consolidated Financial Statements for geographical information concerning those sales.

In fiscal 2004, 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 an agreement with iCAD to integrate their CAD technology with Hologic's Lorad Selenia full field digital mammography system. The agreement is for an initial term of four years with one-year renewal options.
- We signed an agreement with Aloka Company Ltd. giving Hologic exclusive distribution rights in the United States for ultrasound products manufactured by Aloka and customized to Hologic's specifications. The agreement is for an initial term of three years, with automatic one-year renewal options.
- We signed an agreement with Suros Surgical Systems, Inc. giving Hologic non-exclusive distribution rights in the United States for the Suros automated breast biopsy and tissue excision system, the ATEC™. The agreement is for an initial term of three years, with automatic one-year renewal options.
- We signed a distribution agreement with Confirma, Inc. The agreement gives Hologic non-exclusive distribution rights for CADStream, Confirma's computer-aided diagnosis system. The agreement is for an initial term of two years, with automatic one-year renewal options.
- We entered into an exclusive, three-year agreement with Clarian Health Partners, Inc. covering the purchase and sale of Hologic's Lorad line of analog and digital mammography products and stereotactic breast biopsy systems. The agreement also covers computer-aided detection (CAD) systems from R2 Technology. Systems purchased through the agreement will be supplied through Associated x-ray Services, Inc., our sole distributor in the state of Indiana.
- We signed an agreement with Mammography Reporting Systems, Inc. (MRS). Under the terms of the agreement, Hologic and MRS agreed to work cooperatively to offer the MRS portfolio of products to healthcare facilities currently using or purchasing Hologic's line of screen-film and digital mammography systems.
- We signed a distribution agreement with InSiteOne, an on-site and off-site storage and archiving service provider for digital medical images. Under the terms, Hologic will have non-exclusive distribution rights in the United States for InSiteOne's proprietary image management service, InDex® (Internet DICOM Express). This agreement will remain in effect until terminated by either party.
- We signed a new 30 month dual source contract with Premier, one of the nations' foremost purchasing and supply chain management organizations, for the purchase and sale of our Lorad Selenia full field

digital mammography system, and our entire Lorad line of screen-film mammography and stereotactic breast biopsy systems. The prior contract was a tri-source contract. In April 2004 we won a sole source Group Buy position with Premier for the entire Lorad mammography product.

- We signed an amended contract with Novation, a leading supply chain management company in healthcare, to extend our current contracts for the purchase and sale of our Lorad Selenia full field digital mammography system and the purchase and sale of our Lorad line of other breast imaging systems through June 2005. Novation and Hologic have existing agreements in place to cover the purchase and sale of Hologic's bone densitometry systems and mini C-arm imaging products.
- We signed a new three-year purchasing agreement with Consorta covering our full mammography product line as well as adding bone densitometry products to the Hologic product offering.
- We extended the current HealthTrust Purchasing Group contract through April of 2005 and have submitted a new RFP for the entire Lorad mammography line as well as mini C-arm and bone densitometry.
- We extended our Broadlane contract for mammography and bone densitometry for two additional years. Both the Lorad Selenia full field digital mammography system and the Discovery bone densitometry systems were added to the current contract.

Competition

The healthcare industry in general, and the market for 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, 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 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 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 systems compete with products offered by a number of competitors, including GE, Siemens, PlanMed, Fischer Imaging and Agfa. GE and Fischer Imaging received FDA approval to commercialize their own indirect conversion digital mammography systems in January 2000 and September 2001, respectively. We received FDA approval for our full field digital mammography system, Selenia™ in October 2002. Both Siemens and Agfa have adopted the Hologic DirectRay direct-to-digital detectors for use in their respective digital mammography systems. Siemens has received FDA clearance for their full field digital mammography system with the Hologic detector and is starting to place systems in U.S. sites. The Agfa system is supplied by Hologic currently only for the international market. 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 attribute this success in large part to our patented High Transmission Cellular (HTC) Grid technology that enables our products incorporating that technology to deliver high contrast and resolution. 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 Fischer Imaging 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, product reliability and reputation as well as price and 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 hipbone 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 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, Kodak, Canon, Philips, SwissRay and Varian. Kodak's digital radiography x-ray system currently incorporates our DirectRay detector. There is a significant installed base of conventional x-ray imaging products in hospitals and radiological practices. The use of direct-to-digital x-ray imaging systems require customers to either modify or replace their existing x-ray imaging equipment. At the beginning of fiscal 2004 we moved away from selling our own general radiography digital x-ray systems in competition with our OEM customers in the general radiology market and focus more on expanding our OEM sales for our DirectRay detectors. Our OEM customers include Analogic Corporation, Eastman Kodak, Tromp Medical, Sedecal, E-Com, Gold Mountain, Neusoft, FirstTech, and Dong Kang for digital radiography systems, and Agfa and Siemens for digital mammography systems. We believe that our DirectRay technology competes on the basis of image quality, product reliability and price, as well as our reputation and service. We believe that the primary advantage of our DirectRay technology is image quality. 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.

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. In addition, several key components of our mini C-arm systems are manufactured by only one or a small number of suppliers, including the x-ray tube, image intensifier, video camera and fiber optic taper.

We manufacture our direct radiography plates at our manufacturing facility in Newark, Delaware. Our manufacture of DirectRay plates consists primarily of vapor deposition 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 transistor (TFT) plates and for the coating of those plates. The manufacture of our direct radiography detectors is highly complex and requires precise high quality manufacturing that is difficult to achieve. Changes in design for our direct radiography detectors, including our mammography detectors, could result and has in the past resulted in unanticipated production problems, such as a high level of defects for the newly designed plates.

Obtaining alternative sources of supply for components or systems that are available from only one or a limited number of suppliers could involve significant delays and other costs, and these supplies may not be available to us on reasonable terms, if at all.

Backlog

Our backlog as of November 30, 2004 totaled $67.6 million and as of November 30, 2003 totaled $49.5 million. Backlog consists of purchase orders for which a delivery schedule within the next twelve months has been specified by the customer. 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 detector plates, the engineering and system design of new end-use digital radiography products, and software improvements for our existing products. This research and development includes refining and continuing Lorad's research on the full field digital mammography system, and in particular the development of systems to perform breast tomosynthesis which is a 3-dimensional imaging technique. Our research and development personnel also are involved in establishing protocols, monitoring, and interpreting and submitting test data to the FDA and other regulatory agencies to obtain the requisite clearances and approvals for our products. Our research and product development expenses, without consideration of purchased in-process research and development, were approximately $16.7 million in fiscal 2004, $18.4 million in fiscal 2003, and $20.4 million in fiscal 2002.

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 30, 2004, we owned 48 United States patents relating to our densitometry technology, 38 patents relating to our direct radiography technology, 5 patents relating to our mini C-arm technology and 20 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. Our patents have expiration dates ranging from 2006 to 2022. In addition, we have applied for an additional 48 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.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device and related industries. We have been 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 provides that neither party will engage the other party in patent litigation for a period of ten years following the date of the agreement, regardless of the infringement claimed and regardless of whether the technology in question currently exists or is developed or acquired by the other party in the future. Neither party is required to disclose to the other any of its technology during this ten year period or otherwise. Upon expiration of this ten year period on November 22, 2005, there will be no restrictions by either party on the assertion of an infringement claim against the other. However, GE has notified us of their interest in extending this agreement.

We have also been, and may be in the future, notified that we may be infringing intellectual property rights possessed by other third parties. If any such 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 must 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 30, 2004, we had 761 full-time employees, including 228 in manufacturing operations, 128 in research and development, 323 in marketing, sales and support services, and 82 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 45,000 square feet of the facility to Agfa under a

lease which expires in April 2005. The remaining space in the facility, approximately 60,000 square feet, is leased to Dade Behring under a lease which expires in July 2010. The property is subject to a mortgage to Wells Fargo Foothill, Inc. (formerly known as Foothill Capital Corporation).

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, Tech Online, under a lease which expires in May 2005.

We lease a 60,000 square feet of office and manufacturing space in Danbury, Connecticut near our Lorad manufacturing facility. This lease expires in November 2006.

We also lease a sales and service office in Belgium.

Item 3. Legal Proceedings

We are not a party to any material pending legal proceedings.

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

None.

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.

Fiscal Year Ended September 27, 2003

	High	Low
First Quarter	$14.34	$ 9.90
Second Quarter	13.05	7.10
Third Quarter	13.60	8.45
Fourth Quarter	16.85	12.50

Fiscal Year Ended September 25, 2004

	High	Low
First Quarter	$17.63	$12.68
Second Quarter	21.00	16.79
Third Quarter	23.22	18.50
Fourth Quarter	23.78	17.77

Number of Holders. As of December 6, 2004, there were approximately 1,627 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. In addition, our existing credit facility with Wells Fargo Foothill, Inc. prohibits us from declaring or paying any dividends.

Recent Sales of Unregistered Securities. We did not sell unregistered securities during fiscal 2004.

Issuer's Purchases of Equity Securities. We did not repurchase any of our equity securities during the fourth quarter of fiscal 2004.

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 2000 financial data are acquisition related pre-tax charges of $13.3 million related to the Trex Medical acquisition. 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 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. Additionally, revenue related to installation and training activities have been classified as service and other revenue. All prior periods presented have been reclassified to conform with the current-period presentation as discussed in Note 2 to our Consolidated Financial Statements.

