PARTICIPANTS

Corporate Participants

Mark J. Namaroff – Director-Strategic Marketing & Investor Relations, Analogic Corp.
James W. Green – President, Chief Executive Officer & Director, Analogic Corp.
Michael L. Levitz – Chief Financial Officer, Treasurer & Senior VP, Analogic Corp.

Other Participants

Larry S. Solow – Analyst, CJS Securities, Inc.
Jiwon Lee – Analyst, Sidoti & Co. LLC
James M. Terwilliger – Analyst, The Benchmark Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Analogic Corporation's Third Quarter Conference Call for Fiscal 2013. The following corporate officers are present: Mr. Jim Green, President and CEO and Mr. Michael Levitz, Senior Vice President, CFO.

I'd like to remind everyone that a supplementary presentation will be used during today's call. If you have not already downloaded that presentation, you can do so at any time at investor.analogic.com. That presentation will remain available until July 8, 2013.

Now, I would like to turn the call over to Mr. Mark Namaroff, Director of Investor Relations.

Mark J. Namaroff, Director-Strategic Marketing & Investor Relations

Thank you, Caddie. Good afternoon, everyone. And welcome to Analogic's third quarter conference call for fiscal 2013. I'm sure you have downloaded our press release issued earlier today describing our results for our third quarter. If not you can do so via our website at investor.analogic.com.

Please note the procedure for asking questions at the conclusion of our prepared remarks. [Operator Instructions] We will repeat these instructions at the end of the presentation.

Before I turn the call over to Jim Green and Mike Levitz to review our third quarter results, I would like to remind everyone that today's call may include forward-looking statements such as comments about our plans, expectations, and projections. For more information on risks and other factors that could cause our actual results to differ significantly from our forward-looking statements, please refer to our most recent Form 10-K and 10-Q reports on file with the Securities and Exchange Commission.

Also on today's call, we will be discussing certain financial measures not prepared in accordance with generally accepted accounting principles or GAAP. We believe that using non-GAAP metrics provide investors a more thorough understanding of our business. An explanation and a reconciliation of our non-GAAP financial measures are provided at the end of the presentation materials and in our second – in our third quarter press release.

And now, I'd like to turn the call over to Jim Green, our President and CEO.

James W. Green, President, Chief Executive Officer & Director

Thanks, Mark, good evening, everybody. Let's start by moving to page four of the presentation. I'd like to start by saying. It's been an exciting quarter with the closing of the acquisition of Ultrasonix, building out of our direct sales force, as we continue the transition to more profitable revenue growth.

So, as we look at the quarter, our revenues came in at $126 million, that's up 4% from last year. Our gross margin improved to 39%, that's up 2 points from last year. Our operating margin came in at 5% on a GAAP basis, which includes 2 points of impact related to the acquisition and restructuring. On a non-GAAP basis, our operating margin came in at 10%. Our GAAP earnings per share was $0.41 a share, and on a non-GAAP basis our EPS measured $0.76 a share.

Let's move to slide five, we'll look at the business highlights. Starting with ultrasound, we continued to strategically expand our direct ultrasound business. As such, we see the mix significantly shifting to the higher contribution margin full ultrasound products. Our strategy for driving profitable organic growth is based on expanding our direct sales channel. Critical to the success of the channel expansion is the speed at which we establish a stable structure and territory assignments. We made the decision to plan the structure and the assignments prior to the acquisition so that we could implement on day one, stabilize the sales force, immediately start product training and the sales process. I'm pleased to say that the sales force integration is complete and the territories are established and stable. We are also making proactive improvements in our existing surgery neurology sales force, which has given us some disruption here in the short-term.

During the first partial quarter, the new Ultrasonix point-of-care sales team brought in incremental $3 million in sales and is accelerating. And we see the disengagement of lower margin transducer sales accelerating the planned mix towards the profitable end user products.

Moving onto Medical Imaging, revenues were down modestly in the quarter, mostly on shipment timing. CT was down slightly on lower customer funding. And MRI was off slightly due to timing of shipments. Our mammography revenues moved back to growth and margins continued to improve.

Security continues to be a bright spot, up 38% from last year. The new developing high-speed threat detection segment continues to drive growth on overseas demand. And we had our first production shipment to Smiths Detection, which this product is also targeted to the high-speed segment. And finally, the consolidation of Ultrasonix and transducer manufacturing is on plan and should complete within our fiscal 2014.

