PARTICIPANTS

Corporate Participants

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

Other Participants

Larry Solow – Research Analyst, CJS Securities, Inc.
Josephine Lin Millward – Research Analyst, The Benchmark Co. LLC
Elizabeth M. Lilly – Analyst, Gabelli Funds
Michael J. Martin – Analyst, The Small Cap Report
Dalton L. Chandler – Senior Analyst, Needham & Co. LLC
Jiwon Lee – Research Analyst, Sidoti & Co. LLC
Evan Lodes – Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Analogic Corporation's Third Quarter Conference Call for Fiscal 2011. 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'd like to remind everyone that a supplementary financial presentation will be used during today's call. If you've not already downloaded that presentation, you can do so at any time at investor.analogic.com. That presentation will remain available until July 8, 2011.

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

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

Good afternoon, everyone. Welcome to Analogic's third quarter conference call for fiscal 2011. I am 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 third 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 Security and Exchange Commission.

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

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

Thank you, Mark. Let's move to slide four of the presentation. Revenue came in strong at $117 million. That's up 11% from last year and product revenues were even stronger, up 14%. Our gross margin improved to 38%. That's up 2 points from last year on higher volume and efficiency reflected in continued operations improvements, including the positive impact of our manufacturing consolidation.

Operating margin came in at 5% with non-GAAP operating margin at 8%. We were impacted in the quarter from reduced spending on customer funded engineering programs.

Our diluted earnings per share came in at $0.35, on a non-GAAP basis it came in at $0.54. Now the GAAP EPS number included $0.15 of FAS 123R charges, driven by increased accrual requirements from a growing likelihood of achieving our stated financial targets.

Move on to slide five and look at the business highlights. Medical Imaging showed strong growth on an improving market coupled with share growth. We saw 17% revenue growth from last year, driven by CT, mammography, and motion control. CT had strong growth in both the workhorse 16 slice level and the premium segment of 64 slice and higher. Mammography had record sales, up 17% from last year.

Security came in soft this quarter with revenues of $10 million and 13 systems shipped. We do see a strong Q4 backlog and expect a strong Q4. I am excited to say that TSA gave CBIS certification to our high-speed XLB product. So all of our released product portfolio look well positioned as the U.S. starts the recapitalization process for check baggage EDS.

Slide six and moving on to Ultrasound. Our revenue was up 8% from last year, which included a negative impact of supply constraints of about 4%, a positive impact of 2% from currency, and a short-term negative impact from China shipments as we transition to an improved distribution model. As I said, we experienced some short-term supply constraints mainly from the manufacturing transition from Denmark to the U.S. and China.

On the new opportunity front, we introduced a new product line targeted for the exciting new robotic surgery market as early adopter clinicians using the new robots start to adopt real-time ultrasound visualization during the procedures.

Slide seven, looking at some of the actions in Q4. As one of our final steps in getting our structure aligned and our business right sized, in the fourth quarter we're realigning our Ultrasound business and streamlining operations. Capitalized on our strength in both scanners and transducers, we've combined our Ultrasound Systems and Transducer businesses under common leadership and a common structure. Denmark will be focusing on engineering and product design, and we still continue to invest in sales coverage expansion.

We're also streamlining our operations to reduce our operating cost structure, leveraging our global business infrastructure. We will complete the majority of the Ultrasound manufacturing transition to existing U.S. and China operations in Q4.

As we move on to slide eight, I will turn it over to Mike Levitz, our CFO.

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

Thank you, Jim. Good evening, everyone. I am going to describe the financial results for the third quarter of fiscal 2011 which ended on April 30th as compared to the same period last year as well as compared to the second quarter of this year. This information begins on slide nine of our online presentation.

In the third quarter, our sales continued on the positive trend we've seen throughout the last several quarters. Revenue for the quarter was $117 million, as Jim said, up 11%, as compared to the same quarter of last year, our product revenue growth of 14%. The increase in revenue this quarter but was driven by our Medical Imaging business with healthy sales of CT, mammography and motion control product. Revenue this quarter was similar to the second quarter of this year with higher revenues in Medical Imaging offsetting the typical unfavorable seasonality that we see in our Ultrasound business.

Our gross margin improved to 38% in the third quarter. That was up 2 points compared to the third quarter of last year and a 3-point improvement from last quarter. The gross margin improvement was primarily a result of the changes we've been making over the last several quarters to streamline our manufacturing operations for better efficiency.

In the third quarter, we saw the first full period of benefit from consolidation of our MRI manufacturing from Canton, Massachusetts into our Peabody, Massachusetts and Shanghai facility. We're still in the process of completing the consolidation of Denmark ultrasound manufacturing, which should be mostly complete by the end of the fourth quarter.

Our operating margin was 5% in the third quarter. That was down one point from the same quarter of last year. The operating margin this quarter reflects a reduction in work on customer-funded engineering projects as a number of next generation medical and security development programs get closer to completion.

Strategically, we are also being more selective with regards to taking on customer-funded R&D projects with a greater focus on overall margin improvement.

