

Radius Health, Inc.
Form 4
January 26, 2016

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Fitzpatrick Lorraine A.

(Last) (First) (Middle)

C/O RADIUS HEALTH, INC., 950
WINTER ST.

(Street)

WALTHAM, MA 02451

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
Radius Health, Inc. [RDUS]

3. Date of Earliest Transaction
(Month/Day/Year)
11/25/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

Chief Medical Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	01/25/2016		P	100	A \$ 37.97	200	D
Common Stock	11/25/2015		P	100	A \$ 60.595	100	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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(9-02)

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Following Transaction (Instr. 3)
				Code V (A) (D)		Date Exercisable Expiration Date	Title	Amount or Number of Shares	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Fitzpatrick Lorraine A. C/O RADIUS HEALTH, INC. 950 WINTER ST. WALTHAM, MA 02451			Chief Medical Officer	

Signatures

/s/ B. Nicholas Harvey, 01/26/2016
 Attorney-in-fact

__Signature of Reporting Person Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. D VALIGN="bottom" COLSPAN="2" ALIGN="center" STYLE="border-bottom: 1px solid #000000">

December 29,
 2007 September 29,
 2007 ASSETS

CURRENT ASSETS:

Cash and cash equivalents

\$154,663 \$100,403

Restricted cash

Reporting Owners

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34,666

Accounts receivable, less reserves of \$4,608 and \$4,598, respectively

288,404 152,743

Inventories (Note 5)

150,070 105,289

Deferred income tax asset, net

36,763 29,356

Income tax refundable

71,074

Prepaid expenses and other current assets

17,239 11,389

Total current assets

752,879 399,180

PROPERTY AND EQUIPMENT, net: (Note 5)

258,741 69,769

OTHER ASSETS:

Developed technology and know-how, net of accumulated amortization of \$39,756 and \$19,625, respectively

2,013,572 112,632

Customer relationship, net of accumulated amortization of \$10,553 and \$6,303, respectively

471,569 49,389

Intangible assets, net of accumulated amortization of \$11,191 and \$9,149, respectively

145,104 12,340

Goodwill

4,191,182 407,528

Other net

65,581 15,511

Total assets

Explanation of Responses:

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\$7,898,628 \$1,066,349 LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:

Current portion of long-term debt

\$2,914 \$1,977

Accounts payable

60,104 42,289

Accrued expenses (Note 5)

127,049 88,577

Deferred revenue

60,333 45,769

Total current liabilities

250,400 178,612

Long-term debt, net of current portion

304,980 9,222

Convertible debt (Note 6b and d)

1,728,694

Deferred income tax liabilities, net

945,470 54,866

Deferred service obligations long term

9,985 10,135

Other long term liabilities (Note 5)

49,357 7,791

Commitments and contingencies (Notes 6, 7, 8, 13, 15 and 16)

STOCKHOLDERS EQUITY:

Preferred stock, \$0.01 par value 1,623 shares authorized; 0 shares issued

Explanation of Responses:

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Common stock, \$0.01 par value 300,000 shares authorized; 127,362 and 55,150 shares issued, respectively

1,274 551

Capital in excess of par value

4,794,813 634,029

Retained (deficit) earnings

(190,635) 168,453

Accumulated other comprehensive income

5,723 4,123

Treasury stock, at cost 107 shares

(1,433) (1,433)

Total stockholders' equity

4,609,742 805,723

Total liabilities and stockholders' equity

\$7,898,628 \$1,066,349

See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	December 29, 2007	December 30, 2006
Revenues:		
Product sales	\$ 334,790	\$ 139,620
Service and other revenue	36,655	23,592
	371,445	163,212
Costs and expenses (1):		
Cost of product sales	139,377	61,385
Cost of product sales amortization of intangible assets	20,155	3,200
Cost of service and other revenue	44,078	24,400
Research and development	20,147	10,722
Selling and marketing	56,986	21,039
General and administrative	34,334	14,541
Amortization of acquired intangible assets	6,249	1,408
Impairment of acquired intangible assets (Note 19)	2,900	
Acquired in-process research and development	370,000	
	694,226	136,695
(Loss) income from operations	(322,781)	26,517
Interest income	2,253	261
Interest expense	(31,660)	(994)
Other (expense) income, net	(15)	152
(Loss) income before income taxes	(352,203)	25,936
Provision for income taxes	6,405	9,850
Net (loss) income	\$ (358,608)	\$ 16,086
Net (loss) income per common and common equivalent share:		
Basic	\$ (3.31)	\$ 0.31
Diluted	\$ (3.31)	\$ 0.30
Weighted average number of common shares outstanding:		
Basic	108,441	52,617
Diluted	108,441	54,394

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- (1) Stock-based compensation included in costs and expenses during the three months ended December 29, 2007 was \$725 for cost of revenues, \$686 for research and development, \$715 for selling and marketing and \$5,457 for general and administrative. Stock-based compensation included in costs and expenses for the three months ended December 30, 2006 was \$173 for cost of revenues, \$210 for research and development, \$144 for selling and marketing and \$989 for general and administrative.
See accompanying notes.

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	December 29, 2007	December 30, 2006
OPERATING ACTIVITIES		
Net (loss) income	\$ (358,608)	\$ 16,086
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	10,159	3,621
Amortization	26,404	4,610
Fair value write up of Cytoc Inventory	41,500	
Non-cash interest expense	5,653	43
Tax benefit related to exercise of non-qualified stock options		(2,244)
Charge for in-process research and development	370,000	
Charge for impairment of acquired intangible assets	2,900	
Stock-based compensation expense	7,192	1,516
Deferred income taxes	(20,002)	993
Loss on disposal of property and equipment	57	32
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(21,977)	1,124
Inventories	(10,767)	(4,648)
Income tax refundable	19,191	
Prepaid expenses and other current assets	4,404	(27)
Accounts payable	(3,705)	2,862
Accrued expenses	(30,435)	5,706
Deferred revenue	7,764	1,469
Net cash provided by operating activities	49,730	31,143
INVESTING ACTIVITIES		
Acquisition of Cytoc Corporation, net of cash acquired	(2,022,338)	
Increase in restricted cash	(34,666)	
Increase in other assets	(4,291)	(4,210)
Purchase of property and equipment	(12,444)	(5,930)
Increase in equipment under customer usage agreements	(4,854)	
Purchases of investment securities	(2,637)	
Proceeds from sales and maturities of investment securities	2,638	
Increase in other liabilities	1,737	
Net cash used in investing activities	(2,076,855)	(10,140)
FINANCING ACTIVITIES		
Proceeds from issuance of convertible notes, net of issuance costs	1,688,998	
Proceeds under credit agreement, net of issuance costs	2,335,942	
Repayments under credit agreement	(2,055,353)	(15,000)
Payment upon conversion of Cytoc convertible note	(38,334)	
Increase in notes payable	2,055	
Repayments of notes payable	(290)	(1,406)

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Tax benefit related to exercise of non-qualified stock options	2,244	
Net proceeds from sale of common stock pursuant to stock plans	148,829	904
Net cash provided by (used) in financing activities	2,081,847	(13,258)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(462)	(359)
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,260	7,386
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	100,403	29,923
CASH AND CASH EQUIVALENTS, end of period	\$ 154,663	\$ 37,309
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for income taxes	\$ 12,896	\$ 624
Cash paid during the period for interest	\$ 23,058	\$ 934
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Issuance of common stock upon conversion of Cytoc convertible notes	\$ 82,620	\$

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HOLOGIC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended	
	December 29, 2007	December 30, 2006
BUSINESS ACQUISITION, NET OF CASH ACQUIRED:		
Fair value of tangible assets acquired	\$ 531,100	\$
Fair value of liabilities assumed	(261,200)	
Fair value of stock issued	(3,671,400)	
Fair value of options exchanged	(241,400)	
Cost in excess of fair value of assets (Goodwill)	3,844,100	
Fair value of acquired identifiable intangible assets	2,484,900	
In-process research and development	370,000	
Deferred tax liability	(937,500)	
	2,118,600	
Less cash and cash equivalents and investments acquired	90,100	
Less acquisition costs paid prior to September 29, 2007	6,200	
Net cash paid for acquisition	\$ 2,022,300	\$

See accompanying notes.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(In thousands, except per share data)

(1) Basis of Presentation

The consolidated financial statements of Hologic, Inc. (the Company) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended September 29, 2007, included in the Company's Form 10-K as filed with the Securities and Exchange Commission on November 27, 2007.

The consolidated balance sheet at September 29, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The consolidated balance sheet as of December 29, 2007, the consolidated statements of operations and the consolidated statements of cash flows for the three months ended December 29, 2007 and December 30, 2006, are unaudited but, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of results for these interim periods.

On October 22, 2007, the Company completed its business combination with Cytyc Corporation (Cytyc), a company that develops, manufactures and markets complementary products covering a range of cancer and women's health applications, including cervical cancer screening, treatment of excessive menstrual bleeding, and radiation treatment of early-stage breast cancer.

The results of operations for the three months ended December 29, 2007 are not necessarily indicative of the results to be expected for any other interim period or the entire fiscal year ending September 27, 2008. The results of operations include Cytyc's operating results from the date of acquisition through December 29, 2007 (See Note 4).

Amortization expense for patents previously recorded within general and administrative expense and research and development expenses totaling \$129 for first quarter of fiscal 2007 has been reclassified to cost of product sales' amortization of intangible assets. Certain customer support expenses previously recorded in general and administrative expenses totaling \$156 for the first quarter of fiscal 2007 have been reclassified to selling and marketing. Both of these statement of operations reclassifications have been made to conform with the current period presentation.

(2) Significant Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions by management affect the Company's revenue recognition for multiple element arrangements, allowance for doubtful accounts, reserves for excess and obsolete inventories, valuations and purchase price allocations related to business combinations, expected future cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of intangible assets and goodwill, amortization periods, warranty reserves, certain accrued expenses, restructuring and other related charges, stock-based compensation, pension liabilities, 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 could 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, dependence on third party reimbursements to support the markets of the Company's products, early stage of development of certain products, rapid technological changes, competition, limited number of suppliers, customer concentration, integration of acquisitions, substantial indebtedness, government

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regulations, management of international activities, protection of proprietary rights, patent and other litigation and dependence on key individuals.

(3) Revenue recognition

As a result of the merger with Cytoc, the Company now sells disposable supplies under customer usage agreements. Under customer usage agreements, the Company installs certain equipment (for example, a ThinPrep Processor or a ThinPrep Imaging System) at customer sites and customers commit to purchasing minimum quantities of disposable supplies at a stated price (generally including a usage fee for the equipment) over a defined contract term, which is typically between three and five years. Revenue is recognized over the term of the customer usage agreement as disposable supplies are delivered. Accordingly, no revenue is recognized upon delivery of the equipment.

As a result of the merger with Cytoc, the Company also rents certain other equipment to customers. Revenues from rental agreements are recorded over the terms of the rental agreements.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(4) Business Combinations**(a) Acquisition of Cytac Corporation**

On October 22, 2007 the Company completed its merger with Cytac pursuant to the Agreement and Plan of Merger (Merger Agreement) entered into on May 20, 2007. Under the terms and conditions of the Merger Agreement, at the effective time of the merger, Cytac became a wholly-owned subsidiary of the Company and each share of common stock of Cytac, issued and outstanding immediately prior to the closing was cancelled and converted into the right to receive (i) 0.52 shares of common stock of the Company and (ii) \$16.50 in cash. In accordance with Statement of Financial Accounting Standards (SFAS) 141, *Business Combinations*, and based on the terms of the merger, the Company is the accounting acquirer. This conclusion was based on the facts that Hologic board members and senior management control and represent a majority of the board of directors and senior management of the combined company, as well as the terms of the merger consideration, pursuant to which the Cytac stockholders received a premium over the fair market value of their shares on such date and cash of \$16.50 per share (or approximately 35% of the merger consideration). There were no preexisting relationships between the two companies.