	Fiscal Years Ended				
	September 25, 2004	September 27, 2003	September 28, 2002	September 29, 2001	September 30, 2000
	(In thousands, except per share data)				
Consolidated Statement of Operations Data					
Revenues:					
Product sales	$177,936	$156,734	$144,684	$135,067	$ 74,507
Service and other revenue	50,769	47,301	45,508	45,129	19,830
	228,705	204,035	190,192	180,196	94,337
Costs and Expenses:					
Cost of product sales	94,762	86,506	84,230	85,712	46,728
Cost of service and other revenue	48,574	43,949	34,146	33,734	18,726
Research and development	16,659	18,381	20,362	23,328	22,178
Selling and marketing	31,761	29,978	28,319	33,858	22,623
General and administrative	24,363	22,196	18,908	20,852	16,441
Restructuring and relocation	—	—	2,070	1,518	—
	216,119	201,010	188,035	199,002	126,696
Income (loss) from operations	12,586	3,025	2,157	(18,806)	(32,359)
Interest income	540	685	573	1,027	3,567
Interest/other expense	(199)	(445)	(2,980)	(2,902)	(227)
Income (loss) before provision (benefit) for income taxes and cumulative effect of change in accounting principle	12,927	3,265	(250)	(20,681)	(29,019)
Provision (benefit) for income taxes	763	176	(429)	169	(10,400)
Income (loss) before cumulative effect of change in accounting principle	12,164	3,089	179	(20,850)	(18,619)
Cumulative effect of change in accounting principle	—	(207)	—	—	—
Net income (loss)	$ 12,164	$ 2,882	$ 179	$ (20,850)	$ (18,619)
Basic income (loss) per common and common equivalent share:					
Income (loss) before cumulative effect of change in accounting principle	$ 0.60	$ 0.16	$ 0.01	$ (1.35)	$ (1.22)
Cumulative effect of change in accounting principle	—	(0.01)	—	—	—
Net income (loss)	$ 0.60	$ 0.15	$ 0.01	$ (1.35)	$ (1.22)
Diluted income (loss) per common and common equivalent share:					
Income (loss) before cumulative effect of change in accounting principle	$ 0.57	$ 0.15	$ 0.01	$ (1.35)	$ (1.22)
Cumulative effect of change in accounting principle	—	(0.01)	—	—	—
Net income (loss)	$ 0.57	$ 0.14	$ 0.01	$ (1.35)	$ (1.22)
Weighted average number of common shares outstanding:					
Basic	20,258	19,629	18,419	15,475	15,320
Diluted	21,296	20,130	19,192	15,475	15,320
Consolidated Balance Sheet Data					
Working capital	$121,049	$103,862	$ 98,472	$ 44,679	$ 53,022
Total assets	211,751	188,603	184,147	194,863	219,145
Long-term debt	472	1,550	2,268	28,416	25,000
Total stockholders' equity	166,275	148,927	142,409	111,807	131,572

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 customer programs and incentives, product returns, bad debts, inventories, investments, intangible assets, 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.

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 $2.8 million, $3.5 million and $4.7 million in fiscal 2004, 2003 and 2002, respectively. The decreases in the reserve in fiscal 2004 and 2003 was primarily attributable to our write-off of reserves and accounts receivable related to financed sales in Latin America and a decrease to our bad debt expense in fiscal 2004.

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 can be accounted for separately from the product element as our 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. 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 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 APB 20, *Accounting Changes*. In connection with the adoption of EITF 00-21, we reclassified $4.2 million of product revenue to service revenue for the year ended September 28, 2002.

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 $4.5 million, $4.5 million and $4.8 million in fiscal 2004, 2003 and 2002, respectively. This accrual has remained relatively constant over the past three fiscal years. This is due to a decrease in the warranty accrual attributable to our decision to eliminate the unprofitable conventional general radiography product lines which had warranty periods of up to five years offset by an increase in our warranty accrual for our increase in our digital systems revenues.

Income Taxes

We account for income taxes under 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 25, 2004 and September 27, 2003 primarily relates to net operating losses and research and development tax credits generated in fiscal 2003, 2002, 2001 and 2000 for which we can only realize a benefit through the generation of future taxable income and to certain deferred tax assets in foreign jurisdictions, for which realization is uncertain. Our net deferred tax asset is currently $3.6 million and we believe it will be fully realized in the next 12 to 24 months.

The American Jobs Creation Act of 2004 (the Act) introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. On October 22, 2004, the Act was signed into law by the President. Even in light of the Act, we do 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 $515,000 of unremitted earnings permanently or to 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; however, we believe that previously unbenefitted U.S. operating loss carryovers would largely eliminate any U.S. taxes due upon repatriation.

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 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 focused on supplying our digital detectors, reported under our digital detector segment, to other original equipment manufacturers.

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 25, 2004	September 27, 2003	September 28, 2002
Revenues:			
Product sales	77.8%	76.8%	76.1%
Service and other revenue	22.2	23.2	23.9
	100.0	100.0	100.0
Cost and expenses:			
Cost of product sales	41.4	42.4	44.3
Cost of service and other revenue	21.2	21.5	18.0
Research and development	7.3	9.0	10.7
Selling and marketing	13.9	14.7	14.9
General and administrative	10.7	10.9	9.9
Restructuring and relocation	—	—	1.1
	94.5	98.5	98.9
Income from operations	5.5	1.5	1.1
Interest income	0.2	0.3	0.3
Interest/other expense	(0.1)	(0.2)	(1.5)
Income (loss) before income taxes and cumulative effect of accounting change	5.6	1.6	(0.1)
Provision (benefit) for income taxes	0.3	0.1	(0.2)
Income before cumulative effect of accounting change	5.3	1.5	0.1
Cumulative effect of accounting change	—	(0.1)	—
Net income	5.3%	1.4%	0.1%

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 have substantially completed our plan to discontinue taking new orders for general radiography systems as of September 25, 2004, but 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 the current year 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. We believe that our increase in digital detector sales reflects the growing acceptance of digital radiography and our technology, as well as our decision to phase out our digital general radiography systems and to focus on supplying our digital detectors to other original equipment manufacturers.

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. As a result of this decision, we expect product sales for our digital general radiography systems to be negligible next year. 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 is primarily due to the timing of an increase in demand from those territories. The increase in sales in Latin America during the current year 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, our full field digital mammography systems. 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 our sales of osteoporosis assessment and mini C-arm products, discussed in further detail under our Segment Results of Operations below.

Cost of Service and Other Revenue.

	Years Ended					
	September 25, 2004		September 27, 2003			
	Amount	% of Service Revenue	Amount	% of Service Revenue	Change Amount	Change %
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. 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 25, 2004		September 27, 2003			
	Amount	% of Total Revenue	Amount	% of Total Revenue	Change Amount	Change %
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 9% in fiscal 2004 compared to fiscal 2003 primarily due to a decrease in research and development spending and personnel costs 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 including our tomosynthesis development project. We expect total research and development expenses to continue to increase as we accelerate our development efforts of tomosynthesis technology for mammography in fiscal 2005.

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 the current fiscal year 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 full field digital mammography system, Selenia. 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 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 last year, partially offset by higher investment balances.

Interest / Other Expense.

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

Interest and other 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 (Benefit) for Income Taxes.

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

We account for income taxes under 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. 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.

Segment Results of Operations

As a result of our decision to phase out our digital general radiography systems and to focus on supplying our digital detectors to other original equipment manufacturers, as well as the trends in the markets in which we compete, we revised our segment reporting in the first quarter of fiscal 2004. Our businesses are reported as four segments: mammography; osteoporosis assessment; digital detectors and other. Prior periods have been restated to conform to this presentation. 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 25, 2004		September 27, 2003			
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Change Amount	Change %
Total Revenues	$114,579	100%	$86,473	100%	$28,107	33%
Operating Income	$ 9,592	8%	$ 4,331	5%	$ 5,261	121%

Mammography revenues increased primarily due to the $24.8 million increase in product sales and an increase of $3.3 million in service revenues related to the increased number of systems in our installed base discussed above. Operating income for this business segment increased primarily due to the increased revenues and the improved gross margin from the shift in product revenues to our more profitable Selenia full field digital mammography systems from our analog mammography systems. Our gross margin in this business segment was 41% in fiscal 2004 compared to 35% in the prior year. Partially offsetting this increase was additional international commissions, totaling $2.1 million, related to a multiple unit Selenia sale in Mexico in the first six months of fiscal 2004 and an increased allocation of operating expenses previously absorbed by the digital general radiography business.

Osteoporosis Assessment.

	Years Ended					
	September 25, 2004		September 27, 2003			
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Change Amount	Change %
Total Revenues	$68,483	100%	$71,081	100%	$(2,598)	(4)%
Operating Income	$ 7,500	11%	$10,236	14%	$(2,736)	(27)%

Osteoporosis assessment revenues decreased in fiscal 2004 compared to fiscal 2003 primarily due to a $2.1 million decrease in service revenues and the $524,000 decrease in product sales discussed above. The decrease in service revenues was primarily due to the completion of a multi-year service contract in Europe during fiscal 2004 that was not renewed. Operating income for osteoporosis assessment decreased primarily due to decreased revenues and gross margins. Our gross margin in this business segment was 43% in fiscal 2004 compared to 47% in fiscal 2003. The decrease in osteoporosis assessment gross margins was primarily attributable to the decrease in revenues, a shift to international sales where we generally sell at lower prices through distributors, a shift to lower priced systems sold into the United States primary care market and an increased allocation of operating expenses previously absorbed by the digital general radiography systems business, which is being phased out. Partially offsetting these decreases in operating income was reduced commissions expense, primarily related to the shift to international sales.

Digital Detectors.

	Years Ended					
	September 25, 2004		September 27, 2003			
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Change Amount	Change %
Total Revenues	$15,047	100%	$ 7,990	100%	$7,057	88%
Operating Loss	$ (4,833)	(32)%	$(5,500)	(69)%	$ 667	(12)%

Digital detector revenues increased primarily due to the increased number of digital detectors sold as discussed above and a $1.5 million increase in service revenues. The service revenues increase is due to the increase in the number of detectors in the installed base. The decrease in the digital detector business operating loss is primarily due to the increased revenues and the improved gross profit from that increase, and a decrease in our operating expenses. Our gross margin in this business segment decreased to 15% in fiscal 2004 compared to 21% in fiscal 2003. The decrease in gross margin was primarily due to increased warranty and service expenses. The decrease in operating expenses was primarily attributable to a lower allocation of sales and marketing expenses and a decrease in research and development spending related to the completion of our digital detector development for Selenia.