Our GAAP operating margin was also negatively impacted by higher accruals of non-cash stock-based compensation expense for performance based awards, reflecting our improving profitability and likelihood of meeting multi-year financial targets.

As a reminder, we exclude stock-based compensation from our non-GAAP operating margin. So on a non-GAAP basis, our operating margin in the third quarter was 8%, which is consistent with the operating margin in the third quarter of last year and the second quarter of this year.

The benefit of our improved gross margin in the third quarter was offset by the reduced customer-funded engineering keeping our non-GAAP operating margin consistent again at 8% this quarter.

Now if you would turn to slide 10 and our P&L for the period. Financial performance for the third quarter of fiscal '11 resulted in net income from continuing operations of $4.3 million or $0.35 per diluted share. These results, as I said, included the impact of the increased accrual for long-term performance based on reflecting our improving performance and favorable outlook.

Our non-GAAP diluted earnings per share was $0.54 in the third quarter. It was up from $0.49 per share in the third quarter of last year and up $0.01 from the same quarter of this year. These incremental improvements in non-GAAP EPS reflect the higher revenue and gross margin improvement offset by the reduced customer-funded R&D in the quarter and our current investments in research and development and sales channel development supporting our growth goals for fiscal 2012.

As Jim mentioned a few moments ago, in the fourth quarter we have realigned our Ultrasound Scanner and Transducer businesses under common leadership and we're taking steps to streamline our operations to reduce our operating cost structure. Based on these actions, we expect to take a charge in the fourth quarter of between $3 million to $4 million with the annual run rate savings of approximately $7 million. We expect these savings to begin in early fiscal 2012.

Our effective tax rate this quarter was 22% in part reflecting the benefit from reversal of certain tax reserves on expiration of the statute limitations on the 2007 tax year. We expect the effective tax rate for Q4 to be approximately 28%.

Over the next few slides, I'll walk through the trends in each of our three operating segments. Looking first at slide 11. We are pleased to see another strong revenue quarter in Medical Imaging, our largest business segment with revenues reaching $83 million and operating margin of 7%.

Total revenues in this segment grew by 17% or $12 million as compared to the same quarter last year with product revenues up 19%. The double-digit revenue growth was driven largely by increasing sales of CT subsystems and mammography detectors to our large OEM customers, reflecting both new product penetration as well as volume growth driven by the emerging markets. We also saw growth in sales of our Motion Control products.

Higher revenue and more efficient utilization of our manufacturing capacity have improved the operating margin 7% in this segment even with the unfavorable impact of lower customer-funded R&D in the period.

Turning to slide 12, our Ultrasound segment revenue was $24 million in the third quarter, growing 8% over the same quarter of fiscal 2010. Revenue was favorably impacted by currency rates in the third quarter with an impact of 2 percentage points when compared to the same period last year. At the same time, certain component supply constraints in part related to the transition of Ultrasound manufacturing from Denmark to our existing U.S. and China facility resulted in approximately $1 million of product that could not be shipped to customers by quarter end. We were actively working to minimize these constraints in the fourth quarter.

As a result of the delayed shipments as well as the impact of transition costs associated with the consolidation of our manufacturing operations and a continued investment in sales force expansion, the Ultrasound business showed an operating loss in the third quarter.

We believe that the continued penetration of our new products, the favorable impact of our expanded sales force and the cost savings from the organization changes that Jim describe earlier will support an improvement in operating results in this segment in fiscal 2012 consistent with reaching our overall company goals.

Turning to slide 13 and our Security Technology business. The third quarter of fiscal 2011, similar to the last two quarters, reflects variability of quarterly shipments due to the timing of bridge orders to our OEM customer from the TSA. We shipped 13 Explosive Detection Systems in the quarter, a combination of all three of our products, small footprint, medium speed, and high-speed systems.

At the same time, we saw lower engineering revenues from customer-funded projects. This reduction in engineering revenue was expected based on the timing of activities associated with our active customer-funded programs.

Operating margin was 3% in the third quarter, a result of the lower level of system sales in the quarter, the impact of product mix as well as reduced engineering revenue from customer-funded projects.

That said, we entered the fourth quarter with a healthy backlog of 31 systems and we expect to ship over 20 of these in the fourth quarter. While we have seen variability in orders on a quarterly basis this fiscal year, we're pleased with the demand we're seeing in our products, for our products and expect revenues to grow notably in the fourth quarter. We expect this will drive a corresponding improvement in the segment's operating margins in Q4.

Turning to slide 14, we ended the quarter with just under $154 million in cash and investments. The decrease in our cash balance in part reflects increased inventory in the quarter primarily associated with the transition of our Ultrasound manufacturing from Denmark to our U.S. and China operation and inventory building for building security systems in support of existing orders in hand, which we expect to ship in Q4.

We also continued our stock repurchase program in the quarter, buying back an additional 51,000 shares for approximately $2.6 million. I'll now turn the call back to Jim.

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

Thanks, Mike. Move to slide 15 and a quick look at our summary and outlook. We're positioned for sustained growth and profitability. Q3 saw solid improvement in revenues and gross margin driven by Medical Imaging. Our operating margin was negatively impacted by lower customer funding and FAS 123R charges.