Cytac, headquartered in Marlborough, Massachusetts, is a diversified diagnostic and medical device company that designs, develops, manufactures, and markets innovative and clinically effective diagnostics and surgical products. Cytac products cover a range of cancer and women's health applications, including cervical cancer screening, prenatal diagnostics, treatment of excessive menstrual bleeding and radiation treatment of early-stage breast cancer.

Upon the close of the merger, Cytac shareholders received an aggregate of approximately 66,019 shares of Hologic common stock and approximately \$2,094,800 in cash. In connection with the close of the merger, the Company entered into a credit agreement relating to a senior secured credit facility (Credit Agreement) with Goldman Sachs Credit Partners L.P. and certain other lenders, in which the lenders committed to provide, in the aggregate, senior secured financing of up to approximately \$2,550,000 to pay for the cash portion of the merger consideration, for repayment of existing debt of Cytac, for expenses relating to the merger and for working capital following the completion of the merger. As of the closing of the merger, the Company borrowed \$2,350,000 under this Credit Agreement. See Note 6(a) for further discussion.

The estimated aggregate purchase price of approximately \$6,156,600 includes \$2,094,800 in cash; approximately 66,019 shares of Hologic common stock at an estimated fair value of \$3,671,400; approximately 8,200 of fully vested stock options granted to Cytac employees in exchange for their vested Cytac stock options, with an estimated fair value of approximately \$241,400; the fair value of Cytac's outstanding convertible notes assumed in the merger of approximately \$125,000; and approximately \$24,000 of direct acquisition costs. There are no potential contingent consideration arrangements payable to the former Cytac shareholders in connection with this transaction.

The Company has measured the fair value of the 66,019 shares of the Company common stock issued as consideration in connection with the merger under EITF Issue No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*. The Company determined the measurement date to be May 20, 2007, the date the transaction was announced, as the number of shares to be issued according the exchange ratio was fixed without subsequent revision. The Company valued the securities based on the average market price a few days before and after the measurement date. The weighted average stock price was determined to be approximately \$55.61.

(i) Purchase price

The preliminary purchase price is as follows:

Cash portion of consideration	\$ 2,094,800
Fair value of securities issued	3,671,400
Fair value of vested options exchanged	241,400

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Fair value of Cytys outstanding convertible notes	125,000
Direct acquisition costs	24,000
Total estimated purchase price	\$ 6,156,600

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

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

Expected life	2.50 years
Expected volatility	35.10%
Risk free interest rate	4.82%
Fair value per share determined in accordance with EITF Issue No. 99-12	\$ 55.61

(ii) Preliminary Purchase Price Allocation

The allocation of the purchase price is based upon estimates of the fair value of assets acquired and liabilities assumed as of October 22, 2007. The Company is in the process of gathering information to finalize its valuation of certain assets and liabilities. The purchase price allocation will be finalized once the Company has all necessary information to complete its estimate, but generally no later than one year from the date of acquisition. As a result of the merger, the Company has assumed Cytyc's obligation to Adiana's former stockholders to make contingent earn-out payments based on the achievement of milestones. The Company has considered the provision of EITF Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and concluded that this contingent consideration will represent additional purchase price. As a result, goodwill will be increased by the amount of the additional consideration, if any, when it becomes due and payable. As of December 29, 2007, the Company has not recorded any amounts for the potential earn-outs. The Company has begun to assess and formulate a plan to restructure certain of Cytyc's activities. The Company has recorded a liability of approximately \$2,800 in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination (EITF 95-3)*, primarily related to the termination of certain employees, minimum inventory purchase commitments and other contractual obligations for which the related business activities have been discontinued. As of December 29, 2007, payments of \$327 have been made related to the termination of employees. The Company believes its plan will be finalized within one year of the date of acquisition and will record any additional liability as a result of its plan as an increase to goodwill.

Book value of net assets acquired as of October 22, 2007	\$ 1,143,400
Less: write-off of existing deferred financing costs, goodwill and intangible assets, including related deferred taxes	(791,500)
Adjusted book value of assets acquired	351,900
Remaining allocation:	
Increase inventory to fair value	42,400
Increase property and equipment to fair value	3,200
Increase in liabilities recorded in accordance with EITF No. 95-3	(2,800)
Decrease deferred revenue to fair value	400
Identifiable intangible assets at fair value	2,484,900
Acquired in process research and development	370,000
Deferred taxes	(937,500)
Goodwill	3,844,100
Total purchase price	\$ 6,156,600

(iii) Valuation of Intangible Assets and Goodwill

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

Identifiable Intangible Assets

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As part of the preliminary purchase price allocation, the Company determined that Cytyc's identifiable intangible assets include existing technology, customer relationships and trade names. Cytyc's existing technology relates to patents, patent applications and know-how with respect to the technologies embedded in its currently marketed products. In determining the allocation of the purchase price to existing technology, consideration was only given to patent and patent applications that relate to products that have been approved by the Food and Drug Administration (FDA). Cytyc's customer relationship assets relate to relationships that Cytyc's sales force has developed with OB/GYNs, breast surgeons, clinical laboratories and other physicians. The trade names relate to both the Cytyc name as well as key product names.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

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

In estimating the useful life of the acquired assets, the Company considered paragraph 11 of SFAS No. 142, *Goodwill and Other Intangible Assets*, which lists the pertinent factors to be considered when estimating the useful life of an intangible asset. These factors included a review of the expected use by the combined company of the assets acquired, the expected useful life of another asset (or group of assets) related to the acquired assets, legal, regulatory or other contractual provisions that may limit the useful life of an acquired asset or may enable the extension of the useful life of an acquired asset without substantial cost, the effects of obsolescence, demand, competition and other economic factors, and the level of maintenance expenditures required to obtain the expected future cash flows from the asset. The Company expects to amortize these intangible assets over their estimated useful lives using a method that is based on estimated future cash flows as the Company believes this will approximate the pattern in which the economic benefits of the assets will be utilized.

Acquired In-Process Research and Development

As part of the preliminary purchase price allocation for Cytic, approximately \$370,000 of the purchase price has been allocated to acquired in-process research and development projects. The amount allocated to acquired in-process research and development represents the estimated fair value based on risk-adjusted cash flows related to in-process projects that have not yet reached technological feasibility and have no alternative future uses as of the date of the acquisition. The primary basis for determining the technological feasibility of these projects is obtaining regulatory approval to market the underlying products. The fair value attributable to these in-process projects was expensed at the time of the acquisition. If the projects are not successful or completed in a timely manner, the Company may not realize the financial benefits expected for these projects or for the transaction as a whole.

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

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

The acquired in-process research and development of Cytic relates to the following research and development projects: Adiana Complete TransCervical Sterilization (TCS) System and expanded labeling of the NovaSure[®] System, Gestiva[®], the ThinPrep[®] Imaging System, the ThinPrep Processor and Helica's Thermal Coagulator System (Helica).

The most significant acquired in-process technology relates to the Adiana Complete TCS System for which the Company has estimated a value of approximately \$220,000. The TCS product is an incision-less trans-cervical permanent sterilization device to be used during an office based procedure. The system consists of three different parts: a disposable applicator, an implantable polymer matrix and a radio frequency controller. The procedure can be performed in a hospital or physician's office, and generally takes twelve minutes, with a thirty to forty minute recovery time. As of October 22, 2007 the estimated remaining costs to complete the clinical trials were expected to be approximately \$800.

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Cytoc's other in-process research and development projects are at different stages of development, ranging from the early stages of development to Phase IIb prototype building, ongoing clinical trials and submission to the FDA of PMA and drug applications. FDA approval or clearance has not been granted for any of the products classified as in-process research and development, nor has Cytoc received any foreign approvals or clearances for any of these products. All products classified as in-process research and development require various levels of in-house and external testing, clinical trials and approvals from the FDA before these future products can be marketed. The estimated cash requirements in the aggregate to complete these remaining products is expected to be approximately \$13,800.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

The successful development of new products and product enhancements is subject to numerous risks and uncertainties, both known and unknown, including, unanticipated delays, access to capital, budget overruns, technical problems and other difficulties that could result in the abandonment or substantial change in the design, development and commercialization of these new products and enhancements, including, for example changes requested by the FDA in connection with pre-market approval applications for products or 510(k) notification. Given the uncertainties inherent with product development and introduction, there can be no assurance that any of the Company's product development efforts will be successful on a timely basis or within budget, if at all. The failure of the Company to develop new products and product enhancements on a timely basis or within budget could harm the Company's results of operations and financial condition. For additional risks that may affect the Company's business and prospects following completion of the merger, see Risk Factors in Item 1A of the Company's Form 10-K for the year ended September 29, 2007 and in Item 1.A in Part II of this report.

Goodwill

The preliminary purchase price allocation has resulted in goodwill of approximately \$3,844,100. The factors contributing to the recognition of this amount of goodwill are based upon several strategic and synergistic benefits that are expected to be realized from the combination. These benefits include the expectation that the Company's complementary products and technologies will create a leading women's healthcare company with an enhanced presence in hospitals, private practices and healthcare organizations. The Company also expects to realize substantial synergies through the use of Cytyc's OB/GYN and breast surgeon sales channel to cross-sell the Company's existing and future products. The merger provides the Company broader channel coverage within the United States and expanded geographic reach internationally, as well as increased scale and scope for further expanding operations through product development and complementary strategic transactions.

Supplemental Pro-forma Information

The following unaudited pro forma information presents the consolidated results of operations of the Company and Cytyc as if the acquisition had occurred at the beginning of each period presented, with pro forma adjustments to give effect to amortization of intangible assets, an increase in interest expense on acquisition financing, subsequent refinancing and certain other adjustments together with related tax effects:

	Three Months ended December 29, 2007	Three Months ended December 30, 2006
(approximate amounts in thousands except per share data)		
Net revenue	\$ 408,351	\$ 340,959
Net income	\$ 41,298	\$ 29,298
Net income per common share:		
Basic	\$ 0.33	\$ 0.24
Diluted	\$ 0.31	\$ 0.23

The \$370,000 charge for acquired in-process research and development, the fair value of the inventory step-up of \$41,500, stock based compensation of \$60,000, direct acquisition fees and expenses of \$28,000 and change of control payments of \$18,600 that were a direct result of the transaction are excluded from the unaudited pro forma information above. The unaudited pro forma results are not necessarily indicative of the results that the Company would have attained had the acquisitions of Cytyc occurred at the beginning of the periods presented.

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

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continued to vest under their original terms.

Subsequent to the close of the Cytoc merger through December 29, 2007, stock options, originally issued by Cytoc and converted into options to purchase Hologic common stock, were exercised. The Company recorded the tax benefit of approximately \$59,900 related to the exercise of these options as a reduction to goodwill as of December 29, 2007.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(b) Acquisition of BioLucent, Inc.

On September 18, 2007 the Company completed the acquisition of BioLucent, Inc. (BioLucent) pursuant to a definitive agreement dated June 20, 2007. The results of operations for BioLucent have been included in the Company's consolidated financial statements from the date of acquisition as part of its Breast Health business segment. The Company has concluded that the acquisition of BioLucent does not represent a material business combination and therefore no pro forma financial information has been provided herein.