And before I turn it over to Mike, I want to bring your attention to Analogic's involvement in some recent news. As a leading guidance and advance detection company, we are always investing in new areas of opportunity for our technology. In late 2009, we discussed with shareholders that we were exploring the use of our precision detection technology in the field of biometrics, which is targeted toward rapid DNA analysis.

Yesterday's Supreme Court decision in Maryland versus King, allowing the collection and analysis of DNA after an arrest, cleared a hurdle in the adoption of this technology. Over the past few years, we've been working with a company called NetBio, who is the leader in the field of DNA analysis. And they're teamed with GE in certain areas of sales and distribution. We, Analogic, engineer and supply the instrument to NetBio used to perform the analysis. We've shipped a limited number of these units to-date.

Advance detection applied to rapid DNA analysis is right in our technical sweet spot. We're in the early stages of adoption and we're optimistic that this has the potential to augment growth in our security revenues in future years. We'll have more to say on the technology as the technology and the market develops.

Now, I'll turn the presentation over to Mike Levitz, our CFO, to go over the financial results.

Michael L. Levitz, Chief Financial Officer, Treasurer & Senior VP

Thank you, Jim, and good evening, everyone. As you can see from the quarterly trend charts on page six of our online presentation, our revenues in the third quarter ended April 30 totaled $126 million. That was up 4% from the same period of last year. Our results this quarter reflect the acquisition of Ultrasonix, which closed in March, including $3.4 million in partial period sales of Ultrasonix products in the roughly eight weeks following the close of the acquisition. We continue to be very pleased with the addition of the Ultrasonix business to the Analogic Ultrasound Group.

Our security business, as Jim said, saw another quarter of very strong growth, which offset a slightly lower quarter in Medical Imaging and a flat quarter in ultrasound. I'll walk you through more detailed results by segment shortly.

Please note that as a result of the acquisition of Ultrasonix, our operating results include certain costs related to the acquisition recorded under purchase accounting, as well as integration-related expenses. Our non-GAAP results exclude these acquisition-related costs, but do not exclude the cost of integrating Ultrasonix into Analogic.

Our gross margin improved significantly in the third quarter as compared to the same period of last year, with our non-GAAP gross margin reaching 40%, up 3 points from last year, reflecting continued improvement in yield and in our mammography product line. And product cost improvements, including the benefit of our Shanghai manufacturing facility.

Our gross margin was 39% on the GAAP basis and included approximately $1 million of acquisition related accounting items related to the purchase of Ultrasonix. Our operating income and related operating margin declined this quarter compared to last year, due to the acquisition of Ultrasonix. And due to, our related restructuring charge associated with synergies following the acquisition.

On a non-GAAP basis, our operating margin was 10%, down 1 point from 11%, we reported in the same quarter last year. Reflecting expenses related to the Ultrasonix integration and the partial period operating results of Ultrasonix.

Now, if you would please turn to slide seven, I'll take a look at our P&L for the quarter. As I just described, our revenues and gross margin both increased in the third quarter, as compared to the same period last year. As Jim discussed, we announced our restructuring recently to streamline our business and realize expected synergies following our acquisition of Ultrasonix and to further optimize our overall operational footprint.

The announced restructuring includes the consolidation of Ultrasonix's manufacturing into our existing facility. The closure and integration of our OEM ultrasound transducer facility near Denver, Colorado into our existing operations in State College, Pennsylvania as well as other opportunities across our business to optimize our overall operational footprint. We expect the total pre-tax charges associated with the announced restructuring to be approximately $5 million, of which $500,000 was recorded in the third quarter and included in our separate restructuring line in our P&L for the period.

We expect $3.5 million of the charges, we recorded in the fourth quarter of this fiscal year. And the remaining $1 million, we recorded through the end of fiscal 2014 as we complete the restructuring transition. We expect the restructuring efforts to provide annual expense savings of over $6 million, to be realized in full following completion of the transition effort by the end of fiscal 2014.