Other.

	Years Ended					
	September 25, 2004		September 27, 2003		Change	
	Amount	% of Total Segment Revenue	Amount	% of Total Segment Revenue	Amount	%
Total Revenues	$30,596	100%	$38,491	100%	$(7,895)	(21)%
Operating Income (Loss)	$ 327	1%	$ (6,042)	(16)%	$ 6,369	(105)%

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 $6.7 million decrease in digital general radiography systems sold worldwide, as a result of our phase out of that business, and a $2.0 million decrease in product sales of our mini C-arm products primarily in the United States 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. These improvements were partially offset by the reduced revenue and gross profits from the decrease in mini C-arm system sales.

Fiscal Year Ended September 27, 2003 Compared to Fiscal Year Ended September 28, 2002

Product Sales.

	Years Ended					
	September 27, 2003		September 28, 2002		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Product Sales						
Mammography	$ 68,739	34%	$ 59,138	31%	$ 9,601	16%
Osteoporosis Assessment	$ 51,900	25%	$ 45,531	24%	$ 6,369	14%
Digital Detectors	$ 6,843	3%	$ 6,125	3%	$ 718	12%
Other	$ 29,252	14%	$ 33,890	18%	$ (4,638)	(14)%
	$156,734	77%	$144,684	76%	$12,050	8%

In fiscal 2003 our product sales increased 8% compared to fiscal 2002 primarily due to increased mammography and osteoporosis assessment product sales. Partially offsetting these increases was a decrease in our conventional general radiography product revenues due to our phase-out of this unprofitable product line during fiscal 2002, and slightly lower mini C-arm sales.

Mammography product sales increased 16% in fiscal 2003 compared to fiscal 2002 primarily due to a $15.2 million increase in digital mammography system sales primarily attributable to an increase in the number of Selenia full field digital mammography systems sold worldwide. In addition, there was a $5.7 million increase attributable to an increase in the number of multicare stereotactic tables sold. These increases were partially offset by an $11.2 million decrease in analog mammography systems sales primarily in the United States. The decrease in analog system sales in the United States was primarily attributable to a decrease in the number of systems sold, which we attribute primarily to a decrease in the market for analog systems as a result of the growing acceptance of digital technology.

Osteoporosis assessment product sales increased 14% in fiscal 2003 compared to fiscal 2002. This increase was primarily due to an increase in the number of systems sold internationally and, to a lesser extent, to the initial shipments of our new Discovery line of bone densitometers at higher average selling prices.

Digital detector product sales increased 12% in fiscal 2003 compared to fiscal 2002. The increase was primarily due to an increase in the average selling prices of digital detectors resulting in higher revenues on fewer units sold.

Other product sales decreased 14% in fiscal 2003 compared to fiscal 2002. This decrease was primarily attributable to a $4.8 million decrease in worldwide conventional general radiography product sales due to our decision to phase out our unprofitable conventional general radiography product line, which was completed in fiscal 2002.

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. In fiscal 2002, approximately 80% of product sales were generated in the United States, 9% in Europe, 8% in Asia, 2% in Latin America and 1% in other international markets.

Service and Other Revenue.

	Years Ended					
	September 27, 2003		September 28, 2002			
	Amount	% of Total Revenue	Amount	% of Total Revenue	Change Amount	Change %
Service and Other Revenue	$47,301	23%	$45,508	24%	$1,793	4%

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 4% in fiscal 2003 compared to fiscal 2002. This increase was primarily due to increased service revenues primarily in our mammography business as a result of our assuming service responsibilities previously performed by a former distributor and increased service contract revenues in our osteoporosis assessment and digital imaging businesses. Partially offsetting these increases was a decrease in other revenue from the licensing of certain mammography-patented technology and additional fee-per-scan revenues as compared to fiscal 2002.

In the second quarter of fiscal 2003, we terminated an independent dealer who represented almost one-half of the U.S. market for our mammography products in fiscal 2002 and assumed full sales and service responsibility in these geographic locations on a direct basis. To provide the necessary sales coverage and service support we hired 10 sales and 28 service personnel.

Cost of Product Sales.

	Years Ended					
	September 27, 2003		September 28, 2002		Change	
	Amount	% of Product Sales	Amount	% of Product Sales	Amount	%
Cost of Product Sales	$86,506	55%	$84,230	58%	$2,276	3%

Cost of product sales decreased as a percentage of product sales to 55% in fiscal 2003 from 58% in fiscal 2002. These costs decreased as a percentage of product sales primarily due to improved gross margins recognized on the mammography and osteoporosis assessment products as a result of the increase in revenues, as well as lower manufacturing costs on the mini c-arm products and the elimination of our unprofitable conventional general radiography product line in the third quarter of fiscal 2002. The increased volume has improved the absorption of manufacturing overhead at our manufacturing facilities for those products. Our DRC subsidiary continues to have significant fixed manufacturing costs and is operating significantly below manufacturing capacity.

Cost of Service and Other Revenue.

	Years Ended					
	September 27, 2003		September 28, 2002		Change	
	Amount	% of Service Revenue	Amount	% of Service Revenue	Amount	%
Cost of Service and Other Revenue	$43,949	93%	$34,146	75%	$9,803	29%

Cost of service and other revenue increased as a percentage of service and other revenue to 93% in fiscal 2003 from 75% in fiscal 2002. These costs increased as a percentage of service and other revenue primarily due to additional personnel and other costs in our field service area to expand our United States service capabilities for our digital mammography and general radiography systems and to assume direct coverage of territories previously assigned to distributors, as well as to lower levels of other revenue.

Operating Expenses.

	Years Ended					
	September 27, 2003		September 28, 2002		Change	
	Amount	% of Total Revenue	Amount	% of Total Revenue	Amount	%
Operating Expenses						
Research and Development	$18,381	9%	$20,362	11%	$(1,981)	(10)%
Selling and Marketing	$29,978	15%	$28,319	15%	$ 1,659	6%
General and Administrative	$22,196	11%	$18,908	10%	$ 3,288	17%
Restructuring and Relocation	$ 0	0%	$ 2,070	1%	$(2,070)	(100)%
	$70,555	35%	$69,659	37%	$ 896	1%

Research and Development Expenses. Research and development expenses decreased 10% in fiscal 2003 compared to fiscal 2002. The decrease was primarily due to a decrease in research and development spending

and personnel primarily related to reduced spending of $1.6 million on digital detectors at DRC, a decrease of $737,000 due to our phase-out of the conventional general radiography product line in fiscal 2002 and a decrease of $671,000 related to our mammography business. These decreases were partially offset by increased spending of $1.1 million related to our general radiography digital imaging systems. Approximately $8.2 million and $8.7 million of the total of these expenses related to the development of digital mammography and digital general radiography systems and detectors at DRC in fiscal 2003 and 2002, respectively.

Selling and Marketing Expenses. Selling and marketing expenses increased 6% in fiscal 2003 compared to fiscal 2002. The increase was primarily due to additional personnel and other costs incurred to expand our United States coverage of territories previously assigned to distributors, and to a lesser extent, higher trade show expenses in fiscal 2003 compared to 2002.

General and Administrative Expenses. General and administrative expenses increased 17% in fiscal 2003 compared to fiscal 2002. The increase was primarily due to additional personnel, increased employee benefit expenses and expenses related to the implementation of our integrated enterprise wide software application.

Restructuring and Relocation Costs. Restructuring and relocation costs in the first and second quarters of fiscal 2002 were primarily the result of our continuing efforts to streamline operations and eliminate unprofitable product lines. In the second quarter of fiscal 2002, we incurred severance costs of approximately $495,000 in connection with the reduction of our workforce in the United States and Europe by 13 persons across all functional areas. In the first quarter of fiscal 2002, we incurred a restructuring charge of approximately $806,000 primarily comprised of severance costs related to the termination of 85 employees at the Littleton facility. In addition, we incurred severance cost of approximately $561,000 and $208,000 in connection with the closure of our direct sales and service office in Paris, France and the continued reduction of Lorad's workforce, respectively. The severance charges related to the workforce reductions of 5 persons in France and 20 persons at Lorad and were across all functional areas.

Interest Income.

	Years Ended			
	September 27, 2003	September 28, 2002	Change	
	Amount	Amount	Amount	%
Interest Income	$685	$573	$112	20%

Interest income increased in fiscal 2003 compared to fiscal 2002 primarily due to $84,000 of interest income related to the note receivable from an officer and $21,000 of additional interest collected from Latin American financed sales.

Interest / Other Expense.

	Years Ended			
	September 27, 2003	September 28, 2002	Change	
	Amount	Amount	Amount	%
Interest / Other Expense	$445	$2,980	$(2,535)	(85)%

In fiscal 2003, these expenses were primarily due to the interest costs on the Wells Fargo Foothill, Inc. note payable. In fiscal 2002, these expenses included interest costs of approximately $2.6 million on the $25 million note payable issued in connection with the Trex Medical acquisition and to a much lesser extent, interest costs on the Wells Fargo Foothill, Inc. note payable, foreign currency transaction 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 on those transactions. In September 2002, we paid off the note payable to Trex Medical with the proceeds from the sale/leaseback transaction of two of our facilities. 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 (Benefit) for Income Taxes.

	Years Ended			
	September 27, 2003	September 28, 2002	Change	
	Amount	Amount	Amount	%
Provision (Benefit) for Income Taxes	$176	$(429)	$605	(141)%

We provided for certain minimum taxes where net-operating losses cannot be used in fiscal 2003. In fiscal 2002 we had a benefit for income taxes of $429,000 as a result of a $4.5 million tax benefit recorded in the second quarter of fiscal 2002, partially offset by a $3.9 million tax provision recorded in the fourth quarter of fiscal 2002 to reduce our deferred tax asset to $3.6 million that we believe will be fully realizable in the next 12 to 24 months. During fiscal 2002, as a result of the Economic Stimulus Bill signed into law in March, we filed carry back claims of approximately $13.8 million. Of this amount, we received $12.0 million in cash in fiscal 2003 and $1.8 million, which we received in fiscal 2004, is included in other current assets in the accompanying balance sheet at September 27, 2003.

