MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Analogic Corporation Second Quarter Conference Call for Fiscal 2010. The following corporate officers are present: Mr. Jim Green, President and CEO; Mr. Michael Levitz, Vice President, CFO and Treasurer; and Mr. John Fry, Vice President, General Counsel, and Corporation Secretary.

I would like to remind everyone that a supplementary financial presentation will be used during today's call. If you have not already downloaded that presentation, you can do so at anytime at www.analogic.com. That presentation will remain available until April 8, 2010.

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

Mark Namaroff, Director of Strategic Marketing and Investor Relations

Thanks Matt. Good afternoon, everyone. Welcome to Analogic's second quarter conference call. I'm sure you have downloaded our press release issued earlier today describing our results for the quarter. If not, you can do so via our website at investor.analogic.com.

Before I turn the call over to Jim Green and Mike Levitz to review the second quarter results, I would like to remind everyone of our safe harbor statement. 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.

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

James W. Green, President and Chief Executive Officer

Thank you, Mark. Michael Levitz and I will now review the second quarter results. So starting with slide four of the presentation, looking to the highlights, revenues came in at $103 million, up 8.3% from last quarter and up 0.6% from Q2 of last year.

Medical Technology revenues rose to $88.7 million, an increase of 3.3% from Q1 of FY '10 and a decrease of 0.8% from Q2 of FY '09. Security Technology revenues returned to a more typical level at $12.8 million, a solid increase from last quarter and 13.9% over Q2 of last year.

I am pleased to announce our earnings per share came in at $0.29 GAAP and $0.43 on a non-GAAP adjusted basis. Medical Technology profitability increased nicely as compared to last quarter and last year, and Security Technology returned to profitability. And finally, we had positive operating cash flows of $7.9 million.

Move to slide five. Looking to CT and MR, formally referred to as medical imaging, business stabilization continues and improved gross margins are driven by cost containment. We released to production our latest ultra high-end CT Data Acquisition System for an OEM customer. We signed a contract to add content with a large OEM for a new high-end 64-Slice detection system.

For Specialized Ultrasound our results were favorable both year-over-year and versus prior quarter driven by increased sales volume as well as typical positive seasonality in the quarter. Flex Focus and Pro Focus UltraView scanners accounted for more than 60% of ultrasound revenues.

Looking to Digital Radiography, our digital mammography results continue to be favorable year-over-year due to strong demand for Selenium-based detector technology. And with our mammography specific revenues it grew at over 50% on a year-over-year basis. Our Digital Radiography revenues have been limited to sales outside the U.S. while we await FDA clearance for our OEMs.

Looking to the Security Technology, shipments of eXaminer 3DX came back to more typical levels as we saw an increase in eXa – and we saw an increase in eXaminer SX shipments over the prior quarter. And we are happy to say that we received orders from L-3 for the new eXaminer XLB systems, and also to upgrade the entire line of eXaminer scanners in preparation for the newest TSA detection standards.

Now moving to slide six, I'll turn it over to Mike Levitz, our CFO.

Michael L. Levitz, Vice President and Chief Financial Officer

Thank you, Jim. Good afternoon, everyone. I am going to walk you through the financial results for the second quarter ended January 31, 2010 as compared to the same period of last year and as compared to the first quarter of this fiscal year.

If you look at slide six of our online presentation, our revenues in the second quarter totaled $103.3 million which was up $600,000 or 0.6% from the same quarter last fiscal year and up $7.9 million or 8.3% from last quarter.

Our product revenues reached $98.6 million which was up 4.2 million or 4.4% from last year and up 9.1 million or 10.2% from last quarter. The increase primarily reflects increased sales of our new products in Specialized Ultrasound and a recovery in Security Technology revenues from the dip last quarter.

Our gross margins improved to 37% in the second quarter from 32% in both the same quarter last fiscal year as well as the first quarter this year primarily reflecting the impact of cost reductions as well as the recovery in volume in our Security Technology business.