The inclusion of Ultrasonix results following the March closing of the acquisition. And the restructuring during Q3 together reduced our GAAP earnings per share by approximately $0.23 and non-GAAP EPS by $0.05. We continue to expect Ultrasonix's results to be neutral to non-GAAP EPS for fiscal 2013. Our effective tax rate during the third quarter was 24%, reflecting discrete tax benefit during the third quarter. And we expect our effective tax rate for the full fiscal year to be between 29% to 30%.

Now please turn to slide 8, which shows our P&L for the first nine months of fiscal 2013. Our revenues for the first nine months of this year totaled $384 million, a 5% increase over the same period of last year. Our gross margin and operating margin improved over the same period last year, driven by growth and operational synergies.

We saw double digit increases in our operating income on the growing revenues and operating margins, with a 13% increase in non-GAAP operating income in the first nine months of this fiscal year.

Earnings per share in the first nine months of this fiscal year include the impact of the Ultrasonix acquisition and the recently announced restructuring as I just mentioned. EPS for the same period last year includes certain nonrecurring favorable items. Including a significant tax refund, $10 million of which was reflected in the provision for income taxes line on the year-to-date 2012 GAAP P&L. And $2.5 million in proceeds from the sale of an equity investment, which was included in the other income line on the P&L.

Together these two items provided $0.79 of favorable GAAP EPS in the first nine months of last year. These favorable items have been excluded from our non-GAAP results. The effective tax rate on our non-GAAP results was unusually low in the first nine months of last year due to the timing of certain tax reserve reversals following the favorable tax audits at that time.

Let's turn to slide nine, where I'll discuss our operating performance by business segment. Our Medical Imaging segment revenue was $72 million in the third quarter, a 2% decline over last year. We experienced some unfavorable timing for sales of our CT and MRI products this quarter as Jim mentioned, which was offset by modest growth in our mammography business.

At the same time, our operating margin increased significantly over the same period last year, reaching 12% on a non-GAAP basis. As we continue to see the benefit of cost reduction activity, the production ramp of our Shanghai facility and the yield improvement in our mammography product line.

In our Ultrasound segment, the addition of the partial period of Ultrasonix revenues offset lower OEM transducer revenue as we continue to move this segment to focus more on the direct system business.

Our traditional direct business saw flat revenues year-over-year, due to market headwinds and temporary sales force disruption during channel integration. Our operating margins in ultrasound, declined during the quarter, due to the acquisition of Ultrasonix the restructuring I mentioned earlier, cost associated with direct sales force expansion and lower revenues in our OEM transducer operation.

Our security business was again a highlight this quarter. Revenue was up 38% in the third quarter as compared to the same quarter last year, driven by shipments of high-speed threat detection systems including our systems for L-3, which continue to see increasing demand. As well as the first production shipments to Smiths in support of their XCT high-speed system. Our operating margins in this segment were very strong in the third quarter with non-GAAP operating margins at 25%, reflecting the leverage from volume growth in this segment as well as demand for our medium-speed system.

And lastly, turning to slide 10, I'll briefly discuss our working capital and cash flows during the quarter. Our cash and investments' balance declined to $91 million as a result of our acquisition of Ultrasonix for approximately $80 million in March. Inventories increased due to support customer demand while we complete the manufacturing transitions I discussed earlier, and also increased due to the inclusion of the fair value of acquired Ultrasonix inventory. Operating cash flow was positive in the quarter on strong operating results offset by the investment in working capital and capital spending in support of future operating efficiencies.

In summary, we are excited about the addition of Ultrasonix to Analogic and in the third quarter delivered growing revenues and growing overall operating performance despite acquisition related expenses and market headwinds. We have taken the initiative to quickly integrate Ultrasonix, streamline our OEM ultrasound transducer business and continue our focus on cost disciple across our global organization.

Thank you. And now, I'll turn the call back over to Jim.

James W. Green, President, Chief Executive Officer & Director

Thanks, Mike, so moving to slide 11 to summarize our full fiscal 2013 outlook. We're reaffirming our expectation that Medical Imaging will continue to outperform the market with mid single-digit revenue growth. We're revising our direct ultrasound sales down somewhat, expecting now to grow mid to upper single-digits with overall ultrasound roughly flat, slowed by the planned discontinuation of certain non-strategic OEM transducers.

