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

Jan D. Wald – Analyst, The Benchmark Co. LLC
Larry S. Solow – Analyst, CJS Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Analogic Corporation's first quarter conference call for fiscal 2014. The following corporate officers are present: Mr. Jim Green, President and CEO; Mr. Michael Levitz, Senior Vice President, CFO and Treasurer; and Mr. John Fry, Senior Vice President, General Counsel.

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 January 9, 2014.

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

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

Good afternoon, everyone, and welcome to Analogic's first quarter conference call for fiscal 2014. I'm sure all of you have downloaded our press release issued earlier today describing our results for our first quarter. If not, you can do so via our website at investor.analogic.com. Please note that the procedure for asking question is at the conclusion of our prepared remarks. [Operator Instructions] We will repeat these instructions at the end of the presentation.

So before I turn the call over to Jim Green and Mike Levitz to review our first quarter results, I'd 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 SEC.

Also on today's call, we'll 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. And explanation and a reconciliation of our non-GAAP financial measures are provided at the end of the presentation materials and in our first quarter press release.

So 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. I'll start by going to the presentation and move to slide four. And let me start by saying there's a reason we historically give guidance only on a full-year basis and I think Q1 tells you pretty much why.

That said, we expect to deliver on full-year revenue growth and margin expansion. In the quarter, we saw revenues at $110 million, down 8% from last year, impacted primarily by near-term timing. We're still bullish on our strong pipeline and customer demand signals that support our full-year growth expectations. In spite of weak revenue, gross margin improved to 39%, that's up one point from the higher margin mix shift to Ultrasound and Security coupled with continued reduction in cost of operations.

GAAP operating margin measured negative 5%, while non-GAAP was essentially breakeven at 0.2%. We saw the typical lower customer funded R&D as products complete development and move toward production. The GAAP figures include restructuring and acquisition-related charges that Mike will talk to you about in a few minutes.

As most Ultrasound manufacturing operations consolidate, we'll eliminate the higher costs of multiple overlapping operations supporting our FY 2014 margin expansion expectations.

GAAP earnings per share were negative $0.30, down $0.65 from last year and included restructuring and acquisition-related charges. Non-GAAP EPS was $0.06, down $0.47, and included short-term costs of duplicative manufacturing and customer funded engineering timing transitions. Our operating cash flow was $11 million.

Let's move to slide five. And looking at the highlights in the quarter, Ultrasound revenue was up 9% with direct sales up 29%, accelerating the shift to direct sales. Direct sales showed strong growth in our cores of urology and surgery plus point of care is gaining traction as the new channel moves toward quota. OEM probe sales were down as the mix changes to direct.

After the quarter, we received FDA clearance for our new GPS Guidance technology which came with the Ultrasonix acquisition and should accelerate sales into Regional Anesthesia as part of our Point of Care strategy.

And speaking of acquisitions, I'm excited to report that we closed on the PocketSonics acquisition, which brings Analogic a strategic platform technology that enables both handheld and high-end guidance applications.

Once again, Security was a bright spot with sales up 25%. New production high speed units drove growth on lower startup gross margin just as we ramp up our production and speed-to-market.

Customer funded engineering was down on completion of high speed EDS systems development now transitioning to production. The U.S. Government shutdown did delay some POs for the replacement cycle, however, TSA indicates significant demand over the next two years to three years as they recapitalize the installed base.

Finally, we installed our first CT checkpoint with European Type D and D+ certification, which allows liquids and laptops to remain in carry-on luggage. This first of a kind system was installed for in-lane evaluation at Amsterdam's Schiphol Airport and will soon be at other leading airports. We plan to demonstrate significant improvement in overall passenger throughput and reduction in overall cost of ownership while delivering the highest level of detection.

Moving on to slide six, Medical Imaging was down 21% in the quarter from last year, so we expect to be back to year-over-year organic growth for the remainder of the year. We saw a short-term negative impact on timing of OEM purchasing, but we have a strong customer demand forecast heading into the second quarter and the rest of the year. Additionally, we were down 3% on the previously discussed exit of our legacy patient monitoring product line.