BioLucent, previously located in Aliso Viejo, California, develops, markets and sells MammoPad® breast cushions to decrease the discomfort associated with mammography. Prior to the acquisition, BioLucent's primary research and development efforts were directed at its brachytherapy business which was focused on breast cancer therapy. Prior to the acquisition, BioLucent spun-off its brachytherapy technology and business to the holders of BioLucent's outstanding shares of capital stock. As a result, the Company only acquired BioLucent's MammoPad cushion business and related assets. The Company invested \$1,000 directly in the spun-off brachytherapy business in exchange for shares of preferred stock issued by the new business.

The aggregate purchase price for BioLucent was approximately \$73,200 (subject to adjustment) consisting of approximately \$6,800 in cash and 1,157 shares of Hologic Common Stock valued at approximately \$63,200, debt assumed and paid off of approximately \$1,600 and approximately \$1,600 for acquisition related fees and expenses. The Company determined the fair value of the shares issued in connection with the acquisition in accordance with EITF Issue No. 99-12, *Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination*.

The acquisition also provides for up to two annual earn-out payments not to exceed \$15,000 in the aggregate based on BioLucent's achievement of certain revenue targets. The Company has considered the provision of EITF Issue No. 95-8, *Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination*, and concluded that this contingent consideration will represent additional purchase price. As a result, goodwill will be increased by the amount of the additional consideration, if any, when it becomes due and payable. As of December 29, 2007, the Company has not recorded any amounts for this potential earn-out. The allocation of the purchase price is based upon preliminary estimates of the fair value of assets acquired and liabilities assumed as of September 18, 2007. The Company is in the process of gathering information to finalize its valuation of certain assets and liabilities. The purchase price allocation is preliminary and will be finalized once the Company has all necessary information to complete its estimate, but generally no later than one year from the date of acquisition. The components and initial allocation of the purchase price, consists of the following approximate amounts:

Net tangible assets acquired as of September 18, 2007	\$ 3,400
Developed technology and know-how	12,300
Customer relationship	17,000
Trade name	2,800
Deferred income tax liabilities, net	(9,500)
Goodwill	47,200
Estimated Purchase Price	\$ 73,200

As part of the purchase price allocation, all intangible assets that were a part of the acquisition were identified and valued. It was determined that only customer relationship, trade name and developed technology and know how had separately identifiable values. The fair value of these intangible assets was determined through the application of the income approach. Customer relationship represents a large customer base that is expected to purchase the disposable MammoPad product on a regular basis. Trade name represents the BioLucent product name that the Company intends to continue to use. Developed technology and know-how represents currently marketable purchased products that the Company continues to sell as well as utilize to enhance and incorporate into the Company's existing products. The Company reduced goodwill related to the BioLucent acquisition in the amount of approximately \$600 during the three months ended December 29, 2007. The reduction was

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primarily related to a change in the preliminary valuation of certain liabilities acquired based on information received during the period.

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HOLOGIC, INC.

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(In thousands, except per share data)

The deferred income tax liability relates to the tax effect of acquired identifiable intangible assets, and fair value adjustments to acquired inventory as such amounts are not deductible for tax purposes partially offset by acquired net operating loss carryforwards of approximately \$2,400.

(5) Other Balance Sheet Information

Components of selected captions in the condensed consolidated balance sheets at December 29, 2007 and September 29, 2007 consisted of:

	December 29, 2007	September 29, 2007
Inventories, net		
Raw material and work-in-process	\$ 93,181	\$ 69,400
Finished goods	56,889	35,889
	\$ 150,070	\$ 105,289
Inventories are stated at the lower of cost (first-in, first-out) or market.		
Certain work-in-process and finished goods inventories consist of material, labor and manufacturing overhead.		
Property and Equipment, net		
Equipment and software	\$ 240,443	\$ 81,390
Furniture and fixtures	9,914	6,044
Building	44,728	28,577
Leasehold improvements	20,292	6,636
Land	8,982	2,710
	324,359	125,357
Less accumulated depreciation and amortization	65,618	55,588
	\$ 258,741	\$ 69,769
Accrued Expenses		
Accrued compensation and employee benefits	\$ 49,119	\$ 35,053
Accrued commissions	14,186	9,989
Accrued warranty, current portion	13,040	11,871
Accrued restructuring costs	3,902	
Accrued professional fees	3,075	
Accrued income taxes	6,824	22,356
Other accrued expenses	36,903	9,308
	\$ 127,049	\$ 88,577

Other Long Term Liabilities

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Accrued lease obligation	long-term	\$	12,594	\$	
Deferred rent	long-term		17,753		
Other			19,010		7,791
		\$	49,357	\$	7,791

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

Restricted Cash

The Company's restricted cash balance at December 29, 2007 represents amounts placed in escrow at the close of the Cytyc merger related to the outstanding Cytyc convertible notes, net of proceeds distributed to satisfy the Company's obligation to pay a portion of the conversion price in cash upon conversion of those notes. The amount in this escrow account is limited to repayment or conversion of the Cytyc convertible notes or amounts outstanding under the Company's Credit Agreement.

Other Assets

As of December 29, 2007, other assets was comprised primarily of the value of certain Company owned life insurance contracts, deferred financing costs and cost-method investments. The Company owned life insurance contracts include contracts that were purchased in connection with the Company's Supplemental Executive Retirement Plan (SERP) and were valued at \$6,915 as of December 29, 2007 (see Note 18 for further discussion). As of December 29, 2007, other assets also included \$35,730 and \$10,502 of deferred financing costs related to the Company's Convertible Notes and Credit Agreement, respectively, both of which closed in the first quarter of fiscal 2008 (see Note 6). The Company is amortizing amounts related to the Credit Agreement to interest expense over a five year period, which approximates the level yield method. As a result of the Convertible Note offering, certain of the loans under the credit agreement were repaid and the Company accelerated the amortization of the related deferred financing costs resulting in total amortization expense of \$5,020 relating to these loans during the three month period ended December 29, 2007. The Company is amortizing amounts related to the Convertible Notes on a straight-line basis over the period of earliest redemption which is a six year period. As a result the Company recorded amortization expense of \$271 during the three months ended December 29, 2007.

Other assets also includes certain other minority cost-method equity investments in non-publicly traded securities. These investments are generally carried at cost as the Company owns less than 20% of the voting equity and does not have the ability to exercise significant influence over these companies. The Company regularly evaluates the carrying value of its investments. When the carrying value of an investment exceeds the fair value and the decline in the fair value is deemed to be other-than-temporary, the Company writes down the value of the investment to its fair value. During the three months ended December 29, 2007, none of the investments held were deemed to be in a other-than-temporary loss. The carrying value of these investments was approximately \$8,628 as of December 29, 2007 which includes \$7,495 of investments acquired as a result of the Cytyc merger, as described below.

As a result of the merger with Cytyc, the Company acquired investments Cytyc had entered into prior to the merger with the Company. During 2005, Cytyc entered into a \$5,000 private equity investment commitment with a limited liability partnership, which may be paid over the succeeding three years. As of December 29, 2007, approximately \$2,500 of this investment has been paid. The Company is accounting for this investment under the cost method, since it does not have the ability to exercise significant influence and, as of December 29, 2007, holds less than three percent of the partnership's voting stock, among other factors. In March 2006, Cytyc had entered into a \$1,900 private equity investment agreement with a corporation, in which Cytyc received shares of preferred stock in exchange for granting a non-exclusive license to certain of Cytyc's patents. The Company is accounting for this investment under the cost method, since it does not have the ability to exercise significant influence and, as of December 29, 2007, holds less than 20 percent of the corporation's voting stock, among other factors. In addition, in July 2007, Cytyc entered into an agreement with an early-stage company, under which Cytyc has made an investment in it. Under this investment, Cytyc received 2,100 shares of the company's Preferred Stock Series A at a fair market value of \$1 per share. In exchange for the Preferred Stock received by Cytyc under this investment agreement, the company received from Cytyc a fully paid up worldwide license to those patents and patent applications in Cytyc's portfolio that will allow access to certain of Cytyc's intellectual property as part of its development of a surgical device. The Company is accounting for this investment under the cost method, since it does not have the ability to exercise significant influence and, as of December 29, 2007, holds less than 20 percent of the corporation's voting stock, among other factors. The Company's determination of whether it has significant influence over an investment requires judgment. If at any time the private equity investment in the limited liability partnership exceeds three percent of the partnership's voting stock, the private equity investments entered into in March 2006 and July 2007 exceeds 20 percent of the corporation's voting stock, or the Company determines that it has the ability to exercise significant influence over either entity, among other factors, the Company will begin to account for the related investment under the equity method.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(6) Indebtedness

(a) Credit Agreement

On October 22, 2007, Company and certain of its domestic subsidiaries, entered into a senior secured credit agreement (the Credit Agreement) with Goldman Sachs Credit Partners L.P. and certain other lenders, (collectively, the Lenders). Pursuant to the terms and conditions of the Credit Agreement, the Lenders have committed to provide senior secured financing in an aggregate amount of up to \$2,550,000. As of the closing of the Cytac merger, the Company borrowed \$2,350,000 under the credit facilities.

The Company's subsidiaries which are party to the Credit Agreement have guaranteed the Company's obligations under the credit facilities and the credit facilities are secured by first-priority liens on, and first-priority security interests in, substantially all of the assets of Hologic, Inc. and substantially all of the Company's U.S. subsidiaries, a first priority security interest in 100% of the capital stock of each of the Company's U.S. subsidiaries, 65% of the capital stock of certain of the Company's first-tier foreign subsidiaries, and all intercompany debt. The security interests are evidenced by a pledge and security agreement with Goldman Sachs Credit Partners L.P., as collateral agent, and other related agreements, including certain stock pledges and mortgages.

The Company used the proceeds from the credit facilities to pay the cash consideration of the Cytac merger, and to pay fees, commissions and expenses incurred by the Company in connection with the Cytac merger and the Credit Agreement. In addition, the Company used the proceeds of the credit facilities, together with the Company's available cash, to pay the cash due upon conversion of Cytac's 2.25% Senior Convertible Notes due 2024 that were outstanding after the closing of the Cytac merger.

The credit facilities under the Credit Agreement consist of:

\$600,000 senior secured Term Loan A with a final maturity date of September 30, 2012;

\$250,000 senior secured Term Loan B-1 and \$250,000 senior secured Term Loan B-2 (collectively, the Term Loan B facility) with a final maturity date of March 31, 2013;

\$1,250,000 senior secured capital markets term loan (the Term Loan X facility) with a final maturity date of April 22, 2009;

\$200,000 senior secured revolving credit facility (the revolving facility) with a final maturity date of October 22, 2012.

Under the Credit Agreement, the Company may elect, subject in certain circumstances to pro forma compliance by the Company with a ratio of total debt to adjusted consolidated EBITDA specified in the Credit Agreement and other conditions, to increase, under terms and conditions to be determined, the total principal amount of borrowings available under the credit facilities by up to \$250,000. EBITDA means earnings before interest, taxes, depreciation and amortization as defined in the Credit Agreement.

The Company applied the net proceeds from its Convertible Notes offering described below to repay amounts outstanding under the Credit Agreement, including all of the remaining amounts outstanding under Term Loan X and Term Loan B-2, \$1,100,000 and \$250,000, respectively, all of which was outstanding immediately prior to the issuance of the Convertible Notes. Additionally, the Company repaid a pro rata portion of the Company's Term Loan A in the amount of \$251,000 and Term Loan B in the amount of \$104,000. During the quarter ended December 29, 2007, the Company also made voluntary prepayments of principal under its Term Loan A and Term B-1 of \$141,000 and \$59,000, respectively.