Liquidity and Capital Resources

At September 25, 2004 we had approximately $121.0 million of working capital. At that date our cash and cash equivalents totaled $68.3 million. Our cash and cash equivalents balance increased $23.2 million during fiscal 2004 primarily due to cash provided by operating and financing activities partially offset by the use of cash for purchases of property and equipment.

Our cash provided by operating activities was $25.9 million, which included net income of $12.2 million for fiscal 2004 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 deferred revenue of $3.5 million, an increase in accrued expenses of $3.5 million and a decrease in inventory of $3.4 million. These sources of cash were partially offset by an increase in accounts receivable of $4.4 million. 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 accrued expenses was primarily due to timing of payments. The decrease in inventory was primarily the result of improved supply chain management. The increase in accounts receivable was primarily due to the increased revenues during fiscal 2004.

In fiscal 2004, we used approximately $6.6 million of cash in investing activities. This use of cash was primarily attributable to purchases of property and equipment of $7.2 million, which consisted primarily of computer hardware, demonstration and manufacturing equipment.

In fiscal 2004, financing activities provided us with $3.9 million of cash. These cash flows included approximately $5.0 million from the exercise of stock options partially offset by repayments, totaling $1.1 million, of our term loan with Wells Fargo Foothill, Inc. and our Fleet Business Credit, LLC note payable.

As of September 25, 2004 we had short-term borrowings, including the current portion of our long-term obligations, of $475,000 and long term notes payable totaling $472,000. These amounts represent our obligations of our term loan under our credit facility 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 (2.12% at September 25, 2004) 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 25, 2004, there were no outstanding borrowings under this line.

In September 2001 we obtained a secured loan from Wells Fargo Foothill, Inc. The loan agreement with Wells Fargo Foothill, Inc. provides for a term loan of approximately $2.4 million, which we borrowed at signing, and a revolving line of credit facility. The maximum amount we can borrow under the loan agreement and amendment is $20.0 million. The loan agreement and amendment contain financial and other covenants and the actual amount which we can borrow under the line of credit at any time is based upon a formula tied to the amount of our qualifying accounts receivable. At September 25, 2004, the total amount of availability under this formula was $20.0 million. In July 2003 we amended this loan agreement primarily to simplify financial covenants and to reduce the fees related to this facility. The term loan accrues interest at prime plus 1.0% for five years. The line of credit advances accrue interest at prime plus 0.25%. The line of credit expires in September 2005. We were in compliance with all covenants as of September 25, 2004. At September 25, 2004, there were no outstanding borrowings under our line of credit.

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 25, 2004.

The following table summarizes our contractual obligations and commitments as of September 25, 2004:

	Payments Due by Period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long Term Debt	$ 947	$ 475	$ 472	$ —	$ —
Operating Leases	60,359	4,848	8,352	6,395	40,764
Purchase Obligations	3,534	1,256	2,278	—	—
Total Contractual Obligations	$64,840	$6,579	$11,102	$6,395	$40,764

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. 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 October 2004, the Financial Accounting Standards Board ("FASB") concluded that proposed Statement 123R, *Share-Based Payment*, which would require all companies to measure compensation cost for all

share-based payments, including employee stock options, at fair value, would be effective for public companies except small business issuers as defined in SEC Regulation S-B for interim or annual periods beginning after June 15, 2005. The FASB has tentatively concluded that companies could adopt the new standard using either the *modified prospective transition method* or the *modified retrospective transition method*. Under the modified prospective transition method, a company would recognize share-based employee compensation cost from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. Measurement and attribution of compensation cost for awards that are not vested as of the effective date of the proposed Statement would be based on the same estimate of the grant-date fair value and the same attribution method used previously under Statement 123 (either for recognition or pro forma purposes). Under the modified retrospective transition method, a company would recognize employee compensation cost for periods presented prior to the adoption of Statement 123R in accordance with the original provisions of Statement 123; that is, an entity would recognize employee compensation cost in the amounts reported in the pro forma disclosures provided in accordance with Statement 123. A company would not be permitted to make any changes to those amounts upon adoption of the proposed Statement unless those changes represent a correction of an error (and are disclosed accordingly). For periods after the date of adoption of Statement 123R, the modified prospective transition method described above would be applied. The Company is in the process of determining the impact of this statement on its consolidated financial statements.

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 $4.8 million in fiscal 2004, $5.8 million in fiscal 2003 and $4.6 million in fiscal 2002. 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 to focus on selling our DirectRay detectors to OEM's for incorporation in their own line of digital radiography systems. Notwithstanding this shift in focus, we cannot assure that the operating results of our digital detector 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 a digital mammography product. 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.

We have recently expanded our direct sales and service efforts of our products into territories that were previously covered by independent distributors, are considering further expanding our direct sales and service coverage in the United States, and cannot assure that we can effect any such transition effectively. Sales of our products may fluctuate if our sales force is unable to successfully market and sell a broader product offering.

We have sold and serviced a majority of our mammography systems in the United States primarily through a network of independent distributors and to a lesser extent, through our direct sales force. During fiscal 2003, we expanded our direct sales and service efforts for mammography into territories that were previously covered by independent distributors, and are considering further expanding our direct sales and service coverage in the United States. We have also expanded the product offerings sold by our direct sales force to include our entire product line. The transition to a direct sales and service force with a more diversified product offering could adversely affect our relationships with our end-user customers and sales of our products, if we are unable to manage the transition effectively or our direct sales force is otherwise unable to successfully market and sell a broader product offering.

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.

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, Fischer Imaging 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 mammography systems compete with products offered by GE, Siemens, PlanMed, Fischer Imaging and Agfa. Our minimally invasive breast biopsy systems compete with products offered by Fischer Imaging 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.

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 may complete in the future.

We may pursue acquisitions of related businesses, technologies, product lines, and products. 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.

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 39% of our product sales in fiscal 2004, 32% of product sales in fiscal 2003 and 20% of our product sales in fiscal 2002. 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 have been, and may be in the future, notified that we may be infringing intellectual property rights possessed by third parties. If any such 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.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and Nasdaq National Market rules, are creating uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding our required assessment of our internal controls over financial reporting and our external auditors' audit of that assessment has required the commitment of significant financial and managerial resources. We expect these efforts to require the continued commitment of significant resources. Further, our board members, chief executive officer, and chief financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which could harm our business. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

If, as of the end of our 2005 fiscal year, we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to confirm our assessment, investors could lose confidence in our reported financial information, and the trading price of our stock price and our business could be adversely affected.

We are in the process of documenting, and plan to test during the current fiscal year, our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act. Commencing with September 24, 2005, the end of our 2005 fiscal year, the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our Independent Auditors addressing these assessments. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented, or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Effective internal controls are important to help produce reliable financial reports and to prevent financial fraud. If we are unable to assert that our internal control over financial reporting is effective as of the end of our 2005 fiscal year, or if our auditors are unable to attest that our management's report is fairly stated or they are unable to express an opinion on our management's evaluation or on the effectiveness of the internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, investors could lose confidence in our reported financial information, and the trading price of our stock and our business could be adversely affected.

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.

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) and a European line of credit. The Foothill Agreement term loan accrues 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 25, 2004, we had $944,000 outstanding under the Foothill Agreement and there were no amounts outstanding under the 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 2004, 2003 and 2002, we incurred foreign currency exchange gains (losses) of $(192,000), $(134,000) and $225,000 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.

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 25, 2004, 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.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report 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 25, 2004 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.

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)	2,560,530	$11.71	523,390
Equity compensation plans not approved by security holders (2)	865,212	$ 9.06	321,436
Total	3,425,742	$11.04	844,826

(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 1,100,000 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 515,500 shares have been granted and are outstanding and 107,237 shares remain available for grant.

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 800,000 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 349,712 shares have been granted and are outstanding and 214,199 shares remain available for grant.

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

Consolidated Balance Sheets as of September 25, 2004 and September 27, 2003

Consolidated Statements of Income for the years ended September 25, 2004, September 27, 2003 and September 28, 2002

Consolidated Statements of Stockholders' Equity for the years ended September 25, 2004, September 27, 2003 and September 28, 2002

Consolidated Statements of Cash Flows for the years ended September 25, 2004, September 27, 2003 and September 28, 2002

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	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	filed herewith
10.06	1997 Employee Equity Incentive Plan	E-99
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*

Exhibit Number		Reference
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	Loan and Security Agreement	J-10.25
10.21	Parent Pledge Agreement	J-10.26
10.22	Guaranty and Security Agreement	J-10.27
10.23	Mortgage and Security Agreement	J-10.28
10.24	First Amendment to the Loan and Security Agreement	J-10.29
10.25	Second Amendment to the Loan and Security Agreement	N-10.30
10.26	Third Amendment to the Loan and Security Agreement	N-10.31
10.27	Lease Agreement (Danbury and Bedford)	M-10.27
10.28	Settlement and Waiver Agreement with an Officer of Hologic	M-10.28
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

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.

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 8, 2004

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 8, 2004
/s/ GLENN P. MUIR **GLENN P. MUIR**	Director, Executive Vice President Finance and Administration and Treasurer (Principal Financial Officer)	December 8, 2004
/s/ JAY A. STEIN **JAY A. STEIN**	Chairman Emeritus and Chief Technical Officer	December 8, 2004
/s/ ROBERT H. LAVALLEE **ROBERT H. LAVALLEE**	Vice President, Corporate Controller (Principal Accounting Officer)	December 8, 2004
/s/ IRWIN JACOBS **IRWIN JACOBS**	Director	December 8, 2004
/s/ DAVID R. LAVANCE, JR. **DAVID R. LAVANCE, JR.**	Director	December 8, 2004
/s/ NANCY L. LEAMING **NANCY L. LEAMING**	Director	December 8, 2004
/s/ WILLIAM A. PECK **WILLIAM A. PECK**	Director	December 8, 2004

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Hologic, Inc.
Years ended September 25, 2004, September 27, 2003
and September 28, 2002

Hologic, Inc.