Looking forward, we expect growth across all lines of our business in Q4 FY'11. We're approaching double-digit organic revenue growth for FY'11.

Non-GAAP operating margin is improving in FY'11 over prior year in spite of investments for future growth.

Q4 organizational actions complete the alignment of the business along our three pillars of Medical Imaging, Ultrasound and Security. In summary, FY 2011 is the year we make the final organic organizational adjustments to support our strategic plan that we've been discussing over the last couple of years.

This structure is designed to make the best use of our scale and provide operating leverage going forward. Our experienced leadership team, a strong technical foundation, and a clear focus on our core strengths gives us confidence to say that we maintain a double-digit operating margin outlook for FY'12 and we're positioned for double-digit revenue growth for FY'13 forward.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Larry Solow with CJS Securities.

<Q – Larry Solow – CJS Securities, Inc.>: Good evening, guys.

<A – James Green – President, Chief Executive Officer & Director>: Hi, Larry.

<Q – Larry Solow – CJS Securities, Inc.>: First question on the – it was a pretty solid quarter, congratulations. On the gross margin, the 38%. Is there anything in there unusual to the positive, or is it just – I mean, I know you mentioned the consolidation is finally taking some effect. So, I mean, is this a good number to work with and then maybe some improvement on that or any more color on that?

<A – James Green – President, Chief Executive Officer & Director>: Yeah. I think that's right. And we're really just now really starting to see the improvement of consolidating manufacturing, leaning and getting more leverage on the operations side. So, I think certainly we see this as a good number and we see it continuing to improve.

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

<A – James Green – President, Chief Executive Officer & Director>: So, we're starting to now really see the payback of these investments and these changes.

<Q – Larry Solow – CJS Securities, Inc.>: And, I guess, it's even better and in fact they could still -- usually when you have better numbers in your Security segment, which drives that higher obviously, so you didn't have the benefit of a strong Security quarter, yet you still had a pretty good gross margin there?

<A – James Green – President, Chief Executive Officer & Director>: Yes. That's right.

<Q – Larry Solow – CJS Securities, Inc.>: And the savings going forward, is that – I guess, that's mostly – is that all – I guess, you're sort of consolidating a piece of two businesses, right? I guess, is that fair to say that. So, it's the Ultrasound business and the Transducer business, was that part of Medical Imaging?

<A – James Green – President, Chief Executive Officer & Director>: Yeah. It's – our plan has been to align along our three main lines...

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

<A – James Green – President, Chief Executive Officer & Director>: By building a fully vertically integrated Ultrasound business. We take advantage of the fact that we have the control from the acoustic sensor all the way through the engine to the application and sale of the product. So, we expect that you'll see significant improvement in the operating line with this consolidation starting at the beginning of next fiscal year, you will see it there. But you'll also see because we're leveraging our overall infrastructure better, you should see improvements across some of the other lines – actually across the other lines also. So we expect these kinds of changes. It will more specifically improve Ultrasound, but additionally, the other lines will see some gain due to better absorption of overheads and such.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Larry, this is Mike. Just one technical note. From a segment reporting standpoint, the Ultrasound Probes, Transducer business has been in Medical Imaging. It will continue to be reported in that segment through the remainder of this fiscal year, i.e. next quarter, Q4.

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

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Beginning in Q1 based upon how we're going to be running the business here that will be reported as one consolidated Ultrasound segment.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. So you'll take a little bit out of the Medical Imaging and it will go into the Ultrasound piece?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: That is correct.

<A – James Green – President, Chief Executive Officer & Director>: That's right.

<Q – Larry Solow – CJS Securities, Inc.>: I mean, anyway the magnitude of that -- I don't think it is a huge piece, right, I mean, it's just a small piece of Medical Imaging today, is that right or is it?

<A – James Green – President, Chief Executive Officer & Director>: Well, probably will throw another $40 million of revenue.

<Q – Larry Solow – CJS Securities, Inc.>: On an annual basis?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: It is more in the neighborhood around $30 million.

<A – James Green – President, Chief Executive Officer & Director>: $30 million? Okay.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And it sounds like a little less than $10 million a quarter per se give or take or is that on a quarterly run rate that there is...

<A – James Green – President, Chief Executive Officer & Director>: It's probably more like $7 million.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Yes. It is $7 million. $30 million for the full year.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. And the $70 million or over that in R&D this quarter, is there anything – you had a pretty nice jump last quarter and now it jumped a little more and now is that where some of the stock comp is showing up in or is that just...

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: That's correct, Larry. We saw stock comp in that area it grow by about $0.5 million and then we also saw a decrease in customer funded R&D. And so, you can see it on the revenue lines how we report. But there was -- what about $3 million of difference there alone just in the customer-funded operations.

<Q – Larry Solow – CJS Securities, Inc.>: So when the customer doesn't fund the R&D, but how does that – could you – I thought that was just being offset on the revenue line [indiscernible] (19:31). So, in other words, if they are unfunded you – is that – in other words, if they are not funded generally it's just a net number from customer funding, so there was no funding, so your number was higher? Is that how that's reported then?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: When you look in the research and development line that reflects our unfunded...