And revising upward, security is expected to grow around 25% over the prior year, primarily on new high-speed overseas demand. In summary, overall for the year, we are refining our outlook and expect to achieve mid to upper single-digit revenue growth and operating margin improvement of 100 basis points.

Thank you, and now we'll open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Larry Solow with CJS Securities.

<Q – Larry Solow – CJS Securities, Inc.>: Hi, good afternoon.

<A – Jim Green – Analogic Corp.>: Hi, Larry.

<Q – Larry Solow – CJS Securities, Inc.>: Can you, Jim, maybe I don't know if you can sort of parcel it out, but on the CT, MRI, the timing, is that – I know you don't guide quarterly. Is it strictly timing on that? And, I know you talked about some headwinds on the ultrasound piece, but CT, MRI...>

<A – Jim Green – Analogic Corp.>: Yeah, in CT, we were down a little on CT mainly on, as we finished some certain projects where there's customer funding, that engineering funding is reduced as we complete – as we come to the completion of the project. So, on the CT side, it was more associated with completing some projects and which results in a lower engineering revenue portion.

<Q – Larry Solow – CJS Securities, Inc.>: Okay.

<A – Mike Levitz – Analogic Corp.>: On the MRI side, there were, when you look at on a quarter-to-quarter basis, there's often a lot of shipments as you get to the end of the quarter, and there was a particular ceremony in Europe this last quarter, right at the end of our quarter, which typically you would see the various pulls of the product and that's where you get the revenue recognition at that point in time. So, that was really timing, that's how we saw it in that. We would expect that revenue to just be in the fourth quarter, what pulled out of the third quarter at that last part there. So, that was really, as we'd say, we have somewhat lumpiness in some of these large businesses like that, and there's little bit of timing affected, again, those two pieces.

<A – Jim Green – Analogic Corp.>: And, Larry, I would just add-this is Mike-so, we reaffirmed our guidance, our expectations-

<Q – Larry Solow – CJS Securities, Inc.>: Right, so it sounds like really with all the pulls and pushes and pulls, you've lowered ultrasound. I think you had said initially, or 10% growth including acquisitions, right? That's what you said last time? Now, you're saying flat. And, security's up a little bit. Net of it all, it sounds like you're down from mid to high or from high to mid to high.

Just on the ultrasound, is the Ultrasonix itself is at $3 million or a little over $3 million in two months, is that, was there-I know that the run rate was sort of $3 million a month or a little bit more than that. So what happened?

<A – Mike Levitz – Analogic Corp.>: Those are great questions. If you think about the ultrasound side, I'd say first of all the discontinuation of some lower profit OEM probe line...

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: ...that was probably, that was really the biggest impact as far as some downward pressure. Now that's a natural activity as you transition from the OEM side of that part of the business to the more direct side of the business. And you'll see a significant shift there as we move to a higher margin end user business.

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: As far as the acquisition, as we put the group, as you put the team in place, the first thing you do, first of all it wasn't a full quarter.

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: Day one you have to go through things like training and assignments, you go through product training. So you really don't pick up at an exact run rate that you might see if you were to just like cut something over. So you really see that accelerating. That's why you see people get their positions, they get the product training, they start the selling process. And so that there's always a little bit of the timing lag as you switch over...

<Q – Larry Solow – CJS Securities, Inc.>: Okay.

<A – Mike Levitz – Analogic Corp.>: ...with the new group like that. So that's coming up very nicely, very happy with it. We see accelerating into the next quarter and moving forward. So it's a beautiful incremental revenue growth that's very complementary right on top of our direct ultrasound existing business.

<Q – Larry Solow – CJS Securities, Inc.>: Okay.

<A – Jim Green – Analogic Corp.>: And I would just add to that, the reasons that we bought Ultrasonix, the things we were looking for in the channel are coming in just like we expected they would. So we're very pleased with the direction that things are going.

<A – Mike Levitz – Analogic Corp.>: And I wouldn't want to give the impression that there is not – there is always some level of disruption when you take your existing sales force and now you overlay a complementary group of folks, there's is always going to be a little bit I think shaken out there. And we did as I said. We took also some proactive actions to look at making some proactive changes with some of our existing sales force, too, to really get it right this one time, get it locked and loaded, get things stable and start running with a really good solid team.