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The terms of the Credit Agreement requires the Company to make scheduled principal payments under the Term Loan A facility in increasing amounts ranging from \$7,500 per quarter beginning with the quarter ending December 29, 2007 to \$22,500 per quarter commencing on the quarter ending December 25, 2010, and under the Term Loan B facility, in equal quarterly installments of \$1,250 beginning on the quarter ending December 29, 2007 and for the first 21 quarters thereafter, with the remaining balance of each term loan facility due at the maturity of the applicable term loan facility. As a result of the repayment of amounts due under the Credit Agreement, the Company does not have any scheduled principal payment in fiscal 2008 and the remaining payments due under these facilities have been reduced pro rata. As a result, all amounts outstanding under the Credit Agreement are classified as long-term obligations on the accompanying consolidated balance sheet as of December 29, 2007. The revolving credit facility will become due at maturity. No scheduled payments were required under the revolving facility or the Term Loan X facility.

The Company is required to make principal repayments first, pro rata among the term loan facilities and second to the revolving credit facility from specified excess cash flows from operations and from the net proceeds of specified types of asset sales, debt issuances, insurance recoveries and equity offerings, provided, however, that net proceeds from certain debt issuances and equity offerings were contemplated to be applied first to the Term Loan X facility until such facility is repaid in full.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

The Company may voluntarily prepay any of the credit facilities without premium or penalty (other than applicable breakage costs related to interest on Eurodollar loans).

As of December 29, 2007, the Company had an aggregate of \$295,000 of principal outstanding under this credit facility of which \$208,000 was under the Term Loan A and \$87,000 was under the Term Loan B-1, and the Company has no amounts outstanding under its revolving facility.

All amounts outstanding under the credit facilities will bear interest, at the Company's option, initially, with respect to all loans made under the revolving facility and the Term Loan A facility: (i) at the Base Rate plus 1.25% per annum; or (ii) at the reserve adjusted Eurodollar Rate plus 2.25% per annum. With respect to loans made under the Term Loan B facility: (i) at a rate per annum equal to the Base Rate plus 1.5%; or (ii) at a rate per annum equal to the reserve adjusted Eurodollar Rate plus 2.50%; and with respect to loans made under the Term Loan X facility: (i) at a rate per annum equal to the Base Rate plus 0.75%; or (ii) at a rate per annum equal to the reserve adjusted Eurodollar Rate plus 1.75%. The margin applicable to loans under the revolving credit facility and the Term Loan A facility subject to specified changes based on certain change in the leverage ratio as specified in the Credit Agreement. Under the terms of the Credit Agreement, the Company was required to enter into interest rate hedge agreements or otherwise fix the interest rate on up to 50% of its outstanding debt within 18 months of the close. The Company's completion of the fixed rate Convertible Notes offering has satisfied this requirement. Outstanding borrowings had a weighted average interest rate of 7.26% as of December 29, 2007. Interest expense under the credit facilities totaled \$28,400 during the first quarter ended December 29, 2007, which included non-cash interest expense of \$5,020 related to the amortization of the capitalized deferred financing costs related to the Credit Agreement.

The Company is required to pay a quarterly commitment fee, at an annual rate of 0.50%, on the undrawn commitments available under the revolving credit facility, subject to reduction based on a leverage ratio as specified in the Credit Agreement.

The Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including covenants restricting the Company's ability, subject to negotiated exceptions, to: incur additional indebtedness and additional liens on its assets, engage in mergers or acquisitions or dispose of assets, enter into sale-leaseback transactions, pay dividends or make other distributions, voluntarily prepay other indebtedness, enter into transactions with affiliated persons, make investments, and change the nature of its businesses.

The Credit Agreement requires the Company to maintain maximum leverage and minimum interest coverage ratios, as of the last day of each fiscal quarter, as defined within the Credit Agreement. The maximum leverage ratio is 5.50:1.00 beginning on the Company's fiscal quarter ending December 29, 2007, and then decreases over time to 3:00:1.00 for the quarters ending September 25, 2010 and thereafter. The minimum interest coverage ratio is 2.00:1.00 beginning with the Company fiscal quarter ending March 29, 2008, and then increases over time to 2.75:1.00 for the quarters ending September 25, 2010 and thereafter. The leverage ratio is defined as the ratio of the Company's consolidated total debt to the Company's consolidated adjusted EBITDA for the four-fiscal quarter period ending on the measurement date. The interest coverage ratio is defined as the ratio of the Company's annualized consolidated adjusted EBITDA for the applicable periods to the Company's annualized consolidated interest expense. The Company was in compliance with its financial covenants as of December 29, 2007.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

The amounts above do not include any potential mandatory prepayments in such periods, including the Company's excess cash flows, as required by the Credit Agreement.

(b) Convertible Notes

On December 4, 2007, the Company entered into an Underwriting Agreement (the "Underwriting Agreement") with the several underwriters named therein, for whom Goldman Sachs & Co. has acted as the representative (collectively, the "Underwriters"), for the issuance and sale by the Company of up to \$1,725,000 aggregate original principal amount of its 2.00% Convertible Senior Notes due 2037 (the "Convertible Notes").

Pursuant to Underwriting Agreement, on December 10, 2007, the Company issued and sold \$1,725,000 aggregate original principal amount of the Convertible Notes, which amount included the exercise in full by the Underwriters of the \$225,000 overallotment option granted to them by the Company. The Convertible Notes were registered under an effective Registration Statement and were issued pursuant to an Indenture between the Company and Wilmington Trust Company, as Trustee (the "Indenture") and a First Supplemental Indenture thereto (the "Supplemental Indenture"), both dated December 10, 2007.

The net proceeds from the offering of approximately \$1,689,000, after deducting the underwriters' discounts of \$34,500 and estimated offering expenses of approximately \$1,500 payable by the Company, were used to repay the Company's outstanding senior secured indebtedness under its Credit Agreement, including all of the Company's Term Loan X and Term Loan B-2, \$1,100,000 and \$250,000, respectively, all of which was outstanding immediately prior to the issuance of the Convertible Notes, and a pro rata portion of the Company's \$600,000 Term Loan A and \$250,000 Term Loan B-1.

The Convertible Notes bear interest at a rate of 2.00% per year on the principal amount, payable semi-annually in arrears in cash on June 15 and December 15 of each year, beginning June 15, 2008 and ending on December 15, 2013. The Convertible Notes will accrete principal from December 15, 2013 at a rate that provides holders with an aggregate annual yield to maturity of 2.00% per year. Beginning with the six-month interest period commencing December 15, 2013, the Company will pay contingent interest during any six-month interest period to the holders of Convertible Notes if the trading price, as defined, of the Convertible Notes for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the accreted principal amount of the Convertible Notes. The holders of the Convertible Notes may convert the notes into shares of the Company's common stock at a conversion price of approximately \$77.19 per share, subject to adjustment, prior to the close of business on September 15, 2037, subject to prior redemption or repurchase of the notes, under any of the following circumstances: (1) during any calendar quarter after the calendar quarter ending December 31, 2007 if the last reported sale price of the Company's common stock exceeds 130% of the conversion price for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter; (2) during the five business day period after any five consecutive trading day period in which the trading price per note for each day of such period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; (3) if the notes have been called for redemption; or (4) upon the occurrence of specified corporate events.

In lieu of delivery of shares of the Company's common stock in satisfaction of the Company's obligation upon conversion of the Convertible Notes, the Company may elect to deliver cash or a combination of cash and shares of the Company's common stock. If the Company elects to satisfy its conversion obligation solely in cash, the Company will deliver cash in an amount as provided in the Indenture. If the Company elects to satisfy its conversion obligation in a combination of cash and shares of the Company's common stock, the Company will deliver up to a specified dollar amount of cash per \$1,000 original principal amount of Convertible Notes, and will settle the remainder of our conversion obligation in shares of its common stock, in each case as provided in the Indenture. In addition, at any time on or prior to the 35th scheduled trading day prior to the maturity date of the Convertible Notes, the Company may make an irrevocable election to settle conversions of the notes either solely in cash or in a combination of cash and shares of its common stock with a specified cash amount at least equal to the accreted principal amount of the notes. This net share settlement election is in the Company's sole discretion and does not require the consent of holders of the Convertible Notes. It is the Company's current intent and policy to settle any conversion of the Convertible Notes as if the Company had elected to make the net share settlement election.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

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

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

Based on the Company's evaluation of the Convertible Notes in accordance with EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, and SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Company determined that the Convertible Notes contained a single embedded derivative, comprising both the contingent interest feature and the filing failure penalty payment requiring bifurcation as the features were not clearly and closely related to the host instrument. The Company has determined that the value of this embedded derivative was nominal as of December 10, 2007 and December 29, 2007.

As of December 29, 2007, upon conversion, without regard to any premium that could be payable on a fundamental change (as defined), the Company would issue a maximum of approximately 28,000 common shares to the Convertible Note holders.

(c) AEG Debt

The Company's AEG subsidiary has approximately \$13,200 outstanding at December 29, 2007 under certain debt agreements. The terms of the agreements have various maturities ranging from December 30, 2010 through March 30, 2014. Outstanding borrowings had a weighted-average interest rates ranging from 5.6% to 7.2% and 5.2% to 7.9% during the three months ended December 29, 2007 and December 30, 2006, respectively. Interest expense incurred under these debt agreements totaled \$132 and \$166 during the three months ended December 29, 2007 and December 30, 2006, respectively.

(d) Cytyc Convertible Notes

In connection with the Cytyc merger the Company assumed the obligations under Cytyc's 2.25% Senior Convertible Notes due 2024 (the "Cytyc Notes") and the Indenture entered into by Cytyc and U.S. Bank Trust National Association, as trustee thereunder (the "Trustee") on March 22, 2004, pursuant to which the Cytyc Notes were issued (the "Cytyc Indenture"). Interest on the Cytyc Notes is payable semi-annually and the Cytyc Notes were previously convertible into shares of Cytyc common stock. At the closing of the Cytyc merger with the Company, the Company, Cytyc and the Trustee entered into the First Supplemental Indenture (the "Cytyc Supplemental Indenture") as required by the Cytyc Supplemental Indenture as a result of the merger in order to provide, among other things, that the Company guaranteed the obligations under the Cytyc Notes and the Cytyc Supplemental Indenture, and as a result of the merger, the Cytyc Notes ceased to be convertible into shares of Cytyc common stock but rather into the kind and amount of shares of stock and cash which a holder of shares of Cytyc common stock would have been entitled to receive upon the merger had the Cytyc Notes been converted into shares of Hologic common stock immediately prior to the merger, such that each \$1,000 principal face amount of Cytyc Notes may be converted at any time and from time to time into \$556.12 in cash and 17.53 shares of Hologic common stock. Pursuant to the terms of the Cytyc Supplemental Indenture, the Company offered to repurchase all of the outstanding Cytyc Notes in exchange for the principal face amount of such Cytyc Notes plus accrued but unpaid interest thereon. The obligations of the Company under the Cytyc Notes and the Indenture may be accelerated upon the occurrence of certain customary events of default including, without limitation, payment defaults, uncured defaults in the performance of certain covenants and agreements under the Cytyc Supplemental Indenture and bankruptcy and insolvency related defaults. The Cytyc Supplemental Indenture further provides that at any time after March 20, 2009, the Cytyc Notes may be redeemed by the Company at a cash redemption price equal to the principal amount of the Cytyc Notes, plus

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accrued and unpaid interest.