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

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Unfunded R&D. So to the extent that the customer funds it, it moves up into cost of sales.

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

<A – James Green – President, Chief Executive Officer & Director>: And that funding line it typically is either on the basis of a set of milestones funded or it could be on a percent of work, so it can be lumpy.

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

<A – James Green – President, Chief Executive Officer & Director>: And – but again, with the transition of these products as they start to release, you start to see them come off of funded and you see them – start to roll into new products and they start to generate product revenue lines.

<Q – Larry Solow – CJS Securities, Inc.>: Okay, okay. In terms of stock comp, is that – and I know that's been popping last couple of quarters. And I imagine it will remain pretty high going forward as long as you continue to meet these thresholds, which is sort of a high-class problem, I guess. But is this – I know there is some accrual catch up and what not the last couple quarters, do you expect this number to remain sort of where it's been the last couple of quarters or can we expect it to at least drop back a little bit going forward?

<A – James Green – President, Chief Executive Officer & Director>: Well, a couple of things. I think we definitely saw an increased accrual and as you say catch up, I talked about it last quarter, we saw it again this quarter. In terms of the same level of spending there or the catch up, no, I don't expect that necessarily as we go forward. But on the other hand, we keep seeing additional plans coming into play. We have three-year plans, say one rolls off and one rolls on. And so, depending upon the likelihood of hitting the forward targets versus the older plans that were in our numbers were three-year plans that incorporated the time period with the downturn back in '09.

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

<A – James Green – President, Chief Executive Officer & Director>: And so, as we move out of that drag, then I think the stock comp could increase but it's merely a function of having plans and they are based upon the business and the profitability we're seeing going forward.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: But I think your question is does it catch up when you get to a run rate? I think as you get to a normalized run rate...

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

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: And you got three full of years that you funded, you would expect to see, if you look at the proxy and such, you'd see that roughly what that amount should look like on a normalized basis. And right now there is no question that we see some back-end loaded catch up of this because of the outlook looking forward – looking positive.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And then just last question on the Ultrasound business. Any update – how is the Anesthesia product because – I know it's still early in the game but on the total stuff or how is that being [ph] received (22:22)?

<A – James Green – President, Chief Executive Officer & Director>: Good question. We've seen – in Europe we've seen a faster uptake in the Anesthesia side, the U.S. we're still trying to build out, get the coverage in place. So, as you do that, there is a capacity limit in the U.S. So, we expected to see Europe start to pick it up a little faster, which they have. We are continuing to invest in getting the coverage in place. The product is very – looks very good. We're getting a lot of interest. But it does take time to start to see real ramp up in traction with that. And along that line, we're also seeing with new reps coming in, originally we had predicted six to eight months for getting up to quota. We're probably seeing it's more or like a year for the newer reps to getting up to full quota, so when we model the growth it's a little slower than I think what we'd originally had planned for.

The other really interesting thing is, which I noted in the call is the – with the migration more toward the use of robots and robotic surgery. That's a very interesting area for us that we see – will be expanding our market opportunity in the surgical side. So that's also a nice uptick where again we already have sales reps calling on the Surgery segment, so that could – that we expect that to be a nice additional driver to the business.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Just to clarify, you said the restructuring in this – during this quarter will inevitably lead to 7 million annual savings on – around 7 million annual run rate, is that right?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: That's right. I said approximately 7 million.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. Okay. Excellent. Thanks, guys.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Thank you, Larry.

<A – James Green – President, Chief Executive Officer & Director>: Thanks, Larry.

Operator: Thank you. Our next question comes from Josephine Millward with The Benchmark Company.

<Q – Josephine Millward – The Benchmark Co. LLC>: Good afternoon.

<A – James Green – President, Chief Executive Officer & Director>: Hi, Josephine.

<Q – Josephine Millward – The Benchmark Co. LLC>: Jim, how are you?

<A – James Green – President, Chief Executive Officer & Director>: Good, thank you.

<Q – Josephine Millward – The Benchmark Co. LLC>: Congratulations on getting TSA Certification.

<A – James Green – President, Chief Executive Officer & Director>: Yeah. That's not easy.

<Q – Josephine Millward – The Benchmark Co. LLC>: I know. Can you give us an update on timing of the EDS upgrade in the U.S? I believe both of the incumbents having certified at this point, when might we see contract awards?

<A – James Green – President, Chief Executive Officer & Director>: Well, what we're told is that the first sets of awards will be for the smaller footprint and the mid-tier footprint, which is most of the existing installed base today that we know expects to go through a fairly significant recapitalization. And then the last will be orders for the high-speed units.

We're told to expect as we get to the early fall that they should be in a position to start issuing orders. So that's what we're planning on with expectations that we see this nice incremental growth starting to hit us in the – right after the New Year, so that's kind of the planning period for us. And in the meantime, we still see and expect some fairly solid shipments on the standard – on the workhorse 3DX line, so that continues to run. Again, we think that's looking nice and solid and with the incremental growth coming as these new items come on with orders that we would expect shipments then again, like I said day, after the New Year.