Our operating expenses were $33.2 million in the second quarter. So it was a decrease of 3.5% from the same quarter last fiscal year and an increase of 7.4% from last quarter. Included in operating expenses were restructuring charges of $800,000 and $3.5 million in the second quarters of fiscal 2010 and 2009 respectively.

On an adjusted non-GAAP basis, operating expenses in the second quarter were $30.8 million, an increase of 1.3 million or 4.4% from the same quarter last fiscal year and an increase of 1.5 million of 5.1% from the first quarter of this fiscal year. This primarily reflecting the level of funding we received for engineering projects as well as personnel related expenses.

As a reminder, we classify R&D costs within cost of revenues if those R&D costs are funded by our customers whereas our unfunded R&D costs are classified within operating expenses.

Our net income improved to $3.6 million in the second quarter. It was an increase of 2.2 million or 157% from the same quarter last fiscal year, and an increase of 3.6 million from the breakeven results we reported last quarter, primarily reflecting the improvement in sales volume in Specialized Ultrasound and Security Technology as well as cost reductions across our business.

Our diluted earnings per share was $0.29, an increase from the $0.11 in the same quarter of last fiscal year and a breakeven result last quarter. Our adjusted non-GAAP diluted earnings per share was $0.43 in the second quarter, an increase of $0.16 from the same quarter last fiscal year, and an increase of $0.33 compared to last quarter.

Turning to slide seven, we will look at the segment results. Our Medical Technology revenues totaled $88.7 million in the second quarter, it was a slight decrease from the 89.4 million reported in the second quarter of last fiscal year and an increase of 3% from the 85.9 million we reported in the first quarter of this fiscal year. This level of revenues along with the lower cost structure enabled our Medical Technology business to generate pre-tax income of $4 million in the second quarter, a significant increase as compared to both the second quarter of last fiscal year and the first quarter of this fiscal year.

Our largest segment, CT and MRI, which as Jim mentioned was previously referred to as medical imaging, generated revenues of $55.3 million in the second quarter, that was a decrease of 11% from the same quarter last fiscal year primarily reflecting the impact of the global economic crisis that began to impact our business significantly in the third quarter of last fiscal year, as well as the affect of timing of funded engineering programs in the quarter.

Revenues in the second quarter decreased by 4% from the first quarter of this fiscal year due almost entirely to the level of funded engineering revenues in the quarter, as product revenues remained fairly consistent with last quarter.

We were pleased to report a return to pre-tax income in the second quarter in this segment from the loss reported in the second quarter of last fiscal year and an 85% increase in pre-tax income as compared to the first quarter of this fiscal year, reflecting a positive impact of our lower cost structure.

Our Digital Radiography segment had revenues of $8.6 million in the second quarter. That was an increase of 26% from the same quarter of last fiscal year and 5% from last quarter. This business continued to be profitable on sales outside the United States, as our OEM customers await FDA clearance in the United States.

Our Specialized Ultrasound segment, previously referred to as BK Medical, had revenues of $24.8 million in the second quarter. That was an increase of 19% from the same quarter last fiscal year and 24% from last quarter. The increase year-over-year reflects the introduction of two new products, the Flex Focus and Pro Focus UltraView, which were introduced in mid-2009. We continue to be pleased with the reception of these new products in the marketplace. The increase from the first quarter of this fiscal year reflects the continued penetration of our new products as well as the typical seasonality in this business.

Our Security Technology business reported revenues of $12.8 million in the second quarter, that was an increase of 14% from the same quarter of last fiscal year and an increase of $5.9 million or 86% from last quarter. A significant increase over the first quarter reflects a return to a more typical level of shipments to our OEM customer L-3 Communications. We shipped 15 eXaminer 3DX units in the second quarter, consistent with the same quarter of last fiscal year and up from the six 3DX units we shipped in the first quarter of this fiscal year.