Audited Consolidated Financial Statements
Years ended September 25, 2004, September 27, 2003 and September 28, 2002

Contents

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of Hologic, Inc.:

We have audited the accompanying consolidated balance sheets of Hologic, Inc. (a Delaware corporation) and subsidiaries as of September 25, 2004 and September 27, 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 25, 2004. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hologic, Inc. and subsidiaries at September 25, 2004 and September 27, 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 25, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts
November 1, 2004

Hologic, Inc.

Consolidated Balance Sheets
(In thousands, except per share data)

	September 25, 2004	September 27, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 68,335	$ 45,177
Accounts receivable, less reserves of $2,757 and $3,477, respectively	48,409	43,831
Inventories	40,174	43,426
Prepaid expenses and other current assets	9,135	9,554
Total current assets	166,053	141,988
Property and equipment, at cost:		
Land	1,500	1,500
Buildings and improvements	13,697	13,607
Equipment and software	38,038	33,505
Furniture and fixtures	3,591	3,660
Leasehold improvements	2,728	2,637
	59,554	54,909
Less—accumulated depreciation and amortization	26,677	22,803
	32,877	32,106
Other assets:		
Patented technology, net of accumulated amortization of $6,761 and $5,732, respectively	824	1,702
Developed technology and know-how, net of accumulated amortization of $3,681 and $2,770, respectively	5,427	6,338
Goodwill	6,285	5,810
Other, net	285	659
	12,821	14,509
Total assets	$211,751	$188,603
Liabilities		
Current liabilities:		
Current portion of notes payable	$ 475	$ 480
Accounts payable	10,546	10,819
Accrued expenses	20,970	17,387
Deferred revenue	13,013	9,440
Total current liabilities	45,004	38,126
Note payable, net of current portion	472	1,550
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–30,000 shares authorized; 20,585 and 19,966 shares issued, respectively	206	200
Capital in excess of par value	149,452	144,455
Retained earnings	18,196	6,032
Accumulated other comprehensive loss	(1,115)	(1,296)
Treasury stock, at cost—45 shares	(464)	(464)
Total stockholders' equity	166,275	148,927
Total liabilities and stockholders' equity	$211,751	$188,603

See accompanying notes.

Hologic, Inc.

Consolidated Statements of Income
(In thousands, except per share data)

	Years ended		
	September 25, 2004	**September 27, 2003**	**September 28, 2002**
Revenues:			
Product sales	$177,936	$156,734	$144,684
Service and other revenue	50,769	47,301	45,508
	228,705	204,035	190,192
Costs and expenses:			
Cost of product sales	94,762	86,506	84,230
Cost of service and other revenue	48,574	43,949	34,146
Research and development	16,659	18,381	20,362
Selling and marketing	31,761	29,978	28,319
General and administrative	24,363	22,196	18,908
Restructuring and relocation	—	—	2,070
	216,119	201,010	188,035
Income from operations	12,586	3,025	2,157
Interest income	540	685	573
Interest and other income (expense), net	(199)	(445)	(2,980)
Income (loss) before provision (benefit) for income taxes	12,927	3,265	(250)
Provision (benefit) for income taxes	763	176	(429)
Income before cumulative effect of change in accounting principle	12,164	3,089	179
Cumulative effect of change in accounting principle	—	(207)	—
Net income	$ 12,164	$ 2,882	$ 179
Basic income per common and common equivalent share:			
Income before cumulative effect of change in accounting principle	$ 0.60	$ 0.16	$ 0.01
Cumulative effect of change in accounting principle	—	(0.01)	—
Net income	$ 0.60	$ 0.15	$ 0.01
Diluted income per common and common equivalent share:			
Income before cumulative effect of change in accounting principle	$ 0.57	$ 0.15	$ 0.01
Cumulative effect of change in accounting principle	—	(0.01)	—
Net income	$ 0.57	$ 0.14	$ 0.01
Weighted average number of common shares outstanding:			
Basic	20,258	19,629	18,419
Diluted	21,296	20,130	19,192

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 29, 2001	15,670	$157	$111,300	$ 2,971	45	$(464)	$(2,157)	$111,807	$ —
Sale of common stock, net of issuance costs of $2,220	3,000	30	24,750	—	—	—	—	24,780	—
Exercise of stock options	595	6	4,203	—	—	—	—	4,209	—
Stock issued for employee compensation	140	1	801	—	—	—	—	802	—
Issuance of common stock under employee stock purchase plan	56	1	351	—	—	—	—	352	—
Net income	—	—	—	179	—	—	—	179	179
Translation adjustments	—	—	—	—	—	—	280	280	280
Comprehensive income									459
Balance at September 28, 2002	19,461	195	141,405	3,150	45	(464)	(1,877)	142,409	—
Exercise of stock options	470	5	2,659	—	—	—	—	2,664	—
Issuance of common stock under employee stock purchase plan	37	—	391	—	—	—	—	391	—
Expiration of restricted stock awards	(2)	—	—	—	—	—	—	—	—
Net income	—	—	—	2,882	—	—	—	2,882	2,882
Translation adjustments	—	—	—	—	—	—	581	581	581
Comprehensive income									3,463
Balance at September 27, 2003	19,966	$200	$144,455	$ 6,032	45	$(464)	$(1,296)	$148,927	
Exercise of stock options	587	6	4,584	—	—	—	—	4,590	—
Issuance of common stock under employee stock purchase plan	32	—	413	—	—	—	—	413	—
Net income	—	—	—	12,164	—	—	—	12,164	$12,164
Translation adjustments	—	—	—	—	—	—	181	181	181
Comprehensive income									$12,345
Balance at September 25, 2004	20,585	$206	$149,452	$18,196	45	$(464)	$(1,115)	$166,275	

See accompanying notes.

Hologic, Inc.

Consolidated Statements of Cash Flows
(In thousands)

	Years ended		
	September 25, 2004	**September 27, 2003**	**September 28, 2002**
Operating activities			
Net income	$12,164	$ 2,882	$ 179
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,712	5,491	5,395
Amortization	1,877	1,914	2,081
Noncash interest expense	123	186	187
Deferred income taxes	—	—	3,896
Loss on sale/leaseback	—	—	93
Changes in assets and liabilities:			
Accounts receivable	(4,435)	(4,096)	3,168
Inventories	3,428	(5,074)	1,641
Prepaid expenses and other current assets	444	5,303	1,998
Accounts payable	(452)	(167)	(7,290)
Accrued expenses	3,499	(1,673)	(4,823)
Deferred revenue	3,522	(35)	436
Net cash provided by operating activities	25,882	4,731	6,961
Investing activities			
Net cash paid for acquisition of distributor	(341)	—	—
Proceeds from sale/leaseback, net of costs	—	—	31,372
Purchase of property and equipment	(7,187)	(9,200)	(6,450)
Disposal of property and equipment	744	1,054	312
Decrease (increase) in other assets	163	224	(122)
Net cash (used in) provided by investing activities	(6,621)	(7,922)	25,112
Financing activities			
Repayments of line of credit	—	—	(2,150)
Issuance of note payable	—	—	24
Repayments of notes payable	(1,083)	(718)	(26,177)
Net proceeds from sale of common stock	5,003	3,055	29,341
Net cash provided by financing activities	3,920	2,337	1,038
Effect of exchange rate changes on cash	(23)	195	(29)
Net increase (decrease) in cash and cash equivalents	23,158	$ (659)	$ 33,082
Cash and cash equivalents, beginning of year	45,177	45,836	12,754
Cash and cash equivalents, end of year	$68,335	$45,177	$ 45,836
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for income taxes	$ 448	$ 178	$ 236
Cash paid during the period for interest	$ 91	$ 172	$ 3,072
Supplemental Disclosure of Noncash Financing Activities:			
Stock issued for employee compensation	$ —	$ —	$ 802

See accompanying notes.

1. Operations

Hologic, Inc. (the Company or Hologic) is engaged in the development, manufacture and distribution of diagnostic and medical imaging systems primarily serving the healthcare needs of women. The Company's core women's healthcare business units are focused on osteoporosis assessment, mammography 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 2004, 2003 and 2002 ended on September 25, 2004, September 27, 2003 and September 28, 2002, respectively.

Management's Estimates and Uncertainties

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make 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, 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 maturities of three months or less at the time of acquisition to be cash equivalents. Included in cash equivalents at September 27, 2003 are $263 of securities purchased under agreements to resell. The securities purchased under agreements to resell are collateralized by U.S. government securities. At September 25, 2004 and September 27, 2003 the Company's other 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, trade accounts receivable and long-term receivables. 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 generally has not experienced any material losses related to receivables from individual customers or groups of customers in the x-ray and medical devices industry. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses, which the Company re-evaluates 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.

The Company historically utilized a distributor in the United States for certain product lines. In the first quarter of fiscal 2003, this distributor sold one of its wholly owned subsidiaries to another company creating a new distributor for the Company's mammography systems. On January 1, 2003, the Company terminated its relationship with this new distributor, other than for the continuing sale of spare parts, and commenced a direct sales effort in the U.S. for the product lines carried by this distributor. The Company had accounts receivable from the new distributor of approximately $359 and $937 as of September 25, 2004 and September 27, 2003, respectively and accounts receivable from the historical distributor of approximately $0 and $3,118 as of September 25, 2004 and September 27, 2003, respectively. The new distributor accounted for 0.5% and 4% of revenues for the years ended September 25, 2004 and September 27, 2003, respectively. The historical distributor accounted for 12% and 24% of product revenues for fiscal 2003 and 2002, respectively. There were no other customers with balances greater than 10% of accounts receivable as of September 25, 2004 or September 27, 2003, or customers that represented greater than 10% of product revenues for fiscal 2004, 2003 and 2002.