<Q – Josephine Millward – The Benchmark Co. LLC>: Can you tell us what the backlog is for Security and if you anticipate a follow-on bridge orders in the coming months?

<A – James Green – President, Chief Executive Officer & Director>: Yeah. We've got it right here. And the answer is yes. We do expect follow-on bridge orders here very soon, too.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Josephine, this is Mike. The backlog as of the end of the third quarter was 31 units.

<Q – Josephine Millward – The Benchmark Co. LLC>: Can you give me a break down of what type of systems?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: 27 in the medium speed.

<A – James Green – President, Chief Executive Officer & Director>: Well, majority in the medium speed, I think that's going to be the case until we see the new fresh orders coming out for the smaller footprint units but – that's why I said these – we still see the 3DX, our main line really sustaining the business nicely until the new growth pops in on top of it.

<Q – Josephine Millward – The Benchmark Co. LLC>: So TSA recently issued a pre-solicitation on this reduced size EDS machines?

<A – James Green – President, Chief Executive Officer & Director>: Yeah.

<Q – Josephine Millward – The Benchmark Co. LLC>: I know in the past this is not an area where you have had a lot of success. Do you – how – can you talk about what's changed that might make your offering more competitive going forward?

<A – James Green – President, Chief Executive Officer & Director>: Sure. Sure. In the past the problem that we had with the SX smaller footprint product is that if you go back to the old, somewhere around the 2000 – I guess it was in 2007 or 2008 and '09 timeframe it was not competitively bid, so it was not able to take advantage of the stimulus funds that came out over the last couple of years, so that was why we really didn't see any nice uptick in demand for that, our version of that product. Those were limited to products that had been competitively bid that actually turned out, had there been products that were available back in 2006. So, our SX didn't really enter the sales process until more like 2009 or so. So, we expect that we have a very well positioned product there with the SX, working with L-3 on that we expect to get a nice share of that order with it, so that's our expectation with it.

<Q – Josephine Millward – The Benchmark Co. LLC>: That's good to know, Jim. What about Europe, when do you think we can start to see some orders coming out of Europe? I believe one of your competitors OSI recently received an EDS award from an airport in the U.K?

<A – James Green – President, Chief Executive Officer & Director>: Yeah. I saw that press release, and I didn't see – I didn't notice that there was anything said about it being meeting the Level-3 certification, which is the highest level of certificate, which is where we sell our products, real CT, EDS, a certified type of product for an airport that's going to have a product, have a airplane that's going to be flying to the U.S. So, our data on the European laws is that starting in September of 2012 is when new products going in are required to be able to go through Level 3 or roughly equivalent to U.S. certification standard of explosive detection for the airplanes flying not just to the U.S. but also to and from European cities. So that's where we expect to start to see an uptick of demand for our CT-type products in Europe.

<Q – Josephine Millward – The Benchmark Co. LLC>: Okay. If I may shift gear a little bit. On Ultrasound, can you talk about the revenue mix in terms of U.S. and Europe? And if you can give us a rough breakdown of the different product lines? Is it primarily urology right now?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: It's primarily urology and surgery. And I would say it's somewhere in the 35 to 40% U.S. Is that some – as far as the revenue...

<A – James Green – President, Chief Executive Officer & Director>: From a mix standpoint, that's about right. And in terms of where we're seeing the growth, what was nice this quarter is we saw some improved results from Europe. But this is typically a low quarter for us. Q3 has seasonality in the Ultrasound business, but in spite of that it was nice to see improvement in Europe.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Yeah. And I think it's fair to say that if you look at our sales – we'll do more in Europe than we do in the U.S. today. In China, we really were just getting started over the past short number of years and we're really just now even this year really getting our act together as far as the distribution model there, getting the right kind of coverage with the right kind of geographical coverage in China. So in the past, we really haven't had a nice uptick with the China component of that, but we do expect to see that. We are seeing improvement in unit shipments to customers there. But that just – it takes a little time for that to really catch on given that we're somewhat new in the China market.

<Q – Josephine Millward – The Benchmark Co. LLC>: So would you say China is a very small portion of your Ultrasound business right now but you expect that to ramp significantly in '12?

<A – James Green – President, Chief Executive Officer & Director>: We do expect it to continue to ramp. It's been on a fairly small number, but it's been lumpy over the past couple of years. Again, we just recently – I would say over the last few months made changes to get our distribution cleaned up there. So it's not a big piece of our business. Most of our real growth is here in the U.S., and that's what we expect it to be and that's mainly through getting the distribution and coverage correct for being able to address all of the opportunities in surgery and urology and extend to anesthesia and other opportunities.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: So, Josephine, this is Mike. Just relative to fiscal '12, I think we see growth in a number of areas. I wouldn't – for your modeling I wouldn't view China as one of the main areas to look for that. I think from a longer term opportunity, it's definitely something we're excited about.

<Q – Josephine Millward – The Benchmark Co. LLC>: So, what kind of revenue run rate do we need to get to in Ultrasound for you to get to double-digit operating margin? And a follow-up on that if you think you'll be profitable in Ultrasound this year?