We understand that the decrease in shipments in the first quarter related to L-3's contracting and order delays with the TSA. As a result of the increased sales along with the level of funded engineering programs, the Security Technology business generated pre-tax income of $1.5 million in the second quarter as compared to $400,000 in the same quarter of last fiscal year and a pre-tax loss of 1.7 million in the first quarter of this fiscal year. As we mentioned last quarter, we remained committed to profitability in this business for the fiscal year.

Turning to slide eight, take a look at the key financial metrics here. We continue to have a strong balance sheet with $162.3 million of cash and investments and no debt. With the revenue growth we reported in the quarter and our lower cost structure, we are pleased to report positive operating cash flows of $7.9 million. We remain committed in maintaining positive operating cash flows going forward.

And with that, I will turn the call back to Jim.

James W. Green, President and Chief Executive Officer

Thanks, Mike. Moving to slide nine, in summary, market adoption of our BK Flex Focus platform coupled with investments in our sales channel are beginning to drive growth and improved profitability in our Specialized Ultrasound segment. With the CT and MR segment stabilized our improved cost position is yielding solid improvements at both the gross margin and the operating margin lines.

Security Technology shipments recovered this quarter, but we could see demand variability throughout the calendar year due to timing related to new – to the new TSA acquisition process. We remain committed to continued improvement in profitability and operating cash flows through driving operational efficiencies.

And finally, our continued focus on leading edge technologies along with our innovative product offerings positioned Analogic for improved profitability and a bright future. Operator, we can open the lines for questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. Thank you. And our first question comes from Larry Solow at CJS Securities.

<Q – Lawrence Solow>: Hi, good afternoon guys.

<A – James Green>: Hi, Larry.

<Q – Lawrence Solow>: On the margins first of all – on the gross margins, is there anyway you could breakout or just give us an idea of security versus medical, I mean you had a nice sequential increase, I'm just trying to figure out how much of that was just related to the security side returning to normalized orders?

<A – James Green>: Mike you want to take that?

<A – Michael Levitz>: Sure. We saw improved margins in both security and in medical. I will say that the improvement in security was back to levels that we expect in the security business and so that was a big contributor, but again we're also seeing improved margins in the CT and MRI segment.

<Q – Lawrence Solow>: Okay. I mean, just anyway to give me sort of an approximate, I mean, you rose like 450 basis points sequentially, I mean is it 200 from – half from each, I mean, anyway to kind of look at that? Was that 400 on each side is what I should say, I mean, which would give you that average or – obviously security is a much smaller piece so....?

<A – James Green>: Right. I think one of the bigger pieces you also have to model in is as we're now – with the cost reductions we went through over the last year, we're now getting closer to fully absorbing our overhead, so that has a significant effect on improving the gross margins. And then as you see growth in each of these – in other areas, especially with security, certainly that was a – given that last quarter was such a – had such a fall off compared to this quarter, I mean, there you see that improvement again pretty dramatic in terms of the swing of gross margin in that product line.

<Q – Lawrence Solow>: Absolutely.

<A – James Green>: Yeah, so – and I think you kind of put it altogether you can see – I think you'll probably need to sit down and look at them on an individual basis, but you can see that every – each of those areas are all improving quarter-to-quarter basis for us the gross margin line.

<Q – Lawrence Solow>: And assuming security, I know you said it could be a little choppy, but assuming you kind of maintain this 15 unit sales of eXaminer and grow that a little bit and you can grow medical or just even keep it at a flat rate, do you think this 37% margin is sustainable going forward with possible increases to that number, or is there anything in there that may make it come back down a little bit?

<A – James Green>: Yeah, I think that as long as the revenue piece holds with shipments in the security side, that's the one piece that we've said could have some variability. As long as that holds at the kind of typical rates, we're pretty bullish on these gross margins, staying in that mid to upper 30s region here throughout this year.

<Q – Lawrence Solow>: Got it. Then can you just tell me, what – is the restructuring charge, was that in the medical side, I imagine?

<A – James Green>: That was across our business.

<Q – Lawrence Solow>: Okay.