As of the close of the Cytoc merger the Company assumed the outstanding principal amount under the Cytoc Notes of \$73,258. Subsequent to the close of the merger through December 29, 2007, Cytoc Notes in the principal amount of \$69,564 were submitted for conversion upon which the Company issued 1,219 shares of its common stock and made a cash payment in the amount of \$38,686. No holder of a Cytoc Note accepted the Company's offer to repurchase the Cytoc Notes, which offer expired in November 2007. As of December 29, 2007, Cytoc Notes with an aggregate principal amount of \$3,694 remain outstanding which are convertible into approximately 65 shares of Hologic common stock and cash in the amount of \$2,054.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(7) Commitments and contingencies

Contingent Earn-Out Payments

As a result of the Cytac merger, the Company assumed the obligation to the former Adiana stockholders to make contingent earn-out payments tied to the achievement of milestones. The milestone payments include (i) payment of up to \$25,000 tied to the timing of certain FDA milestone achievements of the Adiana permanent contraception product and (ii) potential contingent payments of up to \$130,000, based on incremental sales growth of the Adiana permanent contraception product during the four-year period following FDA approval of this product.

The Company also has an obligation for a second and final earn-out to the former Suros Surgical stockholder related to Suros' incremental revenue growth. Goodwill will be increased by the amount of earn-out payable, if any. The Company has not recorded any amounts for this second annual earn-out as of December 29, 2007.

See Note 4(b) for discussion of the Company's earn-out obligation related to the BioLucent acquisition.

Finance Lease Obligations

As a result of the Cytac merger, the Company assumed the obligation to a non-cancelable lease agreement for a building with approximately 164,000 square feet located in Alajuela, Costa Rica, to be used as a manufacturing and office facility to replace its current Costa Rica facility, the lease for which expires on December 31, 2008. The Company is responsible for a significant portion of the construction costs and therefore was deemed, for accounting purposes, to be the owner of the building during the construction period, in accordance with Emerging Issues Task Force (EITF) No. 97-10, *The Effect of Lessee Involvement in Asset Construction*. During the three months ended December 29, 2007, the Company recorded an additional \$3,200 fair market value of the portion of the building constructed. This is in addition to the \$3,000 fair market value of the land and the \$7,700 fair market value of the portion of the building constructed that Cytac had recorded as of October 22, 2007. The Company has recorded such fair market value within property and equipment on its consolidated balance sheet, with an offsetting increase to non-current liabilities. The Company will record the remainder of the building's fair market value (estimated to have a total fair market value of \$12,100), as well as the related leasehold improvements, as construction occurs. The term of the lease is for a period of approximately ten years with the option to extend for two consecutive five-year terms. The lease term is expected to commence in or around February 2008 and the Company is expected to transfer most of its Costa Rican operations to this facility during the second half of fiscal 2008.

At the completion of the construction period, the Company will review the lease for potential sale-leaseback treatment in accordance with SFAS No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases - an amendment of FASB Statements No. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11*. However, based on its preliminary analysis, the Company determined that the lease will not qualify for sale-leaseback treatment. Therefore, the Company expects that the building, improvements and associated liabilities will remain on the Company's financial statements throughout the lease term, and that the building and tenant improvements will be depreciated on a straight line basis over their estimated useful lives.

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(In thousands, except per share data)

Future minimum lease payments, including principal and interest, under this lease were as follows at December 29, 2007:

	Amount
Remaining nine months ending September 27, 2008	\$ 957
Fiscal 2009	1,469
Fiscal 2010	1,520
Fiscal 2011	1,573
Fiscal 2012	1,628
Thereafter	9,691
Total minimum payments	16,838
Less-amount representing interest	7,066
Total	\$ 9,772

As a result of the Cytac merger, the Company assumed the obligation to a non-cancelable lease agreement for a building with approximately 146,000 square feet located in Marlborough, Massachusetts, to be principally used as an additional manufacturing facility. In 2011, the Company will have an option to lease an additional 30,000 square feet. As part of the lease agreement, the lessor agreed to allow the Company to make significant renovations to the facility to prepare the facility for the Company's manufacturing needs. The Company is responsible for a significant amount of the construction costs and therefore was deemed under Generally Accepted Accounting Principles to be the owner of the building during the construction period in accordance with EITF No. 97-10. During the calendar year ended December 31, 2006, Cytac recorded the fair market value of the facility of \$13,200 within property and equipment on its consolidated balance sheet, with an offsetting increase to current and non-current liabilities. Cytac began occupying a portion of the facility effective June 1, 2007. The term of the lease is for a period of approximately 12 years commencing on November 14, 2006.

Future minimum lease payments, including principal and interest, under this lease were as follows at December 29, 2007:

	Amount
Remaining nine months ending September 27, 2008	\$ 693
Fiscal 2009	924
Fiscal 2010	982
Fiscal 2011	982
Fiscal 2012	982
Thereafter	7,177
Total minimum payments	11,740
Less-amount representing interest	5,043
Total	\$ 6,697

Long-Term Supply Contract

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As a result of the merger with Cytoc, the Company assumed on a consolidated basis a non-cancelable supply contract which related to Cytoc's previous acquisition of Proxima Therapeutics, Inc. in March 2005. The agreement is with one of Cytoc's vendors to provide the facility for the production of one of its products and its ongoing exclusive supply.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

Future supply commitments under Cytoc's long-term supply contracts as of December 29, 2007 are as follows:

	Amount
2008	\$ 3,250
2009	3,000
2010	3,000
2011	3,000
2012	3,000
Thereafter	750
	\$ 16,000

Operating Lease Commitments

As a result of the merger with Cytoc, the Company assumed all outstanding operating leases of which the most significant operating leases pertain to Cytoc's headquarters located in Marlborough, Massachusetts which has a 15 year terms that expires on December 31, 2018 with future lease payments of approximately \$41,700 and Cytoc's warehouse in Methuen, Massachusetts which has a 10 year term that expires on March 31, 2013 with future lease payments of approximately \$1,400. In addition, the Company is required to maintain the facilities during the term of the leases and to pay all proportionate share of taxes, insurance, utilities and other costs associated with those facilities.

(8) Pension and Other Employee Benefits

In conjunction with the May 2, 2006 acquisition of AEG, the Company assumed certain defined benefit pension plans covering the employees of the AEG German subsidiary (Pension Benefits). As of September 29, 2007 the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS 158) using a prospective approach. The adoption of SFAS No. 158 did not impact the Company's compliance with its debt covenants under its credit agreements, cash position or results of operations.

As of December 29, 2007, the Company has recorded a pension liability of approximately \$7,905 as a component of accrued expenses in the accompanying consolidated financial statements. Under German law, there are no rules governing investment or statutory supervision of the pension plan. As such, there is no minimum funding requirement imposed on employers. Benefits are safeguarded by the Pension Guaranty Fund; a form of compulsory reinsurance that guarantees an employee will receive vested pension benefits in the event of insolvency.

The tables below provide a reconciliation of benefit obligations, plan assets, funded status, and related actuarial assumptions of the Company's German Pension Benefits.

	Pension Benefits	
	December 29, 2007	December 30, 2006
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ (7,627)	\$ (8,005)
Service cost		(1)
Interest cost	(106)	(147)

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Plan participants contributions		
Actuarial gain		703
Foreign exchange	(252)	(956)
Benefits paid	80	98
Benefit obligation at end of period	(7,905)	(8,308)
Plan assets		
Funded status	\$ (7,905)	\$ (8,308)

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HOLOGIC, INC.

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(In thousands, except per share data)

Components of Net Periodic Benefit Cost	Pension Benefits	
	December 29, 2007	December 30, 2006
Service cost	\$	\$
Interest cost	106	\$ 92
Expected return on plan assets		\$
Amortization of prior service cost		\$
Recognized net actuarial gain	(23)	\$
Net periodic benefit cost	\$ 83	\$ 92

Weighted-Average Net Periodic Benefit Cost Assumptions	Pension Benefits	
	December 29, 2007	December 30, 2006
Discount rate	5.5%	4.5%
Expected return on plan assets	0%	0%
Rate of compensation increase	0%	0%

The projected benefit obligation for the German Pension Benefits plans with projected benefit obligations in excess of plan assets was \$7,905 at December 29, 2007 which is the same amount as the accumulated benefit obligation for the German Pension Benefits plans at December 29, 2007.

The table below reflects the total Pension Benefits expected to be paid from the plans.

	Pension Benefits
Remaining nine months ending September 27, 2008	\$ 236
2009	350
2010	357
2011	373
2012	391
Thereafter	6,198
	\$ 7,905

(9) Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average number of common shares and potential common shares from outstanding stock options, restricted stock units and convertible debt. As a result of the Company's net loss during the three months ended December 29, 2007, all potential common shares were anti-dilutive and were excluded from the diluted net loss per share calculation.

The Company applies the provisions of EITF No. 04-08, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share* to determine diluted weighted average shares outstanding as it relates to its outstanding Convertible Notes and the remaining Cytoc Convertible

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Notes. Accordingly, the Company uses the treasury stock method to determine dilutive weighted average shares related to its Convertible Notes and the if-converted method as it relates to the remaining Cytoc Convertible Notes. The potential common equivalent shares as calculated for both convertible notes were excluded from the Company's dilutive weighted average shares as a result of the Company's net loss position for the three months ended December 29, 2007.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Basic weighted average common shares outstanding	108,441	52,617
Weighted average common equivalent shares		1,777
Diluted weighted average common shares outstanding	108,441	54,394

Diluted weighted average shares outstanding do not include options outstanding to purchase 2,860 common shares and 116 outstanding restricted stock units as a result of the Company's net loss position for the three months ended December 29, 2007, as their effect would have been anti-dilutive. Diluted net loss per share for the quarter ended December 29, 2007 excludes the effect on weighted average diluted common shares outstanding assumed conversion of convertible debt as such amounts would have been anti-dilutive. Diluted weighted average shares outstanding do not include options outstanding to purchase 634 common-equivalent shares as of December 30, 2006, as their effect would have been anti-dilutive. There was no convertible debt outstanding during the quarter ended December 30, 2006.

(10) Stock-based Compensation

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

The Company adopted SFAS 123(R) at the beginning of fiscal 2006 utilizing the modified prospective method. A modified prospective method is one in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. As a result, the Company is recognizing compensation for the fair value of the unvested portion of option grants issued prior to the adoption of SFAS 123(R), whose fair value was calculated utilizing a Black-Scholes Option Pricing Model. In addition, SFAS 123(R) requires companies to utilize an estimated forfeiture rate when calculating the expense for the period, whereas, SFAS 123 permitted companies to record forfeitures based on actual forfeitures, which was the Company's historical policy under SFAS 123. As a result, the Company has applied an estimated forfeiture rate of 9.0% and 9.4% in the three months ended December 29, 2007 and December 30, 2006, respectively, in determining the expense recorded in the Company's consolidated statement of operations.

During the quarters ended December 29, 2007 and December 30, 2006, the Company has recorded \$6,388 and \$1,156, respectively, of stock-based compensation expense related to employee stock options. The compensation expense reduced both basic and diluted earnings, net of related tax effects, per share by \$0.04 and \$0.01 during the three month periods ended December 29, 2007 and December 30, 2006, respectively. As of December 29, 2007, there was \$17,832 of unrecognized compensation expense related to non-vested market-based share awards that is expected to be recognized over a weighted-average period of 3.5 years.

Included in stock-based compensation expense for the quarter ended December 29, 2007 was \$2,662 as a result of the acceleration of vesting for certain outstanding Hologic stock options upon the close of the merger with Cytoc. The original terms of these employee stock options provided for acceleration of vesting upon a change of control.

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Also included in stock-based compensation expense for the quarter ended December 29, 2007 was \$2,264 as a result of a modification of certain stock options that occurred upon entering into the Merger Agreement in May 2007 that provided for acceleration of vesting of the unvested options upon a termination as a result of a change of control, as well as, an extension of the period to exercise vested options from 90 days to December 31, 2009, which occurred upon the close of the merger with Cytac.