<A – James Green – President, Chief Executive Officer & Director>: Well, I think certainly as we look to next year, we expect our Ultrasound line to be much closer to our target of double-digit operating margin, and I expect it will be quite close to it. A lot of it due to just getting things lined up here, getting the costs in place, the consolidation of operations and the savings there along with the continued growth. So I expect as we look to FY '12 that we're going to have a far improved operating margin business on the Ultrasound side.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: So, Josephine, just to keep in mind in the Ultrasound business this year, that's where we've been making a lot of changes and a lot of investments and we took a lot of costs associated with the transition and manufacturing. So, we're not really looking at significant Ultrasound operating margin being a significant driver this year. It's really a focus on fiscal '12, once all these transitions are through here as we come out of this year.

<Q – Josephine Millward – The Benchmark Co. LLC>: Okay. That's very helpful. Thank you very much.

<A – James Green – President, Chief Executive Officer & Director>: Okay. Thanks, Josephine.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Thank you.

Operator: Thank you. Our next question comes from Beth Lilly from Gabelli Investments.

<Q – Beth Lilly – Gabelli Funds>: Good afternoon.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Hi, Beth.

<Q – Beth Lilly – Gabelli Funds>: I – this is somewhat of a follow-up on Josephine's question. So, as you look at your goal to get operating margins to double-digit next year, I wanted to just get a sense then as you look at your business units, what operating margin you expect from each one and then as it gets to that and you compile those and then you get to your double-digit? You said Ultrasound can get to close to 10%, so what does that mean for Security and Medical Imaging?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Beth, this is Mike. Just to clarify the goal, we set the goal coming out of fiscal '09 for double-digit operating margins. And what we have described that because we have these catch up type accruals for performance stock and we have these different other things, like acquisition related charges and whatnot, we tend to exclude those. So, when we're talking about the double-digit operating margin, we're really referring to what we refer to as non-GAAP because really to drive at what is happening in the real operating performance.

If we look at the results for this quarter, or actually for the year, but if you look at for the quarter, we're at 7% in Medical Imaging, and total company non-GAAP operating margin we're at 8% for the year. We need to find two points to get to double-digits from what we're reporting this quarter on non-GAAP. If we take out the comps of I talked about $7 million of run rate savings plus we talked about the benefit of the manufacturing consolidation that takes out a considerable amount of costs out of the mix to support the double-digit goal. So, I think if you look at Medical Imaging, it's our largest segment. So it definitely needs to be close to double-digits and not double-digits in order for us to make the goal. Ultrasound is our next largest segment and we expect notable improvements there based on the changes we described. And, then, Security has historically run around 14%, 16% operating margin on an historical basis and we would expect that to continue to be the case.

<Q – Beth Lilly – Gabelli Funds>: Okay. So Security can – Security next year you expect to be well in excess of 10%?

<A – James Green – President, Chief Executive Officer & Director>: On a – even on a GAAP basis, right?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: I mean, if you look at the splits in this presentation, if we say operating margin that's GAAP.

<Q – Beth Lilly – Gabelli Funds>: Yeah.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: We don't really split out. We can't really show a non-GAAP version along each of these lines.

<Q – Beth Lilly – Gabelli Funds>: Okay.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: So that's the thing to keep in mind when you look at modeling it, put it all together we expect to be at the double-digit on a non-GAAP basis maybe a little better. And then as you look at the individual splits, you have to think about those on a GAAP basis that there will be various charges loaded into those.

<Q – Beth Lilly – Gabelli Funds>: Yeah. Okay. So the critical thing again just getting back to this is in the improvement in Ultrasound. But with this charge that you have taken in this $7 million in savings, I mean, that's a big leg up on getting to that double-digit level?

<A – James Green – President, Chief Executive Officer & Director>: Yeah, sure. It is.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: That's correct.

<Q – Beth Lilly – Gabelli Funds>: Okay, great. All right. That's really helpful. Thank you very much.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Thank you, Beth.

Operator: Our next question comes from Michael Martin with The Small Cap Report.

<Q – Michael J. Martin – The Small Cap Report>: Good afternoon, congratulations. Just to follow up on the previous questions. If my notes are correct, I believe I heard that the TSA said that they plan to replace some 800 systems over a three year period. Is that correct?

<A – James Green – President, Chief Executive Officer & Director>: Hi, Michael, this is Jim. I have not heard that. Specifically said, I don't know the number specifically of units. The TSA has said publicly that they plan to recapitalize much of the installed base in the U.S. As far as the number of units and the amount of time that will take for that to happen, I mean I'll tell you, 800 units in three years would be one heck of a number. To me that sounds awfully big. I know that the U.S. at least of our systems alone we probably have north of 600, maybe 700 units in the U.S. and if that took how many years does that take to replace, it would be hard to specifically model that. But – so what they are telling us is over the next few years they are starting now this recapitalization process. And again, I really don't know that we're in a position to comment on how long it will take to replace the install base there.