Disclosure of Fair Value of Financial Instruments

The Company's financial instruments mainly consist of cash and cash equivalents, accounts receivable, lines of credit, long-term receivables, accounts payable and notes payable. The carrying amounts of the Company's cash equivalents, accounts receivable, lines 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. has a variable interest rate and, therefore, fluctuates based on market conditions. As of September 25, 2004, the fair value of the note payable approximates its carrying amount based on comparable market terms and conditions.

(In thousands, except per share data)

Inventories

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

	September 25, 2004	September 27, 2003
Raw materials and work-in-process	$31,252	$33,596
Finished goods	8,922	9,830
	$40,174	$43,426

Work-in-process and finished goods inventories consist of materials, labor and manufacturing overhead.

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 Life 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 Statement of Position (SOP) 98-1, *Software Developed or Obtained for Internal Use.* SOP 98-1 requires 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 $140, $1,433 and $2,280 during fiscal 2004, 2003 and 2002, 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 sheet. The Company began to amortize such costs during 2003 when the ERP system became operational. In fiscal 2004, the Company began an upgrade of the ERP system, which added new functionality to the existing system, which was not previously available. The Company capitalized $206 related to this project. The Company began to amortize such costs during 2004 when the upgrades to the ERP became operational.

In September 2002, the Company completed a sale/leaseback of its Bedford, Massachusetts, and Danbury, Connecticut facilities, resulting in a loss of $93, which is included in interest/other expense in the accompanying consolidated statement of operations. Under the terms of the sale/leaseback, the Company entered into a 20-year operating lease agreement for the facilities requiring annual rent payments of $3,156, in addition to all operating costs.

In applying the provisions of Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*, certain judgments and estimates were made to determine if the agreement should be accounted for as a capital or operating lease. Most significant is the determination of the Company's incremental borrowing rate in calculating the present value of minimum lease payments in the event the rate implicit in the lease is unknown. In order for a lease agreement to be accounted as an operating lease, among other requirements, the present value of the minimum lease payments may not be greater than 90% of the fair value of the leased asset. In determining the Company's incremental borrowing rate management considered, among other things, quotes obtained from several lenders assuming the Company was financing a purchase of the facility.

Long-Lived Assets

The Company assesses the realizability of its long-lived assets, including intangible assets except goodwill, in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. To date, the Company has not identified any impairments requiring adjustment.

The Company accounts for goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under this statement, goodwill is not amortized, but is reviewed for impairment annually, at a minimum, by applying a fair-value-based test.

The Company conducts its annual impairment test of goodwill during the second quarter of its fiscal year. The Company considered a number of factors, including the prior year's 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 involve the application of management's judgment and could significantly affect the Company's operating results. The Company determined 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 for fiscal 2004.

Deferred Financing Costs

Included in other assets in the accompanying balance sheets as of September 25, 2004 and September 27, 2003 are deferred financing costs of approximately $133 and $255, respectively, related to the Company's closing of the credit facility with Foothill Capital Corporation on September 21, 2001 (see Note 3.) The Company is amortizing these amounts to interest expense over a four-year period, which approximates the level yield method. The Company amortized $122, $186 and $187 to interest expense related to these amounts during the years ended September 25, 2004, September 27, 2003 and September 28, 2002, 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 inter-company 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 Statement 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. 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 can be accounted for separately from the product element as the Company's 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. Accordingly, service revenue representing the fair value of services not yet performed at the time of product shipment are deferred and recognized as such services are performed. The undelivered elements of service to be provided are all probable, perfunctory in nature and under the Company's control. The residual revenue under the product arrangement are recognized as product revenue upon shipment. There is no customer right of return in the Company's sales agreements. The Company adopted EITF Issue No. 00-21 as the cumulative effect of a change in accounting principle in accordance with Accounting Principles Board (APB) Opinion No. 20, *Accounting Changes*. In connection with the adoption of EITF Issue No. 00-21, the Company reclassified $4,150 of product revenue to service revenue for the year ended September 28, 2002. The Company has not presented the pro forma presentation of the cumulative catch-up adjustment as the change was not material.

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 fee-per-scan revenues, amounts recorded under maintenance contracts and repairs not covered under warranty, installation and training revenues, as well as shipping and handling costs billed to customers. 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 applies these payments against the outstanding note payable the Company owes them at the time of collection. Since the leasing company collects the payments directly from the customers and notifies the Company upon applying our share to the note, the amount of fee-per-scan revenue is not fixed or determinable until notified of collection by the leasing

(In thousands, except per share data)

company. As a result, fee-per-scan revenues have been recorded as the fees are collected. Maintenance contract revenues are recognized ratably over the term of the contract. Other service revenues are recorded when the services are completed.

In accordance with EITF Issue No. 00-10*, Accounting for Shipping and Handling Fees,* the Company has classified the re-imbursement by customers of shipping and handling costs as revenue and the associated cost as cost of revenue. Reimbursed shipping and handling costs, included in service and other revenues and costs of service and other revenues, totaled approximately $1,447, $1,549 and $1,412 for the years ended September 25, 2004, September 27, 2003 and September 28, 2002, respectively.

Although the Company's products contain operating and application software, the Company has determined that the software element is incidental in accordance with AICPA Statement of Position (SOP) No. 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 Softwar*e.

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 25, 2004, 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 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 25, 2004, September 27, 2003 or September 28, 2002 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, 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 2004, 2003 and 2002:

	Years ended		
	September 25, 2004	**September 27, 2003**	**September 28, 2002**
Net income as reported	$ 12,164	$ 2,882	$ 179
Less: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(3,563)	(3,198)	(4,678)
Pro forma net income (loss)	$ 8,601	$ (316)	$ (4,499)
Diluted net income per share, as reported	$ 0.57	$ 0.14	$ 0.01
Pro forma diluted net income (loss) per share	$ 0.40	$ (0.02)	$ (0.24)
Weighted-average fair value of options granted	$ 8.93	$ 5.66	$ 5.10
Weighted-average remaining contractual life of options outstanding	6.70 years	6.87 years	7.58 years

(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 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 2004, 2003 and 2002 are as follows:

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Risk-free interest rates	2.9%	2.5%	3.7%
Expected dividend yield	—	—	—
Expected life (in years)	4.0	4.0	4.0
Expected volatility	70.0%	70.0%	70.0%

The assumptions used to calculate the SFAS No. 148 pro forma disclosure for shares purchased under the Employee Stock Purchase Plan for the fiscal years 2004, 2003 and 2002 are as follows:

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Risk-free interest rates	2.8%	2.9%	3.7%
Expected dividend yield	—	—	—
Expected life (in years)	0.5	0.5	0.5
Expected volatility	61.4%	70.0%	70.0%

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 2004, 2003 and 2002 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 2004, 2003, and 2002 are as follows:

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Basic weighted-average common shares outstanding	20,258	19,629	18,419
Weighted-average common equivalent shares	1,038	501	773
Diluted weighted-average common shares outstanding	21,296	20,130	19,192

Dilutive weighted-average shares outstanding do not include 667, 1,195 and 1,071 common-equivalent shares for fiscal years 2004, 2003 and 2002, respectively, as their effect would have been antidilutive.

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

(In thousands, except per share data)

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 25, 2004 and September 27, 2003 is as follows:

	Balance at Beginning of Period	Charged to Costs and Expenses	Write-Offs/ Payments	Balance at End of Period
Period end:				
September 25, 2004	$4,475	$6,082	$(6,029)	$4,528
September 27, 2003	4,824	4,656	(5,005)	4,475

Recently Issued Accounting Pronouncements

In October 2004, the Financial Accounting Standards Board ("FASB") concluded that the proposed Statement 123R*, Share-Based Payment*, which would require all companies to measure compensation cost for all share-based payments, including employee stock options, at fair value, would be effective for public companies (except small business issuers as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. The FASB has tentatively concluded that companies could adopt the new standard using either the "modified prospective transition method" or the "modified retrospective transition method." Under the modified prospective transition method, a company would recognize share-based employee compensation cost from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employee awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. Measurement and attribution of compensation cost for awards that are not vested as of the effective date of the proposed Statement would be based on the same estimate of the grant-date fair value and the same attribution method used previously under Statement 123 (either for recognition or pro forma purposes). Under the modified retrospective transition method, a company would recognize employee compensation cost for periods presented prior to the adoption of Statement 123R in accordance with the original provisions of Statement 123; that is, an entity would recognize employee compensation cost in the amounts reported in the pro forma disclosures provided in accordance with Statement 123. A company would not be permitted to make any changes to those amounts upon adoption of the proposed Statement unless those changes represent a correction of an error (and are disclosed accordingly). For periods after the date of adoption of Statement 123R, the modified prospective transition method described above would be applied. The Company is in the process of determining the impact of this statement on its consolidated financial statements.

3. Credit Facilities

Trex Medical Note

On September 15, 2000, pursuant to an Asset Purchase and Sale Agreement between Hologic, Inc. (Hologic) and Trex Medical Systems Corporation (Trex Medical) (the Purchase Agreement), dated August 13, 2000, Hologic acquired the U.S. business assets of Trex Medical in exchange for $30,000 in cash and a note in the amount of $25,000. The note had a term of three years, bore interest at a rate of 11.5% per annum and was repaid in full in September 2002 with the proceeds from the Company's sale/leaseback transaction (see Note 2). The Company recorded interest expense related to this note payable of $2,638 for the year ended September 28, 2002 in the accompanying consolidated statements of income.

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 (2.12% at September 25, 2004) plus 1.50%. There were no amounts outstanding during 2004 and 2003. 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. Interest expense on this line of credit of approximately $66 has been included in interest/other expenses in the accompanying consolidated statements of operations for 2002. No interest expense was incurred for 2004 and 2003 on this line of credit.