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(In thousands, except per share data)

The Company has also recorded \$1,195 and \$360 of stock-based compensation expense during the three months ended December 29, 2007 and December 30, 2006, respectively, for the fair value of restricted stock units. The restricted stock units have a weighted average grant date fair value of \$55.82 and 127 were outstanding as of December 29, 2007.

Stock-based compensation expense for the quarter ended December 29, 2007 for restricted stock units included \$570 as a result of the acceleration of vesting for certain outstanding restricted stock units upon the close of the merger with Cytyc. The original terms of these restricted stock units provided for acceleration of vesting upon a change of control.

Effective with the adoption of SFAS 123(R), the Company has elected to use a bi-nomial model to determine the weighted average fair value of options. The Company considers a number of factors to determine the fair value of options including the advice of an outside valuation advisor and the advisor's model. The weighted average fair value of options granted during the three months ended December 29, 2007 and December 30, 2006, under the binomial valuation method, were \$21.94 and \$24.55, respectively.

The weighted-average assumptions utilized to determine such values are indicated in the following table:

	Three Months Ended		
	December 29, 2007		December 30, 2006
Risk free interest rate	4.0%		5.0%
Expected volatility	37	38%	55%
Expected life (in years)	4.0	4.6	5.0
Dividend yield			

The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. In projecting expected stock price volatility the Company considered both historical data and observable market prices of similar equity instruments. The Company estimated the expected life of stock options and stock option forfeitures based on historical experience.

The following table summarizes all stock option activity under all of the Company's equity incentive plans (the Plans), including those assumed in connection with its merger with Cytyc), during the three months ended December 29, 2007:

	Number of Shares	Per Share Exercise Price		Weighted- Average Exercise Price	Aggregate Intrinsic Value
Outstanding at September 29, 2007	2,860	\$ 1.97	62.26	19.53	\$ 118,599
Cytyc options converted upon merger	8,233	0.58	61.98	32.21	
Granted	680	16.46	69.82	54.63	
Terminated	(16)	10.69	61.22	44.44	
Exercised	(4,952)	2.50	61.98	30.45	
Outstanding at December 29, 2007	6,805	\$ 0.58	69.82	\$ 30.37	\$ 267,276
Exercisable at December 29, 2007	5,709	\$ 0.58	61.98	\$ 26.37	\$ 247,101
Vested and expected to vest at December 29, 2007 (1)	6,590				

Available for Grant at December 29, 2007

5,457

(1) This represents the number of vested stock options as of December 29, 2007 plus the unvested outstanding options at December 29, 2007 expected to vest in the future, adjusted for estimated forfeitures.

The table below provides the range of exercise prices for options outstanding and options exercisable at December 29, 2007, however, the table excludes 127 of outstanding restricted stock units.

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Range of Exercise Price	Options Outstanding Weighted-Average Remaining				Options Exercisable	
	Options Outstanding	Contractual Life (In Years)	Weighted-Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price	
\$ 0.58 - 2.53	100	2.94	\$2.39	100	\$2.39	
2.56 - 3.66	68	2.22	3.20	68	3.20	
3.72 - 5.13	484	4.54	4.69	484	4.69	
5.25 - 7.13	488	5.70	7.04	478	7.04	
7.15 - 10.18	436	2.99	9.80	417	9.80	
10.19 - 13.34	69	5.48	12.76	49	12.81	
13.40 - 19.51	503	3.42	16.69	466	16.59	
19.76 - 28.49	635	5.48	25.96	607	26.02	
28.54 - 39.39	2,238	5.62	34.50	2,191	34.47	
39.63 - 69.82	1,784	8.14	52.30	849	47.91	
\$ 0.58 - 69.82	6,805	5.79	\$30.37	5,709	\$26.37	

A summary of the status of the Company's restricted stock units, the Company's only non-vested shares, as of December 29, 2007, and changes during the three months ended December 29, 2007, is presented below:

	Number of Shares	Weighted- Average Grant- Date Fair Value
Non-vested Shares		
Non-vested at September 29, 2007	84	\$ 47.06
Granted	61	65.63
Vested	(18)	48.30
Forfeited		
Non-vested at December 29, 2007	127	\$ 55.82

As of December 29, 2007, there was \$5,007 of total unrecognized compensation cost related to non-vested shares granted under the Plans. That cost is expected to be recognized over a weighted-average period of 1.85 years.

(11) Comprehensive (Loss) Income

The Company's only item of other comprehensive (loss) income relates to foreign currency translation adjustments, and is presented separately on the balance sheet as required.

A reconciliation of comprehensive (loss) income is as follows:

	Three Months Ended	
	December 29, 2006	December 30, 2006
Net (loss) income as reported	\$ (358,608)	\$ 16,086
Foreign currency translation adjustment	1,600	668
Comprehensive (loss) income	\$ (357,008)	\$ 16,754

(12) Business Segments and Geographic Information

As a result of the Cytoc merger, the Company reassessed its segment reporting based on the operating and reporting structure of the combined company. Beginning in fiscal 2008, the Company combined its previously reported Other business segment with its Breast Health (formerly Mammography / Breast Care) and Skeletal Health (formerly Osteoporosis) segments, to better reflect how the Company views its operations and manages its business. The Company's Other business segment previously included AEG, mini C-arm, extremity MRI, conventional general radiography service and digital general radiography systems businesses. The AEG business is now part of Breast Health while the remaining reporting units are part of Skeletal Health.

In addition, the Company will report two new operating segments Diagnostics and GYN Surgical. Diagnostics includes the ThinPrep Products and the FullTerm Fetal Fibronectin test, acquired as part of Cytoc's purchase of

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Adeza Biomedical Corporation in March 2007 and GYN Surgical includes the NovaSure system and the Adiana TCS system under development. The MammoSite Radiation Therapy system, previously part of Cytyc's surgical reporting segment which is a single-use device for the treatment of early-stage breast cancer, is now part of the Company's Breast Health segment.

As a result of these changes, the Company now reports its business as four segments: Breast Health, Diagnostics, GYN Surgical and Skeletal Health. Identifiable assets for the four principal operating segments consist of inventories, intangible assets, and property and equipment. The Company has presented all other identifiable assets as corporate assets. Intersegment sales and transfers are not significant. Segment information for the three months ended December 29, 2007 and December 30, 2006 is as follows:

	Three Months Ended	
	December 29, 2007	December 30, 2006
Total revenues		
Breast Health	\$ 196,962	\$ 137,564
Diagnostics	100,312	
GYN Surgical	49,886	
Skeletal Health	24,285	25,648
	\$ 371,445	\$ 163,212
Operating (loss) income		
Breast Health	\$ 42,672	\$ 24,574
Diagnostics	(81,970)	
GYN Surgical	(282,872)	
Skeletal Health	(611)	1,943
	\$ (322,781)	\$ 26,517
Depreciation and amortization		
Breast Health	\$ 9,401	\$ 7,279
Diagnostics	20,308	
GYN Surgical	5,465	
Skeletal Health	1,389	952
	\$ 36,563	\$ 8,231
Capital expenditures		
Breast Health	\$ 4,877	\$ 3,980
Diagnostics	3,095	
GYN Surgical	2,556	
Skeletal Health	1,916	1,950
	\$ 12,444	\$ 5,930

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	December 29, 2007	September 29, 2007
Identifiable assets		
Breast Health	\$ 1,209,433	\$ 718,155
Diagnostics	3,382,009	
GYN Surgical	2,599,889	
Skeletal Health	29,161	29,531
Corporate	678,136	318,663
	\$ 7,898,628	\$ 1,066,349

There were no customers with balances greater than 10% of accounts receivable as of December 29, 2007 and December 30, 2006, nor any customer that represented greater than 10% of product revenues during the three months ended December 29, 2007 and December 30, 2006.

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(In thousands, except per share data)

Export sales from the United States to unaffiliated customers, primarily in Europe, Asia and Latin America during the three months ended December 29, 2007 and December 30, 2006 totaled approximately \$67,543 and \$38,594, respectively.

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

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

There were no intersegment revenues during the quarter ended December 29, 2007.

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

	Three Months Ended	
	December 29, 2007	December 30, 2006
Europe	13%	17%
Asia	4	4
All others	3	6
	20%	27%

(13) Litigation and Other Matters

In March 2005, the Company was served with a Complaint filed on November 12, 2004, by Oleg Sokolov with the United States District Court for the District of Connecticut alleging that the Company's HTC grid infringes U.S. Patent Number 5,970,118. The plaintiff is seeking to preliminarily and permanently enjoin the Company from infringing the patent, as well as damages resulting from the alleged infringement, treble damages and reasonable attorney fees, and such other and further relief as may be available. On April 25, 2005, the Company filed an Answer and Counterclaims in response to the complaint in which it denied the plaintiff's allegations and, among other things, sought declaratory relief with respect to the patent claims and damages, as well as other relief. On March 2, 2007 the Court granted summary judgment in the Company's favor, holding that the patent-in-suit is invalid, and dismissed Oleg Sokolov's complaint, thus leaving in the case only the Company's counterclaims against Oleg Sokolov. In a related matter, the United States Patent and Trademark Office decided in December 2005 to re-examine the validity of Sokolov's patent, and this case has been stayed pending completion of this process. The Company does not believe that it infringes any valid or enforceable patents of the plaintiff. However, while the Company intends to vigorously defend its interests, ongoing litigation can be costly and time consuming, and the Company cannot guarantee that it will prevail. On October 28, 1998, the plaintiff had previously sued Lorad, asserting, among other things, that Lorad had misappropriated the plaintiff's trade secrets relating to the HTC Grid. This previous case was dismissed on August 28, 2000. The dismissal was affirmed by the Appellate Court of the State of Connecticut, and the United States Supreme Court refused to grant Certiorari. Following the dismissal, Sokolov threatened to file further claims related to the matter, and as a result, the Company entered into mediation and believes it reached a tentative oral settlement which is expected to be finalized by a written release and settlement agreement. There are, however, no assurances that a settlement will be reached.

On June 16, 2003, Cytoc filed a suit for Declaratory Judgment in United States District Court for the District of Massachusetts asking the court to determine and declare that certain of TriPath Imaging, Inc.'s (TriPath) patents are invalid and not infringed by Cytoc's ThinPrep Imaging System. On June 17, 2003, TriPath announced that it had filed a lawsuit against Cytoc in the United States District Court for the Middle District

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of North Carolina alleging patent infringement, false advertising, defamation, intentional interference, unfair competition, and unfair and deceptive trade practices. In its complaint TriPath sought the issuance of a preliminary and permanent injunction enjoining Cytoc from infringing the asserted patents and to award unspecified damages, unspecified treble damages and attorneys' fees, and the impounding and destruction of the alleged infringing products. The non-patent claims were dismissed and the patent cases were then consolidated into a single action. In October of 2007, the parties entered into a settlement agreement. Under the terms of the settlement agreement, Cytoc will pay TriPath an on-going royalty for a license under certain of TriPath's patents. The two parties have also agreed to a non-royalty bearing cross-license of other patents held by each company. The settlement agreement resolves all pending litigation between the parties and permits Cytoc to continue making, using and selling the ThinPrep Imaging System.

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On October 5, 2007, Ethicon Endo-Surgery, Inc., a Johnson & Johnson operating company, filed a complaint against the Company and its wholly-owned subsidiary Suros Surgical Systems, Inc. (Suros) in the United States District Court for the District of Ohio. The complaint alleges that certain of the ATEC biopsy systems manufactured and sold by Suros infringe four Ethicon patents. An amended complaint filed January 11, 2008 additionally asserts claims of unfair competition. The complaint seeks to enjoin Hologic and Suros from conducting acts of unfair competition and infringing the patents as well as the recovery of unspecified damages and costs. Given the early stage of the litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

On January 8, 2008, the Company filed a suit against SenoRx in the United States District Court for the District of Northern California for infringement of U.S. Patent Nos. 5,913,813, 6,413,204, and 6,482,142. The complaint seeks to enjoin SenoRx from infringing the patents, recover of damages and costs and seeks a finding of willful infringement. Given the early stage of the litigation, the Company is unable to reasonably estimate the ultimate outcome of this case.