<A – James Green>: So, it wasn't limited to medical...

<Q – Lawrence Solow>: So in other words, it sort of is a piece of that – when I look at the breakout by segments, was it actually spread out through those segments?

<A – James Green>: It was, it was. I would say the – because it's our largest segment, I think medical had more of an impact than others, but it was spread across the business.

<Q – Lawrence Solow>: Got it. Okay, great. Thanks.

<A – Michael Levitz>: Thanks, Larry.

Operator: Thank you. Our next question comes from Dalton Chandler at Needham & Company.

<Q – Dalton Chandler>: Afternoon.

<A – Michael Levitz>: Hello, Dalton.

<Q – Dalton Chandler>: Maybe I could ask the gross margin question a little differently. What was the component of volume versus maybe product mix that contributed to the increase?

<A – James Green>: Well, I mean certainly, with security that's going to be – that has a big mix component because it's a big ticket item. But in general, there – I don't believe we had a substantial mix change outside of coming back and the improvement on the security side. So a lot of the rest of it comes down to what we did in terms of cost reductions and then just getting the overheads absorbed as you would expect them to be.

<A – Michael Levitz>: Yeah, I would echo that. So in terms of mix within the segments that really didn't change all that much. The real driver was the volume and security coming back as well as the cost reductions.

<A – James Green>: But also, though, if you also look at the specialized ultrasound which is our highest margin product line.

<Q – Dalton Chandler>: Right.

<A – James Green>: We did see significant improvement there, so that would also be a pretty significant contributor to improvement in the gross margin line.

<A – Michael Levitz>: And just related to that, the specialized ultrasound business is the one area of our business where we do see seasonality, and so the second quarter tends to be larger than the first and as a result the higher margin, specialized ultrasound products result in a more favorable margin impact in the second quarter than they would in the first.

<Q – Dalton Chandler>: Okay, thanks. And then you specially cited timing of funding for R&D in the CT and MRI business; does that mean as far as actual equipment sales you were pleased with what you saw? And could you talk about what the trend has been in the equipment component?

<A – Michael Levitz>: Sure. So in the first quarter we saw a significant improvement over the latter half of last year in the product revenue line in the CT and MRI business. And we were consistent in the second quarter with the first quarter and I expect that, as Jim said, that that business has stabilized. And so I expect that that will remain stable or positive through the remainder of the year.

<Q – Dalton Chandler>: Okay. All right. Thanks a lot.

<A – James Green>: Thanks, Dalton.

<A – Michael Levitz>: Thank you, Dalton.

Operator: Thank you. Our next question comes from Josephine Millward at the Benchmark Company.

<Q – Edward Atorino>: Hi, this is actually Josephine's associate Edward and I'm speaking on her behalf. You'd mentioned that you see the security technologies returning to more typical delivery with L-3, do you expect to receive any additional follow-on orders from L-3?

<A – James Green>: We expect at L-3 – we expect there to be bridge orders to keep up for the replacement business in the U.S. while the TSA goes through the finalization of the new order process, plus we also expect to continue to see opportunities developing overseas as we look into these product lines. And then as we get it late in the year, that's when we expect to see the U.S. really start to look at based on the new standards, issuing new full sets of orders.

<Q – Edward Atorino>: Okay. Thank you. And one other question, what is the backlog for security in terms of the number of units and the dollar amounts?

<A – Michael Levitz>: I'll answer that. I'll answer that, in terms of the units, we don't give the dollar amounts here. But we have in backlog as of the end of the quarter 8 eXaminer 3DX units and 6 eXaminer XLB unit.

<Q – Edward Atorino>: Okay. Thank you.

<A – James Green>: Thanks, Edward.

Operator: [Operator Instructions]. Our next question comes from Michael Martin at The Small Cap Report.

<Q – Michael Martin>: Good afternoon, and congratulations on great results.

<A – James Green>: Thanks, Mike.

<Q – Michael Martin>: My handful of questions are mostly answered. Just one question; in the CT, MRI, do you get any sense that the growth in procedures is being limited by radiation scares at all?