As expected, the end of life of an older generation CT subsystem impacted us by 6%, this ahead of the new higher content CT scanner to be launched later in this year. As part of the development cycle, lower customer funded engineering had a 4% short-term impact that precedes the ramp later in the fiscal year of the new higher margin, higher content CT system.

On a very bright note, we had a strong RSNA showing and we see an expanding new business pipeline, which is moving toward higher content and private label product offerings, driving share growth and keeping us ahead of the market.

Now, I'll turn it over to Mike Levitz, our CFO. Mike?

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

Thank you, Jim. Good evening, everyone. I'm going to walk you through our financial performance in the first quarter of fiscal 2014, beginning with the performance highlights on slide seven of our online presentation.

As Jim mentioned, while our Ultrasound and Security revenues saw strong growth in the first quarter as compared to the same quarter of last year, our total revenues declined 8% to $110 million due to lower sales in our Medical Imaging segment, primarily associated with timing of OEM customer purchasing in the period, discontinuation of certain product lines and lower customer funded engineering as Jim just mentioned. I will walk through our segment performance in more detail shortly.

While our sales were lower overall, our gross margin improved by 1 point on a GAAP basis to 39%. And that included amortization and incremental fair value impact from purchase accounting associated with the Ultrasonix acquisition we completed this past March.

On a non-GAAP basis, our gross margin improved 2 points to 40% in the quarter, as compared to the first quarter of fiscal 2013. This improvement was driven by a more favorable mix of sales through our direct channel as well as cost improvements, including the benefit of increasing volume at our manufacturing facility in Shanghai.

As a result of the lower revenue in the quarter as well as the lower customer funded engineering in the period, our operating profit and operating margin were both well below our typical performance and below our expectations for the rest of this fiscal year.

Turning to slide eight and our P&L for the quarter. As you can see in the revenue section on slide 8, our customer funded engineering was much lower in the first quarter of fiscal 2014 as compared to the same period last year. This is the result of the completion of key projects as of the end of last year where those products will be introduced into production later this fiscal year.

The impact of the lower customer funded engineering not only resulted in a reduction to revenues but also an increase in operating expenses as our engineering team focused on internal initiatives and their cost is reflected within research and development expense.

Overall OpEx also increased in the first quarter as compared to the same quarter of last year due to the cost of Ultrasonix operations included in our results following the acquisition this past March. Expense levels will be reduced later this year as we complete our announced Ultrasound manufacturing consolidation. These reductions along with increased funded engineering are expected to bring our spending more in line with historical levels throughout the remainder of the year, supporting our stated operating margin improvement target.

Now, let's turn to slide nine where I will discuss our operating performance by segment. Our Medical Imaging revenue totaled $60 million in the quarter. That was a 21% decrease over the same quarter last year. A few of the key drivers of this decline were the exit from a legacy non-strategic patient monitor business, discontinuation of an older CT component product as well as purchasing delays from certain OEM customers. Based on our current pipeline, we believe these delays are temporary in nature. Lower customer funded engineering also impacted our Medical Imaging segment, both in revenues as well as in operating margin as they resulted in increased operating expenses.

Our Ultrasound revenue grew 9% with strong growth in our global direct channel, including the benefit of sales of products acquired when we acquired Ultrasonix in March of this year. This direct channel growth offset lower sales of OEM Ultrasound probes. The higher level of growth in our direct business as compared to our OEM business is in line with our strategy for increased profitability in this business segment. However, we are still at the early stage of this transformation which includes the integration of Ultrasonix, as we are running redundant manufacturing operations in Denver and Vancouver. The manufacturing operations of these facilities will be consolidated into our other existing operations over the remainder of this fiscal year as we previously announced.

We also made a significant investment in the sales force late last fiscal year as we expand in the point of care market, and that investment continues as these sales reps progress towards quota.