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

(14) Income Taxes

The Company's effective tax rates for the three months ended December 29, 2007 and December 30, 2006 were (1.8)% and 38.0%, respectively. For the period ended December 29, 2007, the effective tax rate was reduced primarily due to the acquired in-process research and development charge related to the Cytac merger. The effective tax rate in the December 30, 2006 period was reduced because a portion of the Company's domestic manufacturing profits were exempt from tax. As of December 29, 2007 the Company has recorded a net deferred tax liability of \$909,000. This liability is net of certain deferred tax assets. Management's conclusion that such assets will be recovered is based upon its expectation that future earnings of the Company combined with tax planning strategies available to the Company will provide sufficient taxable income to realize recorded tax assets. Such tax strategies include estimates and involve judgment. While the realization of the Company's net recorded deferred tax assets cannot be assured, to the extent that future taxable income against which these tax assets may be applied is not sufficient, some or all of the Company's net recorded deferred tax assets would not be realizable. The Company's net deferred tax liability increased \$883,000 in the current quarter primarily due to the increase of intangible assets, as a result of the Cytac merger for which the related amortization is not deductible for tax purposes.

On September 30, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition and defines the criteria that must be met for the benefits of a tax position to be recognized. As a result of its adoption of FIN No. 48, the Company has recorded the cumulative effect of the change in accounting principle of \$480 as a decrease to opening retained earnings.

The Company had gross unrecognized tax benefits of approximately \$6,300 as of September 30, 2007. Of this amount, \$4,100 represents the amount of unrecognized tax benefits as of September 30, 2007 that, if recognized, would result in a reduction of the Company's effective tax rate. At December 29, 2007, the Company had \$20,300 of gross unrecognized tax benefits, \$4,200 of which, if recognized, would result in the reduction of the Company's effective tax rate. The increase in unrecognized tax benefits at December 29, 2007 is primarily due to the merger with Cytac. It is reasonably possible that, the Company will recognize \$2,000 of unrecognized tax benefits reported on previously filed returns due to expiration of statute of limitations in the next 12 months.

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The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities, when applicable, as part of income tax expense in its consolidated statements of operations. As of September 30, 2007, accrued interest was approximately 100, net of federal benefit. As of December 29, 2007, no penalties have been accrued.

The Company and its subsidiaries are subject to United States federal income tax, as well as income tax of multiple state income and foreign jurisdictions. The current tax returns are open for audit through fiscal 2012.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(15) Product Warranties

The Company generally offers a one-year warranty for its products. The Company provides for the estimated cost of product warranties at the time product revenue is recognized. Factors that affect the Company's warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs and the cost per repair. The Company periodically assesses the adequacy of the warranty reserve and adjusts the amount as necessary.

Product warranty activity for the three months ended December 29, 2007 and December 30, 2006 is as follows:

	Balance at Beginning of Period	Accruals for warranties provided during the period	Accruals for warranties acquired during the period	Write- Offs/Payments	Balance at End of Period
Three Months Ended:					
December 29, 2007	\$ 12,087	\$ 2,829	\$ 591	\$ (2,311)	\$ 13,196
December 30, 2006	\$ 8,987	\$ 1,838	\$	\$ (1,211)	\$ 9,614

(16) Restructuring Accrual

As a result of the Cytac merger, the Company assumed previous Cytac management approved restructuring plans designed to reduce future operating expenses by consolidating its Mountain View, California operations into its existing operations in Costa Rica and Massachusetts as well as restructuring plans relating to its acquisitions of Adeza and Adiana Inc. during March 2007. In connection with these plans, the Company assumed a total liability of approximately \$4,722. During the three months ended December 29, 2007, the Company did not incur any additional restructuring costs related to retention costs for employees. Any additional severance and/or retention costs related to these restructurings would be an adjustment to goodwill.

Additionally, the Company recorded a liability of approximately \$2,800 in accordance with EITF 95-3, primarily related to termination of certain employees related to minimum inventory purchase commitments and other contractual obligations for which business activities have been discontinued.

Changes in the restructuring accrual for the three months ended December 29, 2007 were as follows:

	Three Months Ended December 29, 2007	
	Other	Termination Benefits
Balance Acquired, October 22, 2007	\$	\$ 4,658
Provided for under 95-3	1,872	956
Adjustments		(9)
Payments		(1,453)
Ending Balance	\$ 1,872	\$ 4,152

As a result of the Cytac merger, the Company also assumed an arrangement in which the Company is sub-leasing all of its Mountain View facility to a third party for a term of approximately five years, a period of time equivalent to the remainder of the Company's lease of this facility.

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The sub-lease commenced on July 1, 2007. The Company is recording the payments it receives under the sub-lease as other income within its consolidated statements of operations.

(17) Related Party Transactions

In May 2006, the Company entered into retention and severance agreements with certain executives that provide for retention payments in cash totaling \$3,000 if these executives remain employed with the Company through December 31, 2008 (Retention Date). The Company has determined that it is probable that these amounts will be paid and therefore, is accruing these amounts ratably through the Retention Date. In addition, in connection with the retention and severance agreement, these executives were awarded 54 restricted stock units with an aggregate value of \$2,500. These restricted stock units cliff vest on the Retention Date. These shares are excluded from the computation of basic earnings per share until the shares vest because the employee is not entitled to the reward of stock ownership. The Company is recording the \$2,500 of stock-based compensation, over the vesting period of the restricted stock. As a result, the Company recorded stock-based compensation expense of \$234 during the three months ended December 29, 2007 and December 30, 2006, respectively. The retention and severance agreements also provide these executives with certain cash payments and continuation of benefits, as defined, in the event of termination without cause.

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

In May 2006, the Company also entered into severance agreements with certain other key officers that provide for certain cash payments and continuation of benefits, as defined, in the event of termination without cause.

In connection with entering into the merger agreement with Cytoc, each of John W. Cumming, Chief Executive Officer, Glenn P. Muir, Executive Vice President Finance and Administration and Robert A. Cascella, President and Chief Operating Officer, agreed to conditionally waive, solely with respect to the change of control resulting from the merger with Cytoc, the change of control payment and special bonus they would have been entitled to receive under their respective change of control agreements and any accelerated vesting of the stock options and restricted stock units that were entitled to fully vest in connection with the merger.

On October 22, 2007, the Company entered into retention and severance agreements with certain executives of the Company. The Company has determined that it is probable that these amounts will be paid and therefore, is accruing these amounts ratably over the applicable retention period. In addition, these executives were awarded 38 restricted stock units with an aggregate value of \$2,500. The restricted stock units cliff vest at the end of the applicable retention period. The Company is recording the \$2,500 of the stock-based compensation over the vesting period of the restricted stock units. As a result, the Company recorded stock-based compensation expense of \$199 during the three months ended December 29, 2007.

(18) Supplemental Executive Retirement Plan

Effective March 15, 2006, the Company adopted a Supplemental Executive Retirement Plan (the "SERP"), to provide non-qualified retirement benefits to a select group of executive officers, senior management and highly compensated employees of the Company. Eligible employees may elect to contribute up to 75% of their annual base salary and 100% of their annual bonus to the SERP. In addition, the Company may elect to make annual discretionary contributions on behalf of participants in the SERP. Each Company contribution is subject to a three year vesting schedule, such that each contribution is one third vested each year and is fully vested 3 years after the contribution is made. The Company contributions become fully vested upon death or disability of the participant or a change in control of the Company, as defined. Voluntary contributions made by the participant are 100% vested. All voluntary contributions have been recorded as a component of accrued expenses in the accompanying consolidated balance sheet.

Upon enrollment into the SERP, employees make investment elections for both their voluntary contributions and discretionary contributions, if any, made by the Company. Earnings and losses on contributions based on these investment elections are recorded as a component of compensation expense in the period earned.

On both October 30, 2006 and October 22, 2007 the Compensation Committee of the Board of Directors approved a \$1,500 discretionary cash contribution to the SERP for each year respectively. Discretionary contributions by the Company to the SERP are held in a Rabbi Trust. The Company is recording compensation expense for the SERP discretionary contribution ratably over the three-year vesting period, which totaled \$242 and \$125 in the three months ended December 29, 2007 and December 30, 2006, respectively. The full amount of the discretionary contribution has been recorded as a component of accrued expenses in the accompanying Consolidated Balance Sheets. The unvested portion of the contribution of \$968 and \$1,265 are classified in prepaid expenses and other current assets and other long term assets, respectively, in the accompanying Consolidated Balance Sheets.

The Company has purchased Company-owned group life insurance contracts, in which both voluntary and discretionary Company SERP contributions are invested to fund payment of the Company and employees contributed amounts and related earnings, in the amount of \$6,915 which approximates the total of employee voluntary contributions into the plan and the Company's cash portion of its discretionary contribution. The values of these life insurance contracts have been recorded as a component of other long-term assets in the accompanying Consolidated Balance Sheet. Changes in the cash surrender value of life insurance contract are recorded as a component of other (expense) income, net in the accompanying Consolidated Statement of Operations.

(19) Goodwill and Intangible Assets

Consistent with prior years, the Company intends to conduct its annual impairment test of goodwill during the second quarter of fiscal 2008. In performing the test, the Company utilizes the two-step approach prescribed under SFAS No. 142, *Goodwill and Other Intangible Assets*. The first step requires a comparison of the carrying value of the reporting units, as defined, to the fair value of these units. The Company considered a number of factors to determine the fair value of a

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

reporting unit, including an independent valuation, to conduct this test. The valuation is based upon expected future discounted operating cash flows of the reporting unit as well as analysis of recent sales or offerings of similar companies. If the carrying value of a reporting unit exceeds its fair value, the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value.

The estimate of fair value requires significant judgment. Any loss resulting from an impairment test would be reflected in operating (loss) income in the Company's consolidated statement of operations. The annual impairment testing process is subjective and requires judgment at many points throughout the analysis. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded.

Subsequent to the Cytyc merger, the Company decided to discontinue the development of Cytyc's Helica product. The Company will not realize any future cash flows from this product. The Company's intangible asset valuation for Cytyc included approximately \$2,900 related to customer relationships for Helica. As a result of the Helica product discontinuation, the Company recorded an impairment charge, as a component of its GYN Surgical segment, of \$2,900 during the three months ended December 29, 2007.

The preliminary allocation of goodwill by reporting segment consists of the following:

Reporting Segment	Balance as of December 29, 2007	Balance as of September 29, 2007
Breast Health	\$ 703,028	\$ 406,950
Diagnostics	1,953,083	
GYN Surgical	1,534,473	
Skeletal Health	598	578
	\$ 4,191,182	\$ 407,528

Intangible assets consist of the following:

Reporting Segment	Description	Weighted Average Estimated Useful Life (in years)	As of December 29, 2007		As of September 29, 2007	
			Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Breast Health	Developed Technology	11.72	\$ 303,428	24,060	\$ 132,257	19,625
	Customer Relationship	11.49	68,722	8,411	55,692	6,303
	Trade Name	10.34	12,364	1,178	12,350	929
	Order Backlog	0.00	800	800	800	800
	Patents	6.94	1,459	638	1,273	636
Diagnostics	Developed Technology	15.00	983,500	11,825		
	Customer Relationship	15.00	229,100	2,142		
	Trade Name	25.98	78,400	1,149		
GYN Surgical	Developed Technology	15.00	766,400	3,871		
	Customer Relationship	15.00	184,300			
	Trade Name	25.97	56,200	608		

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Skeletal Health	Patents	11.66	7,072	6,818	7,066	6,784
	Totals		\$ 2,691,745	\$ 61,500	\$ 209,438	\$ 35,077

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

Amortization expense related to developed technology and order backlog is classified as a component of cost of product sales amortization of intangible assets in the accompanying Consolidated Statements of Operations. Amortization expense related to customer relationship and trade name is classified as a component of amortization of other acquired intangible assets in the accompanying Consolidated Statement of Operations.