<Q – Michael J. Martin – The Small Cap Report>: Right. And you as I believe eight years ago two or three like over 400 systems you shipped.

<A – James Green – President, Chief Executive Officer & Director>: Right. We shipped almost 500 units in the '03, '04 timeframe so there is no question that those are starting to – they will start to reach the point in the age at which they're going to have to go through an upgrade or replacement cycle.

<Q – Michael J. Martin – The Small Cap Report>: Right. Thank you very much.

<A – James Green – President, Chief Executive Officer & Director>: Okay. Thanks, Michael.

Operator: Our next question comes from Dalton Chandler from Needham Company.

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Good afternoon. You commented about – just about all the product lines except MRI. I was wondering if you could talk about what's going on there?

<**A – James Green – President, Chief Executive Officer & Director**>**:** Okay. Hi, Dalton, this is Jim.

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Hi.

<**A – James Green – President, Chief Executive Officer & Director**>**:** We're actually very close to rolling out an entirely new refreshed product portfolio for MRI both across the line from RF, both for 3T and 1.5T and gradients --1.5T and 3T, so those products are starting – and we're actually starting production here in the next few months for some of the latest version. So, we expect that as we get into next year, we'll be shipping entirely new sets there. So we're pretty confident that we're well established with MRI. It's a good solid growth business for us. It's not one of the higher operating margin or higher – actually I should say, it's not one of the higher gross margin parts of the business but it's a good solid business. And it is growing nicely when I look within the Medical Imaging OEM side, it's not growing as fast as the CT side, but it is on the right trajectory.

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Okay. When you do a product line refresh, don't you typically get better margins for at least a time?

<**A – James Green – President, Chief Executive Officer & Director**>**:** You do. And early on you may have some issues with the costs, as people learn how to get to the production cycles and so on. But no question as you ramp up, you expect to see some improvements on the gross margin side. And you are also at a point where you don't need to continue to have significant R&D going into new product, so that's part of what you see with a little bit higher R&D here these last couple of quarters as we're finishing the introduction of these products.

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Okay. And could you talk a little bit more about how you plan to – or how you are integrating the end-user ultrasound with the OEM because it – it's easy to see how the technological synergies – they're different sales call points, right?

<**A – James Green – President, Chief Executive Officer & Director**>**:** Right, right. Some of the specific sensors we'll sell through directly to business – other businesses. But, the ability to manage all of the sensors and probes that are attached to our direct business gives us incredible flexibility to introducing new products quickly and especially specialize the kind of things that we do. It's a real advantage for us since we control that part of the line.

So by managing it as one business, we can make sure we're making the right decisions as far as where we're investing in these new probes. Often it becomes the probe, a specialized version of the probe that lets you enter a new marketplace.

For instance, the new line of products that we're introducing for robotic surgery, that is initially started by having the right kind of probe that can interface to the robots, and then that allows you to pull through essentially a full system, so being able to manage that as one business gives us some real nice, not only cost synergies, but also strategic upside synergies.

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Okay. But how are you maintaining sales for each channel?

<**A – James Green – President, Chief Executive Officer & Director**>**:** We continue to have – we have a separate OEM...

<**Q – Dalton Chandler – Needham & Co. LLC**>**:** Okay.

<A – James Green – President, Chief Executive Officer & Director>: Folks who are the account managers for the OEM side, and we're building and investing on the direct side.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. And just last question. Any sense of tax rate for the next fiscal year?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Dalton, this is Mike. I am really not prepared to talk about the tax rate for next year. I did mention that the tax rate for next quarter we expect to be 28%. I don't expect the tax rate next year to be dramatically different than this year, excluding potential discrete items that come in from time to time. We saw a discrete item this year, favorable impact from the R&D tax credit and those things do happen from time to time. But I am not prepared at this point to give an effective rate for next year.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. All right. Thanks a lot.

<A – James Green – President, Chief Executive Officer & Director>: Thanks, Dalton.

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

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

<A – James Green – President, Chief Executive Officer & Director>: Good afternoon.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Was there any specific reasons why the sequential R&D expenses went up in the April quarter?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: Yeah. We talked about that a little earlier. It didn't really go up. What happened was the, it's – we report the net R&D number which is the net of what is unfunded and what is funded, so if we have a customer funding a product, it will offset – it will show as though we're spending less on R&D because it has been externally funded. So with the timing of various externally funded projects, they can – sometimes they're funded on a fairly straightforward continuous basis, sometimes they can be quite lumpy based on various milestones that have been reached. So, the difference isn't that the R&D grew, it was that there was less in the quarter of an offset from customer funded R&D.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. Well, that's helpful. And, Jim, you did comment about the Ultrasound, a lot of the strength coming from the U.S. and I wonder if you could make a similar comment about where you are seeing strength from the CT side?.

<A – James Green – President, Chief Executive Officer & Director>: Well, the CT side, interestingly enough I would say that – there is no question we're seeing Asia and China is the largest growth component for CT, but we are also seeing an improvement in general in the market in CT and additionally for us we're growing some share. We have introduced a couple of new products that are in many ways adding a faster than market growth opportunity for us, and that we're growing additional share of content with our product.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's helpful and would you care to make similar comments on the MRI side geographically?