Foothill Note and Line of Credit

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 provides for a term loan in the amount of $2,360, payable monthly in equal installments over five years. The term loan accrues interest daily at an annual rate equal to the prime rate (4.75% at September 25, 2004) plus 1.00%. As of September 25, 2004, there was $944 outstanding under the Foothill Agreement. The Company also has the ability to issue letters of credit under the Foothill Agreement. The Company must pay a fee related to any letters of credit equal to 1% per annum on the daily balance of the undrawn amount of all outstanding letters of credit.

In addition, the Foothill Agreement allows for revolver advances equal to the lesser of (i) the Maximum Revolver Amount ($20,000 less amounts outstanding related to letters of credit) or (ii) the Borrowing Base, as defined, less the letter of credit usage. As of September 25, 2004, the Company's Borrowing Base and net availability under the revolver was $20,000. As of that date, the Company had no borrowing or letters of credit outstanding under the revolver. The revolver advances accrue interest daily at an annual rate equal to the prime rate plus 0.25%. The Company must pay monthly an Unused Line Fee in an amount equal to 0.3% times the result of (i) the maximum revolver amount less the sum of the average daily balance of advances, as defined, during the preceding month plus (ii) the average daily balance of the letter of credit usage, as defined, during the preceding month.

The Company's ability to borrow under such line of credit is conditional upon the Company's compliance with certain financial and non-financial covenants. The line of credit is collateralized by substantially all assets of the Company, excluding real estate, and expires on September 21, 2005. The Company was in compliance with all covenants as of September 25, 2004.

(In thousands, except per share data)

4. Income Taxes

The Company provides for income taxes under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes.*

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

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Federal:			
Current	$250	$—	$(13,527)
Deferred	—	—	13,000
	250	—	(527)
State:			
Current	175	150	150
Deferred	—	—	(84)
	175	150	66
Foreign:			
Current	338	26	32
	$763	$176	$ (429)

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

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Income tax provision at federal statutory rate	35.0%	35.0%	(35.0)%
Increase (decrease) in tax resulting from:			
Change in valuation allowance	(26.3)	(32.2)	(28.5)
State tax provision, net of federal benefit	0.9	4.6	43.1
Research and development tax credit	(3.9)	(15.3)	(199.7)
Nondeductible expenses	1.4	13.3	48.7
Other	(1.2)	—	—
	5.9%	5.4%	(171.4)%

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

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Domestic	$11,489	$2,204	$ 1,327
Foreign	1,438	1,061	(1,577)
	$12,927	$3,265	$ (250)

(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 25, 2004	September 27, 2003
Deferred tax assets	$10,037	$11,815
Valuation allowance	(6,437)	(8,215)
	$ 3,600	$ 3,600

The net deferred tax assets above are recorded in the consolidated balance sheet as follows: $5,277 as a deferred tax asset in prepaid expenses and other current assets and $1,677 as a deferred tax liability in accrued expenses.

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. In determining the realizability of these assets, the Company considered numerous factors, including historical profitability, estimated future taxable income and the industry in which it operates. A portion of the deferred tax assets relates to the excess benefit of stock options, and as such, will be realized as an increase in stockholders' equity in future periods.

The Company has a valuation allowance against a portion of its remaining potential deferred tax assets. The valuation allowance primarily relates to the net losses generated in fiscal 2001 and 2000, which the Company can only realize through the generation of future taxable income and certain deferred tax assets in foreign jurisdictions, for which realization is uncertain. The Company believes that its net deferred tax asset as of September 25, 2004 will be realizable in the next fiscal year.

The approximate income tax effect of each type of temporary difference and carryforward before allocation of the valuation allowance is approximately as follows:

	September 25, 2004	September 27, 2003
Net operating loss carryforwards	$ 9,427	$10,919
Nondeductible accruals	1,305	684
Nondeductible reserves	3,741	2,497
Depreciation and amortization	(7,829)	(5,707)
Other temporary differences	575	1,797
Research credit	2,818	1,509
Deferred revenue	—	116
	$10,037	$11,815

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

	Year of Expiration					
	2020	2021	2022	2023	2024	Total
Net Operating Loss	$4,926	$10,149	$5,069	$3,313	—	$23,457
R&D Credit	$ —	$ 508	$ 978	$ 832	$500	$ 2,818

Hologic has 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 associate 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.

The American Jobs Creation Act of 2004 (the Act) introduced a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. On October 22, 2004, the Act was signed into law by the President.

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 U.S. The Company's current intention is to reinvest the total amount of the Company's approximately $515 of unremitted earnings permanently or to 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; however, the Company believes that previously unbenefitted U.S. foreign net operating loss carryovers would largely eliminate any U.S taxes.

5. Common Stock

Stock Option Plans

The Company's 1986 Combination Stock Option Plan (the 1986 Plan) is administered by the Board of Directors. Under the terms of the 1986 Plan, the Company granted employees either incentive stock options or nonqualified stock options to purchase shares of the Company's common stock at a price not less than fair market value at the date of grant. In addition, the Company granted nonqualified options to other participants. During fiscal 1996, the 1986 Plan was terminated. Options granted under the 1986 Plan vest over a five-year period and are exercisable at varying dates.

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 25, 2004, 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 1,100 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 25, 2004, the Company had 71 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 10 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 eight 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 25, 2004, 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 1,100 shares of common stock. Under the terms of the

(In thousands, except per share data)

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. As of September 25, 2004, the Company had 107 shares available for future grant under this plan.

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 300 shares, plus an annual increase, as defined, on the first day of each fiscal year following the adoption of the 1999 Plan. Effective September 30, 2003 and September 23, 2004, the Board of Directors increased the number of shares available by 490 and 500 shares, respectively, bringing the total shares available for issuance from 1,840 to 2,830. 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 25, 2004, the Company had 452 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 1,000 shares of common stock. On December 17, 2003, the Board of Directors approved a decrease of 200 shares of common stock available under the 2000 Plan reducing the authorized amount to 800 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. As of September 25, 2004, the Company had 214 shares available for future grant under this plan.

The following table summarizes all stock option activity under all of the plans for the three years in the period ended September 25, 2004:

	Number of Shares	Per Share Exercise Price	Weighted-Average Exercise Price
Outstanding at September 29, 2001	3,367	$ 1.81–44.25	$ 7.65
Granted	1,324	5.05–17.00	9.25
Terminated	(380)	3.50–28.13	7.80
Exercised	(595)	1.81–13.25	7.07
Outstanding at September 28, 2002	3,716	1.81–44.25	8.29
Granted	257	7.23–16.72	10.48
Terminated	(275)	2.81–16.70	8.04
Exercised	(470)	1.88–13.13	5.67
Outstanding at September 27, 2003	3,228	1.81–44.25	8.86
Granted	994	13.13–23.00	16.40
Terminated	(208)	1.94–30.98	11.96
Exercised	(588)	1.81–15.88	7.81
Outstanding at September 25, 2004	3,426	$ 3.19–44.25	$11.04
Exercisable at September 25, 2004	1,865	$ 3.19–44.25	$ 9.03
Exercisable at September 27, 2003	2,019	$ 1.81–44.25	$ 8.92
Exercisable at September 28, 2002	1,563	$ 1.81–44.25	$ 8.82

(In thousands, except per share data)

The range of exercise prices for options outstanding and options exercisable at September 25, 2004 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
$ 3.19 – $ 5.05	368	6.11	$ 4.83	351	$ 4.84
$ 5.12 – $ 6.80	369	6.12	5.84	278	5.83
$ 6.81 – $ 8.25	466	4.67	7.65	383	7.68
$ 8.44 – $ 8.87	77	5.10	8.84	67	8.86
$ 9.00 – $ 9.50	411	7.97	9.49	196	9.49
$ 9.55 – $10.51	362	7.27	10.25	235	10.26
$10.68 – $13.60	330	5.96	12.48	214	12.24
$13.62 – $14.25	495	9.09	14.24	3	13.72
$14.29 – $19.00	392	6.31	18.75	39	17.82
$19.06 – $44.25	156	6.51	22.54	99	23.99
$ 3.19 – $44.25	3,426	6.70	$11.04	1,865	$ 9.03

Employee Stock Purchase Plan

The Company has 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 allows participants to purchase common stock of the Company at 85% of the fair market value, as defined. During the fiscal years ended September 25, 2004, September 27, 2003 and September 28, 2002, the Company issued 32, 37 and 56 shares, respectively, under the ESP Plan. At September 25, 2004, there are 104 shares available for purchase under the ESP Plan.

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 one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock 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 $692, $636 and $710 as a provision for the profit sharing contribution for fiscal 2004, 2003 and 2002, respectively. During 2002, the Company paid the 2001 profit sharing contribution through issuance of its common stock.

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 25, 2004 and September 27, 2003 the Company recognized $334 and $371, respectively, in bonus expense in connection with this program.

8. Commitments

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 2007.

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 $31.4 million. 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 $3.2 million 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 2004, 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 the Company's operating leases are approximately as follows:

Fiscal Years Ending	Amount
September 24, 2005	$ 4,848
September 30, 2006	4,672
September 29, 2007	3,680
September 27, 2008	3,237
September 26, 2009	3,158
Thereafter	40,764
Total (not reduced by minimum sublease rentals of $165)	$60,359

The Company subleases a portion of its Bedford facility and has received rental income of $277, $410 and $682 for fiscal years 2004, 2003 and 2002, 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 $4,660, $4,963, and $2,462 for fiscal 2004, 2003 and 2002, respectively.

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.

As a result of the Company's implementation of a company wide integrated software application in fiscal 2003, identifiable assets for the four principal operating segments only consist of inventories, intangible assets, and property and equipment. The Company has presented all other assets as corporate assets. Prior periods have been restated to conform to this presentation. Intersegment sales and transfers are not significant.