<A – James Green>: You know, that's been a story that's been around for a lot of years. We've never really seen that as affecting the number of procedures. Typically in this country and around the world, I mean, CT procedures are driven by people showing up with typically acute situations, and you just don't see that happening in but that's an ongoing story, it comes up every now and then, and to-date, it's still – it's never over the years really had a significant effect on procedure demand.

<Q – Michael Martin>: It's something that's been around but it's nothing new in short form. Just one other question on the CT, MRI business, now that we're at the – in the new year, are you sensing from your customers that their budgets have been increased significantly or they're going to be spending more of the actual budgets? Or what kind of tone are you getting from your OEM customers?

<A – James Green>: Yeah, I think the tone seems to be cautiously upbeat, that I think there was such a scare last year with the CFOs of various hospital systems in some cases or in many cases just saying look, we're just not going to spend any money until we get – till we understand what's going to go on with financing. That, we all believe, is behind us. RSNA went very well. Everybody is upbeat about getting back to kind of a normal basis of demand based on procedure growth. And then you look outside the U.S., I mean you still have some of the growth economies in Asia and China. I mean there is just – there's a lot of solid opportunity there and everybody's, for the most part, pretty excited about what we see happening here and certainly very glad to see 2009 behind us and moving on to what's needed for procedures.

<Q – Michael Martin>: Terrific. Thank you very much.

<A – James Green>: All right, thanks Mike.

<A – Michael Levitz>: Thank you, Mike.

Operator: Our next question comes from Jiwon Lee at Sidoti & Company.

<Q – Jiwon Lee>: Thanks, good afternoon.

<A – James Green>: Good afternoon.

<Q – Jiwon Lee>: Going back to the specialized ultrasound market, where in terms of the geographies did you see strength and what's the expectation going forward?

<A – James Green>: Well, I think we – overall, we saw strength pretty much – pretty consistently everywhere. Most of it was driven by our new product line. Great adoption of the new systems and also just a good general return in the marketplace, where again CFOs being willing to let the hospital systems go ahead and purchase the equipment. But I think we would say that it was fairly much across the board as far as where we saw improvements, in the U.S., across Europe and we think going forward we're going to see Asia really start to kick in.

<Q – Jiwon Lee>: Okay that's helpful. And Jim, would you care to review your long-term profit goal as to whether or not you feel you're on track or could expedite that goal?

<A – James Green>: You are talking about the – our profitability goal, is that correct?

<Q – Jiwon Lee>: Correct.

<A – James Green>: I'm feeling actually very good about it. We're committed to moving to double-digit operating margins and continuing to grow the business. We had thought that it would be the second half of the year before we would expect to see some significant improvements, and in many ways some of it's coming a little earlier and we're pretty – certainly very happy with the results for this quarter. So I would say in my mind, we're pretty much right on track with where we expect to go.

<A – Michael Levitz>: I would just clarify, so the double-digit operating margins are our three year financial goals for fiscal year 2012. So we are not expecting to hit all of that in the first year of that three-year period. But I'm pleased with the progress that we're making and have every expectation that we will meet that goal.

<Q – Jiwon Lee>: Very good, thank you.

<A – James Green>: Thank you.

<A – Michael Levitz>: Thank you.

Operator: [Operator Instructions].

Mark Namaroff, Director of Strategic Marketing and Investor Relations

Okay.

Operator: No further questions at this time. I will turn the call back to Mr. Green for closing comments.

James W. Green, President and Chief Executive Officer

Great, thank you. Thank you for your interest in Analogic. We invite you to call in in June when the company will review our third quarter results for fiscal 2010. 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, you can dial 1-334-323-7226, and entering conference ID 95264840, again that conference ID is 95264840. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time, Thursday, April 8, 2010. 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 Thursday, April 8, 2010.

Thank you for joining Analogic's Corporation Second Quarter Investor Conference Call. You may now disconnect.