<Q – Larry Solow – CJS Securities, Inc.>: Right. I know you had some impact in Q1 when your sales force had the big expansion at yearend on the legacy side. Looks like perhaps there was a little more interruption even on the legacy side this quarter too. Is that fair to say?

<A – Mike Levitz – Analogic Corp.>: Yeah, you would see a little bit of that, a little hesitation associated with that. It's kind of natural. And that was why we didn't really want to have to grow organically throughout really putting the whole level of capacity on, but to do it in a way like this in hopefully one quick step, put it in place and get up and moving and not get into this kind of every year adding and disrupting various territories. So pretty confident with the level the way the territories are set up at the level of capacity and the channel and not have to go through any further disruptions with that.

And I also should probably mention, just in general, we do know just overall we hear from a lot of our other customers on the OEM side, there are certainly headwinds just overall with questions about the U.S. healthcare situation, some hesitancy still off and on there in the U.S. Europe's not doing great, but we are seeing some improvement in Europe. That's actually been pretty happy with that. But the bottom line is there's always – there's still some level of headwinds that we're just overall dealing with in the market itself.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. It seems like – so that the Ultrasonix itself lost $0.05 or so in the quarter, if you just strip it out I realize it's sort of – obviously you got to add some color to that, you can't just look at it that way, but is that – most of that, is that from just the integration piece of it – portion of it?

<A – Jim Green – Analogic Corp.>: If you think about when you put the people on board, I mean, you pick up the cost from minute one.

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Jim Green – Analogic Corp.>: You don't pick up the revenue with it until it really starts to catch-up and you reach that point where you have some leverage. So, it's really not until we get into next quarter that you start to see that overtake and deliver like we expect it to.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Great. Thanks.

<A – Mike Levitz – Analogic Corp.>: Thanks, Larry.

Operator: Thank you [Operator Instructions] Our next question comes from Jiwon Lee with Sidoti & Company.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Thank you and good afternoon.

<A – Jim Green – Analogic Corp.>: Hi, Jiwon.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Just wanted to circle back on the ultrasound. Switching more to the direct model, how do you expect that to affect the margin profile if you're looking at a little bit longer term?

<A – Jim Green – Analogic Corp.>: Yeah. Great question. It really dramatically improves the margin profile. The margin on our direct business is our – in the ultrasound base is our highest overall and as we said in the past, it's in that 50% to 60% range of gross margin and with contribution margin being at its best. The OEM pro side is among our lowest gross margin and contribution margin. So, that transition is a very natural positive transition as the growth is in that space and as the mix shifts to the end-user business there.

<A – Mike Levitz – Analogic Corp.>: One thing I would just add to that is we – as Jim said, we – I mentioned, we've been seeing a reduction in non-strategic OEM transducer revenue. One of the things that we did as part of the restructuring is also reduced the cost structure in our OEM transducer business by consolidating our Denver operation into our State College operation. So that further supports the margin and the driving margin improvement over the coming years as we given that the direct business has the much higher gross margin.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's very helpful. And Jim, do you see that high-speed growth on the security side to lead, I guess on the top line growth beyond Q4?

<A – Jim Green – Analogic Corp.>: Yeah, I mean, as we've said, you look to the transition outside the U.S., and even in the U.S. as they add as new airport expansion occurs, there's going to be more and more growth in the high-speed segment. The – outside the U.S., when you look at Europe and Asia, it has always been a high-speed type of environment. And with the changing of the level of detection requirements from level 2 to level 3 where you need CT level type detection, it requires high speed. So, where we expect a high-speed segment to really be the primary growth driver in the security space. Now we've talked also in the past that as the replacement market really starts to kick-in in the U.S. that also augments the overall growth after in the security space and we're definitely seeing it now and we see it throughout pretty far into the future, I mean into the long term.

<Q – Jiwon Lee – Sidoti & Co. LLC>: So, tagging along with that expectation, would you care to take a stab at your fiscal 2014 growth expectations on the revenue side, preferably by your main segments?

<A – Jim Green – Analogic Corp.>: You know, we usually do that at the end of the year. We have said just in general, our three-year target is to be double-digit revenue growth and improving 100 basis points a year. We still feel very confident in our long-term outlook but I'm really not in a position to give you an exact next year look yet. I mean, I think, we would do that in our normal fourth quarter with you.
<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. And then, the timing of the CT and MRI shipment, how much did that sort of strike you as a surprise and did you sort of discuss when you expect some of that to come back?