Finally, our Security business grew 25%, primarily due to strong growth in sales of high-speed checked baggage scanners, principally for demand outside the United States. However, as our high-speed products are still in early maturity and we had lower customer funded engineering in the quarter as our newer products move into production, our operating margin decreased in the first quarter as compared to the same period last year.

Now, if you turn to slide 10, we'll look at our working capital and cash flow. Our cash balance was $105 million at the end of the first quarter. That was down $8 million from the fourth quarter of last year as we used our existing cash balance to fund our recent purchase of PocketSonics, which had a purchase price of approximately $11 million. During the quarter, we generated just under $11 million of operating cash flow, primarily as a result of collection of receivables.

In summary, the first quarter of fiscal 2014 demonstrated strong positive growth in the Ultrasound and Security segments of our business, where we expected it, but was impacted due to timing in our Medical Imaging segment and timing of customer funded engineering and plant consolidation. Our focus continues to be on performance over the full fiscal year and beyond, driving growth and managing cost. We remain very energized about our prospects, as Jim will describe as he speaks to our outlook for the full fiscal year.

Thank you very much. Jim?

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

Thanks, Mike. Let's move to slide 11. So in summary, as Ultrasound and Security continue their strong growth trajectory and Medical Imaging returns to year-over-year growth, for the remainder of the year we see solid growth in line with our long-term goals as we said in this year's investor presentation.

Starting with Medical Imaging, as Medical Imaging returns to growth for the remainder of the year in spite of a light Q1 results, we expect to be slightly down to flat for the full year. Now, this outlook includes $14 million impact on the exit of the non-strategic legacy patient monitoring product line.

We expect revenue recovery starting in Q1 on growth and product revenues across our modalities. High content CT product launches are designed to grow share and drive growth later in this fiscal year, and we expect operating margins to improve through the remainder of the year with recovery of revenue and improved gross margin coupled with operating expense control.

Overall, Ultrasound remains an expansion strategy, delivering strong double-digit growth for the year. Our expanded surgery, urology and point of care sales reps continue to move towards quota. We expect to see continued mix shift to direct on strong direct sales, and we see the lower margin OEM probe sales stabilizing at this lower level.

We expect operating margin to improve through the remainder of the year, with strong growth and a stabilization of OEM probes, coupled with completion of duplicative manufacturing costs wind down. We continue to invest in next-generation guidance technology for long-term growth, and we plan to launch breakthrough handheld products around the beginning of our next fiscal year.

Security continues the expansion with double-digit growth driven by high speed international adoption. The U.S. replacement was somewhat delayed on the government shutdown, though we still expect solid incremental growth in mid-tier systems this year. The new rapid DNA product is in its early stage of adoption, and we expect operating margin to improve through the remainder of the year on growth, favorable mix, and operating expense control.

So for the year overall, FY 2014 is expected to deliver upper single-digit revenue growth and continued operating margin expansion over FY 2013. Thank you. And now, we'll open up the line for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Our first question comes from Jan Wald with The Benchmark Company.

<Q – Jan Wald – The Benchmark Co. LLC>: Good afternoon, everyone.

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

<Q – Jan Wald – The Benchmark Co. LLC>: I guess, I have some questions on the quarter, and I guess I'll begin with maybe the most obvious one, which is the Medical Imaging revenue. And could you talk a little bit about the backlog? You were saying that you're forecasting for flat to slightly down for the year, you're going to meet in some sense the expectations that you set in the late last year, last fiscal year. So could you talk a little bit about the backlog and how you see that as you're making up for what you seem to have lost this quarter?

<A – Jim Green – Analogic Corp.>: Yeah. Sure, Jan. Well, first of all, I guess, I want to clarify one thing. In my final summary, I said, if you look at what's on the presentation, the revenue recovery is expected to start here in Q2 and continue throughout the remainder of the year. So if you look at our OEM Medical business, we tend – it's really not so much organized as a backlog business. It really is a demand signal based business where we deliver to the demand of our customers where we're tightly coupled.