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

Remainder of Fiscal 2008	\$ 96,736
Fiscal 2009	195,030
Fiscal 2010	217,601
Fiscal 2011	224,230
Fiscal 2012	229,667
Fiscal 2013	223,027

(20) Recent Accounting Pronouncements

On September 15, 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is not permitted. Therefore, the Company will adopt SFAS 157 in fiscal 2009, which commences on September 28, 2008. The Company is currently evaluating the impact that the adoption of SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*, which allows an entity to elect to record financial assets and liabilities at fair value upon their initial recognition on a contract-by-contract basis. Subsequent changes in fair value would be recognized in earnings as the changes occur. SFAS No. 159 also establishes additional disclosure requirements for these items stated at fair value. Statement No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, which is the Company's 2009 fiscal year, with early adoption permitted, provided that the Company also adopts SFAS No. 157, Fair Value Measurements. The Company is currently evaluating the impact that the adoption of Statement No. 159 will have on its consolidated financial statements.

In July 2007, the FASB ratified EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*. The scope of this consensus includes nonrefundable advance payments for goods or services to be received in the future for use in research and development activities should be deferred and capitalized. The capitalized amounts should be expensed as the related goods are delivered or the services are performed. If an entity's expectations change such that it does not expect it will need the goods to be delivered or the services to be rendered, capitalized nonrefundable advance payments should be charged to expense. EITF Issue No. 07-3 is effective for new contracts entered into during fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. The consensus may not be applied to earlier periods. Early adoption of the provisions is not permitted. The Company's historical policy has been to capitalize upfront nonrefundable advance payments related to research and development activities and expense these amounts as the goods are delivered or services rendered. Therefore, the adoption of this consensus should not have any impact on its consolidated financial statements.

In August 2007, the FASB issued Proposed FASB Staff Position (FSP) APB Opinion No. 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP applies to convertible debt instruments that, by

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their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FASB Statement No. 133. The liability and equity components of convertible debt instruments within the scope of this FSP must be separately accounted for in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. If approved, this FSP will be effective for financial statements issued for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. This FSP must be applied retrospectively to all periods presented. For convertible debt instruments that were modified after their original issuance date to provide for cash settlement upon conversion in a modification transaction that was not accounted for as an extinguishment, this FSP must be applied retrospectively to the modification date. The Company is currently evaluating the impact that the adoption of APB Opinion No. 14-a will have on its consolidated financial statements.

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

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

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HOLOGIC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

(In thousands, except per share data)

(21) Subsequent Events

Sale of Gestiva

On January 22, 2008, the Company entered into a definitive agreement pursuant to which it has agreed to sell full U.S. and world-wide rights to Gestiva to KV Pharmaceutical Company upon approval of the pending Gestiva new drug application (the Gestiva NDA) by the FDA.

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

The purchase price to be paid to the Company as a result of the transaction is \$82,000 in cash, \$7,500 of which is payable at the closing of the transaction and the balance of which is payable upon final approval by the FDA of the Gestiva NDA and the production of a quantity of Gestiva suitable to enable the commercial launch of the product. The closing of the transaction is expected to occur within 30 days after the satisfaction of customary closing conditions.

Stock Split

On January 29, 2007, the Board of Directors approved a two-for-one stock split, to be effected in the form of a stock dividend, subject to stockholder approval of a proposed amendment to the Certificate of Incorporation of the Company to increase the number of shares of common stock the Company has the authority to issue from 300,000 to 750,000 shares.

The Company is seeking approval of the amendment to its Certificate of Incorporation to increase the number of authorized shares of common stock at its Annual Meeting of Stockholders to be held on March 11, 2008. Subject to receiving such stockholder approval, the record date for the stock split will be March 21, 2008 and the payment date will be April 2, 2008.

Equity Awards

On January 16, 2008, the Compensation Committee of the Board of Directors approved the grant of common stock options and restricted stock units. Options to purchase up to 910 shares of the Company's common stock were granted. The options have an exercise price of \$66.62, equal to the fair value on the date of grant, vest ratably over a period of 5 years and have a maximum term of 7 years. A total of 550 restricted stocks units were issued and vest 100% three years from the date of issuance.

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

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

Our business and prospects have been significantly altered upon completion of our merger with Cytac Corporation (Cytac) on October 22, 2007. In the last two years, we and Cytac have also acquired a number of businesses including BioLucent LLC (BioLucent), Adeza Biomedical Corporation (Adeza), Adiana, Inc. (Adiana), AEG Elektrofotografie (AEG), R2 Technologies (R2) and Suros Surgical Systems (Suros). Risks and uncertainties relating to the Cytac merger and these additional acquisitions could cause actual results to materially differ from those contemplated by the forward-looking statements including, without limitation:

our ability to successfully integrate acquired businesses, which may result in the combined companies not operating as effectively and efficiently as expected;

the risks associated with the significant debt we incurred in financing the Cytac transaction, including our obligation to meet financial covenants and payment obligations under those financing arrangements, restrictive covenants that may limit our ability to engage in advantageous transactions, and other risks generally associated with the substantial leverage and other limitations resulting from such financing;

the ability and time it may take to achieve the expected synergies from our acquisitions;

the risk that we may incur unexpected costs or liabilities in connection with an acquisition;

the ability to retain and motivate key employees;

the ability to integrate the financial reporting systems and internal controls over financial reporting of the combined companies;

the risk that the combined companies may be adversely affected by future legislative, regulatory, or tax changes as well as other economic, business and/or competitive factors;

risks associated with international operations of the acquired businesses.

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

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

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

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

uncertainties inherent in the development of new products and the enhancement of existing products, including technical and regulatory risks, cost overruns and delays;

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

the ability of our sales force to successfully service our product offerings;

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

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

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

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

expenses and uncertainties relating to litigation, product liability and the infringement upon intellectual property rights of others;

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

competition;

general worldwide economic conditions and related uncertainties; future legislative, regulatory or tax changes as well as other economic, business and/or competitive factors; .

Other factors that could adversely affect our business and prospects are described in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended September 29, 2007 and in Part II, Item 1.A of this report. The risks included above and in such reports are not exhaustive. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any such statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such forward-looking statement is based.

OVERVIEW

We are a diversified medical technologies company dedicated to serving the healthcare needs of women. Historically, we have developed, manufactured and marketed products focused on mammography, breast care and osteoporosis assessment. In October 2007, we completed our business combination with Cytyc, a company that develops, manufactures and markets complementary products covering a range of cancers and women's health indications, including cervical cancer screening, prenatal diagnostics, treatment of excessive menstrual bleeding and partial breast radiation therapy.

We have historically focused our resources on developing systems and subsystems offering superior image quality and diagnostic accuracy, which has enabled us to capture significant market share and customer loyalty, despite the presence of large competitors. As a result of our combination with Cytyc we intend to expand our focus to further utilize Cytyc's strengths in the fields of obstetrics, gynecology, radiation oncology and minimally invasive surgery.

Our breast health products include a broad portfolio of breast imaging and related products, including digital and film-based mammography systems, computer-aided detection (CAD), breast biopsy guidance systems, minimally invasive breast biopsy and tissue extraction devices, MammoPad breast cushion, MammoSite radiation therapy system and our photoconductor coating business, an ancillary business that we acquired as part of our acquisition of AEG Elektrofotografie GmbH. Our skeletal health products primarily consist of dual-energy X-ray bone densitometry systems, an ultrasound-based osteoporosis assessment product, our Fluoroscanner mini C-arm imaging products and the Esaote line of extremity Magnetic Resonance Imaging (MRI) systems that are manufactured by an original equipment manufacturer.

Cytyc's product offerings have historically been divided between diagnostics and surgical. Cytyc's core diagnostics are the ThinPrep System, which is primarily used in cytology testing applications, such as cervical cancer screening, and the Full Term Fetal Fibronectin Test, which offers clinical and cost benefits for the assessment of the risk of pre-term birth. Cytyc's core surgical products include the NovaSure System, which enables physicians to treat women suffering from excessive menstrual bleeding in a minimally invasive manner in order to eliminate or reduce their bleeding, and the Adiana TCS system, which is a form of permanent female contraception intended as an alternative to tubal ligation currently under review by the FDA. The MammoSite Radiation Therapy System, which is a single-use device for the treatment of early-stage breast cancer, is now part of our breast health products.

CYTYC BUSINESS COMBINATION

On October 22, 2007, we completed our business combination with Cytyc, pursuant to which Cytyc became our wholly-owned subsidiary. Under the terms of the merger agreement for that transaction, Cytyc shareholders received 0.52 shares of our common stock and \$16.50 in cash for each share of Cytyc common stock held by them. We estimate the aggregate consideration we paid for Cytyc, including liabilities that we assumed in connection with that transaction, to be approximately \$6.2 billion. This estimate includes:

merger consideration paid to the former Cytyc stockholders of \$5.8 billion, consisting of approximately \$2.1 billion in cash and approximately 66.0 million shares of our common stock with an estimated fair value of approximately \$3.7 billion;

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8.2 million of fully vested stock options issued upon conversion of Cytoc stock options with an estimated fair value of approximately \$241.4 million;

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the assumption of obligations of Cytyc under their 2.25% Senior Convertible Notes due 2024 with a principal amount outstanding as of October 22, 2007 of approximately \$73.0 million and an estimated fair value of approximately \$125.0 million; and

approximately \$24.0 million of direct acquisition costs.

In connection with the merger, we entered into a credit agreement relating to a senior secured credit facility with Goldman Sachs Credit Partners L.P. and certain other lenders, in which the lenders committed to provide, in the aggregate, senior secured financing of up to approximately \$2.55 billion to pay for the cash portion of the merger consideration, for repayment of existing debt of Cytyc, for expenses relating to the merger and for working capital following the completion of the merger. As of the closing of the merger, we borrowed \$2.35 billion under the credit facility. In December 2007, we refinanced a substantial portion of this credit facility through the issuance of 2.00% Convertible Senior Notes due 2037 in the principal amount of \$1.725 billion.

Our business combination with Cytyc was accounted for using the purchase method of accounting. In accordance with SFAS No. 141, we were considered to be the acquirer of Cytyc for accounting purposes. This means that the total purchase price is allocated to the assets acquired and liabilities assumed from Cytyc based on our estimate of their fair values as of the date of the completion of the business combination, and any excess of purchase price over those fair values is recorded as goodwill. Our reported financial condition and results of operations issued for our quarter ended December 29, 2007, reflect the fair value of acquired tangible and intangible assets and liabilities assumed and results of operations after completion of the business combination, and are not restated retroactively to reflect the historical financial position or results of operations of Cytyc. Our results of operations also reflect purchase accounting adjustments, such as the write-off of acquired research and development, increased amortization and other expense for the acquired tangible and intangible assets of Cytyc, and the interest on the funds we borrowed to complete the business combination. More detailed information concerning our preliminary estimates of the fair value of assets acquired and liabilities assumed in our business combination with Cytyc, as well as supplemental pro forma information relating to that transaction, is set forth in Note 4(a) to our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

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