<A – Jim Green – Analogic Corp.>: Well when it's timing with large volume or large shipments with – where there is a lot of financials associated with a handful of units, we've always had what I've described as a somewhat lumpy business and we've tended not to, to even try to give very specific quarter-to-quarter guidance because there is too much that shift – that can shift from one quarter to the next. But when it's a timing issue like this, typically if it delays into the fourth quarter like this then we would see it in the fourth quarter and see a little more upside in the fourth quarter in that line. We've reconfirmed the guidance on the Medical Imaging side to stay basically where we said it was going to be. So, yeah, I think that shift – with some of that shifting out of Q3, we expect to see it in Q4.

<Q – Jiwon Lee – Sidoti & Co. LLC>: And that was more concentrated to specific OEM or some Europe or North America where was it a little more broad-based? I mean, how should we...?

<A – Jim Green – Analogic Corp.>: Yeah. Well, it was really the MRI side was one large OEM primarily on the CT side, again, it was more on the engineering revenue. So, in the completion of a couple of particular projects, you start to see that reduce. So that wasn't an issue on the product shipments. That was really more of an engineering completion effort and a transition from, away from some of the engineering revenues toward the underlying product revenues.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's helpful. And then lastly for Mike, the acquisition related expenses and I apologize if I missed that. There was about $1 million on inventory purchase accounting and what was the rest on, please.

<A – Mike Levitz – Analogic Corp.>: So the acquisition accounting, yes, there was $1 million on the gross margin, and then, I think I'm trying to the find the page number in the presentation, I refer you to, let me see, I think it was on page seven, where we call out the acquisition related expenses, so $0.15 impact. So, the remainder of it was in OpEx. We had the amortization of intangibles as with the normal acquisition. You have developed technology and trade name and other intangibles. So the rest of the acquisition related expenses came in the underlying of the P&L.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. That's very clear. And thanks so much.

<A – Mike Levitz – Analogic Corp.>: Thanks, Jiwon.

Operator: [Operator Instructions] Our next question comes from James Terwilliger with Wunderlich Securities (sic) [The Benchmark Co.].

<Q – James Terwilliger – The Benchmark Co. LLC>: Yeah, hey, guys. Can you hear me?

<A – Jim Green – Analogic Corp.>: Yeah, hi, James. How are you?

<A – Mike Levitz – Analogic Corp.>: Hi, James.

<Q – James Terwilliger – The Benchmark Co. LLC>: Good, how are you guys doing?

<A – Mike Levitz – Analogic Corp.>: Good. Thanks.

<Q – James Terwilliger – The Benchmark Co. LLC>: Two quick questions. When I look at the balance sheet, the inventories kind of crept up here a little bit. You talked earlier in the call about a timing issue with some of your orders. Does that explain the increase in the inventories of the timing issue and then the acquisition?

<A – Jim Green – Analogic Corp.>: Yeah, I would say that, that explains some of it. But more – it's more associated with the transition of – with the China operation. There's more in – and we had projected that the inventories will be rising here throughout this part of the year and then come back down at the close of the year. But as we complete the transition to China, that also really gets us to more of where we would expect to stay on a standard inventory basis. Mike, is there anything?

<A – Mike Levitz – Analogic Corp.>: Yeah. As I alluded to earlier, it's demand-related inventory where – and then you have the addition of fair value of Ultrasonix. I mentioned the fair value because there's some purchase accounting in there that'll probably round its way out over the next quarter or so. And then as Jim mentioned, the manufacturing transition. We have a number of them that we expect to continue to drive operating margin improvement. Shanghai is the largest one in the near term.

<Q – James Terwilliger – The Benchmark Co. LLC>: Okay. Thank you. And then I'm going to switch to gross margins. You talked about this a little bit earlier, but you've done a tremendous job improving gross margins in 2013 over 2012, and it seems to me you have a number of drivers there. You've gone through kind of moving away from low margin products, some expense reduction initiatives in manufacturing. It could be a product mix issue as well as this new acquisition. Could you just talk about some of the drivers that are producing the gross margin improvement going forward?