We get signals for shipments. We typically get about a one-year view, a more accurate six-month view, and a rolling six- and three-month view. So as we approach the six and three months view, we get a very solid demand signal from our large OEM customers. So with that said, as we completed, as we start to look now as we're in Q2, and looking forward, we see significant improvement in that demand and in the demand signals for these large Medical Imaging OEM customers. And that's what we ship to.

In Q1, there was clearly some delays along those lines, which we saw coming with those customers. And as you know, we don't give quarterly level guidance. It's difficult for us to do. The business has always been lumpy when you look at large high-ticket items that can ship from – that can delay from one quarter to the next. And this is a case where we did see some delays and we see a very significant pick up throughout the rest of the year along that line.

<Q – Jan Wald – The Benchmark Co. LLC>: So I guess just in terms of trying to understand what's happening, there were some expectation that you – that there would be some product signals in this first quarter that are moving to the second quarter, and then there's also sales in the second quarter that you're expecting as well, so you're seeing – I guess, what I'm asking is, you're actually seeing a higher blip in quarter two than you would have expected if you hadn't seen this downturn in quarter one?

<A – Jim Green – Analogic Corp.>: Yeah. I would characterize it as we see just an uptick throughout the remainder of the year. And if I were to try and quantify, I'd say that we look at – if you think about ignoring Q1, we see this, the run rate improving to a nice high single-digit underlying run rate for that space, so you put – for the overall business, and that space also coming in at a nice run rate in Medical Imaging.

<Q – Jan Wald – The Benchmark Co. LLC>: Okay. So I guess – just I know you don't give guidance and I'm not trying to push you towards that, but if we in our models, should we spread out – I'm assuming that we're going to meet whatever our revenues are at the end of the year. Should we spread it out kind of linearly over the year? Do you think there's a bolus in quarter two and then...

<A – Jim Green – Analogic Corp.>: Yeah. I think it's fair to spread it out across the year. As you know, I would also consider the seasonality that we typically see that you'd expect to see, our seasonally stronger Q2 and Q4, but that's just always in the morphology of sales.

<Q – Jan Wald – The Benchmark Co. LLC>: Right. Right.

<A – Jim Green – Analogic Corp.>: Again, it's kind of a math discussion. If you look at what we've said for the year and you back into it, you can kind of see what the underlying numbers are expected to be to get to that.

<Q – Jan Wald – The Benchmark Co. LLC>: Yeah. Okay. And, I guess, you mentioned in the press release and in your discussion that the Medical Imaging sales, and maybe this is coming out of RSNA, you're seeing more of the high-value products being interesting to customers and also the private label. Could you talk about how we should understand that going forward? Is that going – it's clearly going to help your business and help your revenues and help your gross margins, but is this something that H2 is going to be – we'll see linear through the year or is that a second half event? Or how should we try to think about that?

<A – Jim Green – Analogic Corp.>: Yeah, it's a good question. It's very consistent and in many ways a validation of our strategy of moving toward higher-value content and moving more toward and often – have the business become more like our Security business where we deliver a large content of the system, and in certain cases, the actual, actually private label potentially the full system. What I've said is we expect with the release of a product that actually was being supported through some customer funding that you saw come out in the first quarter, that product we see shipping into production as we get later in this year. So in this fiscal year, we expect that new higher margin, higher overall business level to start coming in, as that product starts shipping here in this fiscal year.

As far as the morphology side, as how it comes in, again I would – I think, I'd say it's more tailored to the – more – headed more toward the end of the year as opposed to earlier in the year. We see that more in like the Q3, Q4 timeframe. But I think the key is, in the long term, it's we saw at RSNA and with new business development with – we all know about the pricing pressures out there for the end customers. There is clearly a moving and an opportunity for customers to outsource more to us on large ticket items like this and a validation of our overall strategy in the Medical Imaging segment.