<A – James Green – President, Chief Executive Officer & Director>: I think it is a somewhat similar situation except CT seems to be growing a little faster, especially in China. In Europe tends to be a little more flat, U.S. seems to be improving, and again with us, as we've added some new products and product content, we're getting additional share value component that again grows our people faster than the market.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. And lastly from me, is there – as the China side on the manufacturing front comes up a little bit, by the end of fiscal 2012, say, is there any manufacturing target numbers out there?

<A – James Green – President, Chief Executive Officer & Director>: I think what you are wanting to know kind of how much of our manufacturing will be in China by the end of '12, is that the question?

<Q – Jiwon Lee – Sidoti & Co. LLC>: Yes.

<A – James Green – President, Chief Executive Officer & Director>: We're actually targeting that as we get into more like fiscal '13 and '14. We could see somewhere around a third, a quarter to a third of our cost content being manufactured there, more of the bigger general activities, but with the more high-end precision automated manufacturing still here in the Boston area where we have made major investments in automation and such and in very critical key type of technologies and technologists.

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: And Jiwon, this is Mike. Just to add to what Jim said. So we're currently, as a reminder, we're in a temporary facility in Shanghai. We won't be into our permanent facility and really seeing the benefits of that facility until our fiscal '13. And so that's really what's driving the transition of product over there. And till that time, we continue to be making the investment in the cost there but the benefit from the P&L side and when product really starts to transfer is in fiscal '13.

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

<A – James Green – President, Chief Executive Officer & Director>: Thank you.

Operator: Thank you. Our next question comes from Evan Lodes with JPMorgan.

<Q – Evan Lodes – JPMorgan Securities LLC>: Hi, good afternoon. Congratulations on a nice quarter.

<A – James Green – President, Chief Executive Officer & Director>: Thank you, Evan.

<Q – Evan Lodes – JPMorgan Securities LLC>: I guess, first, can we talk some about what the go to market strategy is for the Robotic Surgery Ultrasound product?

<A – James Green – President, Chief Executive Officer & Director>: Well, with that, we're drafting along with the big robotic company that's introduced the new system that's gotten pretty popular out there, the – what's the product name on that?

<A – Michael Levitz – Chief Financial Officer, Treasurer & VP>: da Vinci.

<A – James Green – President, Chief Executive Officer & Director>: The da Vinci product, getting – it's getting an awful lot of play, tons of install base and doing quite well. And what we're seeing is we're seeing that the clinicians are starting to utilize ultrasound for guidance in real-time during the robotic procedure.

So we've teamed with them offering a product. We actually just recently introduced it last month. It will be offered for sale, I believe, in the September timeframe. So that's our – in the robotic side, that's an area that we hadn't in the past really had access to. So, teaming with the da Vinci product and the folks from Intuitive gives us an opportunity to really see an opportunity in that market.

<Q – Evan Lodes – JPMorgan Securities LLC>: Great. And then, I guess, on the Security side of things, could you talk about, obviously, there is this reinvestment wave coming but to what extent might that be impacted by any of the budget concerns in Washington currently? And if you're seeing any concerns either at the state or national level related to budgets? Thank you.

<A – James Green – President, Chief Executive Officer & Director>: well, on the Security side this is – it's all funded through the TSA and my understanding of the way the budget process works with them, it's a little unique in that as they get funds made available, they can accrue and use them in multiple – throughout multiple years. They don't – aren't required to spend it all in one particular year.

But what's really driving the demand is that these products, these systems, if they go down, that means the airport can't support getting the bags through the baggage handling systems and on the planes. So, it really is a function of the need, not so much the budget side. So, they have got to – there is a recognition that in the U.S. as these systems age out, they've got to plan for a recapitalization. They've known it, they see it coming. We're starting to see indications of certain units getting to a certain age where the bearings just can't hold up and they are going to need – they have to be replaced or upgraded to a newer version of a system, so that's planned and it's part of the budget cycle. There has been recent discussions and recent announcements by the government in terms of the timing. All of our systems have now been through the certification process, so we're very confident that we're going to take place – we're going to take a big part – play a big part in this recapitalization in the U.S. And again, with the changes in law in Europe, we're very well positioned for that too as they move to a requirement for level three EDS type scanning for intra-European flights.

<Q – Evan Lodes – JPMorgan Securities LLC>: Okay. Thank you very much.

<A – James Green – President, Chief Executive Officer & Director>: Thank you.

Operator: Well, thank you. There are no further questions at this time. I'll now turn the call back to Mr. Green for closing comments.

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

Well, thank you. Thank you for your interest in Analogic. We invite you to our call again in September when the company will review our fourth quarter fiscal 2011 results. Thank you and 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 conference ID 864-755-11. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time Friday, July 8, 2011. The webcast replay will be available on the Investors Relations page of our website at www.analogic.com beginning about three hours from now and will be available through Friday, July 8, 2011. Thank you for joining Analogic Corporation's third quarter investor conference call. You may now disconnect.