(In thousands, except per share data)

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 (loss). Segment information for fiscal years 2004, 2003 and 2002 is as follows:

	Years ended		
	September 25, 2004	**September 27, 2003**	**September 28, 2002**
Total revenues:			
Mammography	$114,579	$ 86,473	$ 75,039
Osteoporosis Assessment	68,483	71,081	63,544
Digital Detectors	15,047	7,990	8,082
Other	30,596	38,491	43,527
	$228,705	$204,035	$190,192
Operating income (loss):			
Mammography	$ 9,592	$ 4,331	$ 4,174
Osteoporosis Assessment	7,500	10,236	6,450
Digital Detectors	(4,833)	(5,500)	(4,644)
Other	327	(6,042)	(3,823)
	$ 12,586	$ 3,025	$ 2,157
Depreciation and amortization:			
Mammography	$ 2,226	$ 2,375	$ 1,795
Osteoporosis Assessment	3,011	3,294	3,229
Digital Detectors	1,889	1,736	2,376
Other	463	—	76
	$ 7,589	$ 7,405	$ 7,476
Capital expenditures:			
Mammography	$ 1,983	$ 2,426	$ 1543
Osteoporosis Assessment	2,817	4,690	3,440
Digital Detectors	2,387	2,084	1,467
	$ 7,187	$ 9,200	$ 6,450
Identifiable assets:			
Mammography	$ 28,804	$ 32,097	$ 28,493
Osteoporosis Assessment	12,305	16,575	16,208
Digital Detectors	28,189	25,149	24,235
Other	10,588	13,972	13,762
Corporate	131,865	100,810	101,449
	$211,751	$188,603	$184,147

Export sales from the United States to unaffiliated customers, primarily in Europe, Asia and Latin America during fiscal 2004, 2003 and 2002 totaled approximately $68,651, $49,887 and $29,405, 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.

(In thousands, except per share data)

Export product sales, including sales to European subsidiaries, as a percentage of total product sales are as follows:

	Years ended		
	September 25, 2004	September 27, 2003	September 28, 2002
Europe	21%	17%	9%
Asia	11	13	8
All others	7	2	3
	39%	32%	20%

10. Accrued Expenses

Accrued expenses consist of the following:

	September 25, 2004	September 27, 2003
Accrued payroll and employee benefits	$ 6,828	$ 4,578
Accrued commissions	3,357	3,338
Accrued income taxes	2,063	1,555
Accrued warranty	4,529	4,475
Other accrued expenses	4,193	3,441
	$20,970	$17,387

11. Litigation

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.

12. Restructuring and Relocation Charges

During the first quarter of fiscal 2002, the Company announced the finalization of an exit strategy for the Hologic Systems Division. As part of this exit strategy, the Company closed its conventional general radiography manufacturing facility in Littleton, Massachusetts, and relocated certain of its product lines and sales and support personnel to the corporate headquarters in Bedford, Massachusetts. The Company incurred a restructuring charge of approximately $806 in the first quarter of fiscal 2002 that primarily comprised severance costs related to the termination of 80 employees at the Littleton facility. In addition, the Company incurred severance costs of approximately $561 and $208 in the first quarter of 2002 in connection with the closure of the Company's direct sales and service office in Paris, France, and the continued reduction of Lorad's workforce, respectively. The severance charges related to the workforce reductions of five persons in France and 20 persons at Lorad and were across all functional areas.

In the second quarter of fiscal 2002, the Company incurred additional severance costs of approximately $495 that primarily comprised severance costs in connection with the reduction of the Company's workforce in the United States and Europe by 13 persons across all functional areas.

(In thousands, except per share data)

13. Quarterly Statement of Income Information (Unaudited)

The following table presents a summary of quarterly results of operations for 2004 and 2003:

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$49,882	$55,648	$59,225	$63,950
Gross profit	1,061	2,846	3,427	5,252
Net income	1,040	2,589	3,325	5,210
Diluted net income per common and common equivalent share	0.05	0.12	0.15	0.24

	2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenue	$49,002	$50,297	$52,332	$52,404
Gross profit	17,795	18,312	18,480	18,993
Income before cumulative effect of change in accounting principle	(874)	344	1,049	2,599
Net (loss) income	(1,081)	344	1,019	2,599
Diluted income before cumulative effect of change in accounting principle per common and common equivalent share	(0.05)	0.2	0.05	0.13
Diluted net (loss) income per common and common equivalent share	(0.06)	0.02	0.05	0.13

The information above for 2003 has been restated to reflect the adoption by the Company of EITF 00-21, and the reclassification to the beginning of the first quarter of 2003. See Note 2.

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 represent a thirteen-week period ending on the last Saturday of December, March, June and September.

(In thousands, except per share data)

14. 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 25, 2004	$3,477	$ (175)	$ (545)	$2,757
September 27, 2003	4,693	760	(1,976)	3,477
September 28, 2002	4,923	742	(972)	4,693
Accrued Acquisition Reserve				
Period Ended:				
September 25, 2004	$ —	$ —	$ —	$ —
September 27, 2003	907	—	(907)	—
September 28, 2002	1,708	—	(801)	907
Restructuring Accrual				
Period Ended:				
September 25, 2004	$ 29	$ —	$ (29)	$ —
September 27, 2003	107	—	(78)	29
September 28, 2002	784	2,070	(2,747)	107

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

Exhibit 10.05

AMENDMENT NO. 1
TO
HOLOGIC, INC.
1999 AMENDED AND RESTATED EQUITY INCENTIVE PLAN

The following amendments to the Hologic, Inc. (the "Corporation") 1999 Amended and Restated Equity Incentive Plan (the "Plan") were approved by the Board of Directors of the Corporation in December 2003, subject to the approval of the stockholders of the Corporation, which approval was obtained on March 1, 2004 at the Annual Meeting of Stockholders of the Corporation held on such date:

1. Section 7, Paragraph (b) is amended by deleting the paragraph its entirety and replacing it with the following:

> "(b) Each Eligible Director serving as a Director on March 1, 2004 shall automatically be granted a Nonqualified Option to acquire 8,000 shares of Common Stock on March 1, 2004, and each Eligible Director who has served as a Director for six months shall automatically be granted a Nonqualified Option to acquire 8,000 shares of Common Stock on January 1 of each year thereafter, beginning with January 1, 2005, the option price for which shall be the Fair Market Value of the Common Stock on such date and the expiration of which shall be the tenth anniversary thereof."

2. Section 5, Paragraph (a) is amended by adding the following new sentence to the end of such Paragraph:

> "Subject to adjustment under subsection (b), the maximum aggregate number of shares of the Company's Common Stock for which grants may be made to any employee during any fiscal year shall be 500,000 shares."

Amendments effective as of March 1, 2004.

Exhibit 10.13

EXECUTIVE BONUS PROGRAM

Executive Bonus Program

Executives of the company are generally compensated through base salary, performance based annual bonus and long-term option grants. This approach allows the company to annually review the performance of the executive against their individual goals, corporate or divisional goals and overall market considerations.

The potential realization from these awards is directly related to the continuing success of the Company as measured by increasing shareholder value.

Each year, the company sets specific strategic goals by which each executive is measured. Individual performance factors are relevant to the area of responsibility for each executive, and include division performance where appropriate.

Executive compensation is evaluated against other comparable salary and incentive data within the medical device industry. Each year, the Compensation Committee reviews this data for each executive and recommends to the Hologic Board of Directors a compensation strategy for each of the executive officers. Incentive cash bonuses, where applicable are awarded annually and may represent up to 100% of the executives base compensation. Stock options and stock grants are often awarded at this time as well.

Exhibit 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8, Nos. 33-35191, 33-47830, 33-87792,33-11853, 33-11849,333-34003, 333-79167, 333-34634, 333-60046 and 333-112222) of Hologic, Inc. of our report dated November 1, 2004, with respect to the consolidated financial statements of Hologic, Inc. and subsidiaries included in this Annual Report (Form 10-K) for the year ended September 25, 2004.

/s/ ERNST & YOUNG LLP

Boston, Massachusetts
December 7, 2004

Exhibit 31.1

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John W. Cumming, Chief Executive Officer of Hologic, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Hologic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) (Omitted)

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: December 8, 2004

/s/ JOHN W. CUMMING

John W. Cumming
Chief Executive Officer

Exhibit 31.2

Certification
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Glenn P. Muir, Chief Financial Officer of Hologic, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Hologic, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) (Omitted)

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: December 8, 2004

/s/ GLENN P. MUIR

Glenn P. Muir
Chief Financial Officer

Exhibit 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

I, John W. Cumming, Chairman and Chief Executive Officer of Hologic, Inc., a Delaware corporation (the "Company"), do hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) that, to the best of my knowledge and belief:

(1) The Annual Report on Form 10-K for the year ended September 25, 2004 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 8, 2004

/s/ JOHN W. CUMMING

John W. Cumming
Chairman and Chief Executive Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HOLOGIC, INC. AND WILL BE RETAINED BY HOLOGIC, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Exhibit 32.2

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

I, Glenn P. Muir, Chief Financial Officer of Hologic, Inc., a Delaware corporation (the "Company"), do hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) that, to the best of my knowledge and belief:

(1) The Annual Report on Form 10-K for the year ended September 25, 2004 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 8, 2004

/s/ GLENN P. MUIR

Glenn P. Muir
Chief Financial Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 HAS BEEN PROVIDED TO HOLOGIC, INC. AND WILL BE RETAINED BY HOLOGIC, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

Breast cancer will affect an average of one in seven women at sometime in their life.

Early detection is the key to overcoming breast cancer. When detected early, the chance for successful treatment is nearly 100%.

There are more than two million breast cancer survivors in America today!

Early detection is saving lives.

Get your annual mammogram.

Life is a beautiful thing. Let's keep it.

HOLOGIC®

At Hologic our focus is women's health. Our passion can be seen in our innovative diagnostic imaging systems for the early detection of breast cancer and osteoporosis assessment.

HOLOGIC®

CLARITY OF VISION

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