<Q – Jan Wald – The Benchmark Co. LLC>: Okay. And I guess on the Ultrasonix front, is your sales force up and ready and running? How is that going?

<A – Jim Green – Analogic Corp.>: Yeah. That's...

<Q – Jan Wald – The Benchmark Co. LLC>: All trained and ready to go?

<A – Jim Green – Analogic Corp.>: Yeah. That's – as we've said in the past typically for fairly technical direct sales content like that, we typically expect it's nine to 12 months to get fully ramped up to quota. As we completed last – as we completed Q4 last year, we had pretty much put everybody in place. So I would see that as – we see that as ramping throughout the year. And then as we get into next year, continuing that ramp up, because as we get into next year, we'll be raising quotas even further.

With the start of a new group, you cannot ease into that. But certainly, we see that all coming together very nicely and ramping upward. And you see it in our growth of our direct business with this first quarter, something like 29% year-over-year growth in the quarter in direct Ultrasound sales.

<Q – Jan Wald – The Benchmark Co. LLC>: Okay. And I guess my last question, RSNA, what did you learn? Characterize the market for this year as you see it, for your products.

<A – Jim Green – Analogic Corp.>: Yeah. What I saw is very much in line with what we talked about at the investor presentation. From and end-user customer perspective, the service providers are, they are looking first to make sure that the products meet their intended needs from a performance standpoint. But just as important that the product be delivered to them in a way that minimizes their overall cost of ownership. There's so much more emphasis now put on overall cost of ownership. And that means for you run a CT or an MRI system or something for 10 years, that's becoming a significant part of the purchasing decision.

And with that said, the other thing we saw in our RSNA is the large OEM providers of the big capital equipment to these customers, they also have pressures where they need to – and we're seeing much more interest in adoption in terms of working with a company like us where they can reduce or even avoid in-period OpEx, research and development kinds of costs, and they can dramatically bring down their operating capital investment if they work with somebody like us to bring in a new line and not – and they will then not have to put the R&D investment for multiple years in plus many, many millions of dollars of operating capital to build out the supply chain and so on and so forth. So it fits our model in many ways, and I think in many ways, it was a bit of a validation of our strategy coming into this year.

<Q – Jan Wald – The Benchmark Co. LLC>: You just answered my next question, so that's it from me. Thanks a lot for taking my questions.

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

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

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

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

<Q – Larry Solow – CJS Securities, Inc.>: Just a follow-up on Jan's question and not to hop on it. But just in terms of the Medical Imaging, clearly the – most of the – qualitatively, at least, I think you pretty much discussed a lot of the reasons why the full year would be sort of flat on the last call and obviously – and it sounds like most of the shortfall, at least compared to the few estimates that are out there are strictly timing related. I mean, is it a – does the timing or the shortfall to us, it sounds like it's not really a surprise to you. Is that fair to say?

And then the second part of that question is sort of the demand signals that you're getting for Q2, Q3. Today, I guess, you weren't getting in Q4, so you sort of had an idea this was going to happen. Is that fair to say?

<A – Jim Green – Analogic Corp.>: I think that's fair to say. When we get with our large OEM customers we're very, very tightly connected, so we're able to look pretty far into their demand chain to work off those signals. So we would see those. If they slowdown on pull for awhile and we see it pick back up, we see it very quickly. The thing – the other piece which we see is engineering funding which Mike said, when that comes down – it's actually a good news when you think about engineering funding coming down, because that says that a product is now moving from product – from development into the production phase.

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

<A – Jim Green – Analogic Corp.>: So as that happen – there is always timing as that happens, and we have this is in both in our Medical Imaging side and in our Security side, major products that completed development, that are now starting their transition to production. So yeah, it's – we see it coming when it comes, but like we said we don't – we're not mature enough to give the kind of guidance on a quarterly basis. And if we tried, I think we'd miss it [indiscernible] (27:48).