<A – Mike Levitz – Analogic Corp.>: James, you kind of mentioned a lot of them yourself with getting better operating leverage, getting well above our breakeven point. The ramping of our operation in Shanghai is a significant contributor to the improvement. We've talked about mix shift as we moved toward the end user product on the ultrasound side, that's a very nice mix shift. And as you see growth in security and ultrasound, those two are high margin, high gross margin segments. So, they really drive very nicely on the mix side. And then you combine that with the cost savings that drives all of it including the OEM side, Medical Imaging, you just see a good, sustained improvement on gross margins.

<Q – James Terwilliger – The Benchmark Co. LLC>: Well, you've done a great job, in terms of improving the gross margins over the last three quarters year-over-year. My last question is focused on R&D. The number came in a little bit higher than what I was looking for, which I think is great. Can you just summarize some of the initiatives that you're very excited about in your R&D pipeline?

<A – Mike Levitz – Analogic Corp.>: Well, part of why R&D showed a little higher, depending on whether something – a lot of our R&D is funded by customers. So, as we complete projects and people may not be working on something that's funded, that's going to then show up as more internal investment.

But that said, we invest pretty heavily in R&D. It's part of what drives our future and drives our growth for the business. I've said in the past that I'd like to see us get down to somewhere around 11% of revenue as just a general target. We may be a little bit over that right now on an unfunded part, but when you add the funded part coming from customers, that always adds a nice significant portion on top of it.

One of the things you might think about is, what I discussed with the rapid DNA product, and that being just coming to light here with it being in the news recently, even just yesterday, it is something that, because it came out it made sense for us to say something about it, that's an example of us making investments in a number of areas that turn into new products, that really help drive our technology, not only in current segments, but in close adjacencies where our technologies are a really good fit.

<Q – James Terwilliger – The Benchmark Co. LLC>: Well, thanks for taking my questions and nice job with the quarter. Thanks, guys.

<A – Jim Green – Analogic Corp.>: Thank you, James.

<A – Mike Levitz – Analogic Corp.>: Thank you, James.

Operator: Thank you. Our next question comes from the Larry Solow with CJS Securities.

<Q – Larry Solow – CJS Securities, Inc.>: Just a quick follow-up, just on Shanghai. Could you just remind us exactly where you stand in the ramp in terms of – I know you've gotten some benefit already, but can you just tell me exactly the facilities – I know it's fully operational, but just give me any more details you can give me, that will be great.

<A – Mike Levitz – Analogic Corp.>: Sure. So we've been in a temporary facility in Shanghai...

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: ...for a few years. We moved into a permanent facility about a year ago.

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: And what I've said before is that I expect that in fiscal 2013 we start to be more at the breakeven. It's been a drag on our operations before historically and now we're getting to a breakeven point. And then the benefit really, so we see benefit in 2013 over 2012 just because we no longer have a drag.

<Q – Larry Solow – CJS Securities, Inc.>: Right.

<A – Mike Levitz – Analogic Corp.>: And then in 2014, we start to see real benefit and then even to 2015. So there's a number of manufacturing transitions going on that we described. We talked about, just in general, our leveraging Shanghai where it makes sense, we tend to do that for our lower IT technologies. And, – but now with the consolidation of Ultrasonix, there are other opportunities now to further to do some more things in Shanghai. And so those benefits will be continuing really 2013, 2014 into 2015.

<Q – Larry Solow – CJS Securities, Inc.>: Got it, great. Thanks.

<A – Mike Levitz – Analogic Corp.>: Thanks, Larry.

Operator: Thank you. There are no further questions at this time. I will now turn the call back to Mr. Green for closing comments.

James W. Green, President, Chief Executive Officer & Director

Thank you, everybody. Thanks for your interest in Analogic. We invite you to call in again in September when the company will review its fourth quarter fiscal 2013 results. Thank you and have a good evening.

Operator: For listeners who may have come in late, this call has been recorded. You can access the telephone replay by dialing 1-877-919-4059, or for international callers, 1-334-323-7226 and entering passcode 10919709. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time Monday, July 8, 2013.

The webcast replay will be available on the Investor Relations page of our website at www.analogic.com, beginning about three hours from now and will be available through Monday, July 8, 2013.

Thank you for joining Analogic Corporation's third quarter earnings conference call. You may now disconnect.