<Q – Larry Solow – CJS Securities, Inc.>: Fair enough. Right. I mean, you could qualitative – I'm not telling you how to run your business, you could qualitatively say look out for timing in Q1 or – but again, I'm not telling you, it's fine. Do what you've got to do. And, I guess, the engineering revenue coming, it sounds like you do expect, I guess, the fact that it fell off is clearly a high-class problem because it's your rotating into product revenue on that side. But the – another piece of it coming online or coming back is that because you have other R&D projects starting up?

<A – Jim Green – Analogic Corp.>: Yeah. That's right. That's right. And so as we complete off, as we move off of one product and sometimes we'll move on to the next with a lot of those resources. And then also there is times where maybe certain resources will, certain types of expense we'll want to reduce. There's just a lot that goes into that. It tends to be lumpy. We're trying to manage that on more of a variable basis though it's difficult. And that's part of why you see these timing structures that hit us.

<Q – Larry Solow – CJS Securities, Inc.>: Right. Right. Anything noteworthy in – I realize you don't break it out anymore as long as you qualitatively discuss in mammography? Anything – is that segment – is that sale sort of been relatively flat [indiscernible] (29:02)?

<A – Jim Green – Analogic Corp.>: Yeah. And I think we're over in a public setting so I can tell you that we're – we have a positive outlook for mammography. We learned a lot at RSNA in the Mammography business and we certainly see a move toward premium in the market and growth in the premium segment, which is where we are very strong. So the mammography business has been – in the past, it's been a great growth business. It's leveled off quite a bit. But we think with, as Siemens gets their PMA here and even before then, we're pretty confident that that's going to continue to be a good business. And in the longer run, it's positioned very well for what the market's demanding.

<Q – Larry Solow – CJS Securities, Inc.>: And the Siemens approval, is that expected? I mean, I realize it's...

<A – Jim Green – Analogic Corp.>: Yeah. The last what we've seen...

<Q – Larry Solow – CJS Securities, Inc.>: ...it's their product, but what sort of are they saying at least?

<A – Jim Green – Analogic Corp.>: Yeah. What we've heard publicly is that it's expected to be about a year from now.

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

<A – Jim Green – Analogic Corp.>: Yeah. So that's when we would expect to see a more significant uptick due to the U.S. really kicking in with tomosynthesis.

<Q – Larry Solow – CJS Securities, Inc.>: And that's taking a little longer than expected on the Siemens end, right? Is that because of any reason? Right? Or no?

<A – Jim Green – Analogic Corp.>: In the past, we would have said, it's probably more just the regulatory environment, the time to get things through. It's very, it's – but I can also tell you that we recently got a pretty exciting information from the FDA with the approval of our new TPS technology.

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

<A – Jim Green – Analogic Corp.>: And so it could be, I'm being optimistic here, but it could be the FDA is actually maybe getting things a little through a little more efficiently. I'm hoping that maybe there's some upside there. But again, our latest info says that Siemens is a year out, late 2014. And if it's better than that, great, but we're not planning on it.

<Q – Larry Solow – CJS Securities, Inc.>: Got it. Okay. And then, just switching real fast, on the Ultrasound side, do you see any way to figure out like what Ultrasonix contributed in the quarter? I realize, they're sort of merged together now, but...

<A – Jim Green – Analogic Corp.>: Yeah, that's really hard to do because we're – the way we've managed the business is we used the acquisition to do three things. We used it to bring on a sales force. We used it to bring on products. And we used it to bring on technologies. And so anything we give you couldn't – wouldn't be very accurate because some of the new sales reps that were Ultrasonix, turns out they're, as you would have hoped, selling some of these BK products. As you would also...

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

<A – Jim Green – Analogic Corp.>: ...the BK reps are selling more, if they get to the opportunity to sell the Ultrasonix products and the new technologies, they roll in like with the new GPS Guidance. So it's really multi-faceted. And what I want to do is just be able to describe to you how we're doing on the overall business with the overall portfolio so you can really get a view of the net business.

<Q – Larry Solow – CJS Securities, Inc.>: Right. Well, and it sounds like at least looking at your – nothing has really changed in terms of your full-year outlook for – I mean for Medical Imaging, I think you tweaked it, you had said flat and now you say slightly down to flat, which is not a big deal. And I think Ultrasound you're still saying the same double-digit growth, right, I mean on the top line? Strong double-digit growth. I know you like [indiscernible] (32:14).

<A – Jim Green – Analogic Corp.>: Yeah.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Just – and Security, I guess it sounds like the only potential negative is U.S. replacement a little bit delayed because of the government shutdown.

<A – Jim Green – Analogic Corp.>: Yeah.

<Q – Larry Solow – CJS Securities, Inc.>: Is that fair? And, I guess, – I mean, I realize the shutdown was only a couple of weeks, but I guess the build-up coming into it and after it is sort of an exponential effect. I mean, is there any way to sort of – is that delay like a couple of months? Is it – I mean, I guess, it doesn't really matter, but I'm just trying to parcel out that?

<A – Jim Green – Analogic Corp.>: Yeah. It's really hard to model because we heard from the TSA that they planned – they plan to place orders over the next couple of years. They're expecting...

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

<A – Jim Green – Analogic Corp.>: ...to get something like 300 to 400 units. And, while that sounds great to us, it – we know it's unlikely they can do it that fast, but the risk that we have is now all of a sudden the order comes – the orders come in late but then they expect them faster and we may or may not be able to deliver that fast. I mean, it's a good problem to have, but – so we're –

I've always been kind of conservative on that just because if the government and some things can happen that give you unknown, un-modeled, unanticipated delays. And on the other side when it comes, it comes very nicely. And we do expect that to be primarily a – our mid-tier offering which is a very solid product for us on the margin side. So we're pretty happy to see that be the primary driver.

<Q – Larry Solow – CJS Securities, Inc.>: Right. And, I guess, the rapid DNA, so it – you are actually – I mean, it's in early stage adoption, I guess at this point, it's still very early for you guys. Is it a little bit of a drain I guess on operating – and hopefully a high-class problem at the end of the day, but a little bit of a drain on operating expenses until it starts contributing revenue? Or...

<A – Jim Green – Analogic Corp.>: I think that's fair to say because certainly it behooves us to make sure that when the time comes, that we're ready for it and that the product is really compelling. So we've been working to seed the market, to make sure that there's enough product out there; and then assuming the market really develops, that we're ready for it with a product that has a great reputation. But we're sort of positioning for that and it's not a major number in this year, but we do see – the opportunity could be very big for that as we look out a little ways.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Then just lastly, you mentioned the handheld product coming out some time maybe early in the next – into fiscal 2015. So that's sort of what you highlighted, one of the things at your Analyst Day right, and that would be used to such things as IV-guided access and stuff like that, right? Am I correct?

<A – Jim Green – Analogic Corp.>: Right, right. We're really excited about that. The idea of moving guidance to a very low cost, a low-cost setting, that's right in our wheelhouse as far as real-time digitalization and three dimensional imaging and such. So it's very exciting. And if you look to the market where there is so much emphasis being placed now on reducing infection in the hospital, this kind of technology we think could really make a difference there with reducing the number of multiple sticks and having a very positive outlook and effect on healthcare in general. So we're – but we're looking at beginning of next fiscal year, late in the summer, early in the fall for the initial commercialization.

<Q – Larry Solow – CJS Securities, Inc.>: Got it. Okay, great. Thank you very much.

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

Operator: Thank you. [Operator Instructions] 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

Okay. Thank you. Thanks, everybody. And thank you for your interest in Analogic. And let me invite you to call in again in March when the company will review its second quarter fiscal 2014 results. Thank you and have a good evening.

Operator: Thank you. 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 32726072. The telephone replay will be available at the number beginning two hours from now and running through midnight Eastern Time, Thursday, January 9, 2014. 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, January 9, 2014.

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