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 & Senior VP

Other Participants

Dalton L. Chandler – Analyst, Needham & Co. LLC
Larry Solow – Analyst, CJS Securities, Inc.
Jiwon Lee – Analyst, Sidoti & Co. LLC
Josephine Lin Millward – Analyst, The Benchmark Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Analogic Corporation's Second Quarter Conference Call for Fiscal 2012. 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 and Corporation Secretary.

I would like to remind everyone that a supplementary financial presentation will be used during today's call. If you have not already downloaded that presentation, you can do so at any time at investor.analogic.com. That presentation will remain available until April 7, 2012. [Operator Instructions]

At this time, I would like to turn the call over to Mark Namaroff, Director of Investor Relations and Corporate Marketing. Please go ahead, sir.

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

Good afternoon, everyone and welcome to Analogic's second quarter conference call for fiscal 2012. I'm sure all of 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 our second quarter results, I would like remind everyone of our Safe Harbor statement. Today's call may include forward-looking statements, such as comments about our plans, expectations and projections. For more information on risks and other factors that could cause our actual results to differ significantly from our forward-looking statements, please refer to our most recent Form 10-K and 10-Q reports on file with the Securities and Exchange Commission.

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

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

Thanks, Mark and good afternoon, everybody. Let's move to the slide 4 of the presentation. First I want to say that in addition to the solid revenue growth for the first time, I can say that we delivered double-digit non-GAAP operating margin across all of our segments. Revenues in the quarter came in at $126 million, that's up 8% from last year's Q2 and that puts us at over 10% growth for the first half of this year. GAAP operating margin was 6%. Now the 6% includes a one-time in-quarter expense of about $2.7 million related to the tax refund and also increased accruals for performance-based stock compensation on a further improving outlook. And I'm happy to announce that non-GAAP operating margin came in at 12% in the quarter, which brings year-to-date operating margin to 10%.

Diluted earnings per share was $1.59. Now this GAAP number includes a one-time benefit of $0.80 from the tax credit and gain on the sale of an equity position and in a few minutes, Mike Levitz will give you more detail about this situation and how to account for it. On a non-GAAP basis, EPS in the quarter was $1.02, and that's up 92% from last year. And the $1.02 excludes that $0.80 one-time benefit from above.

Let's move to the slide 5 and look at the business highlights for the quarter. Medical Imaging segment, the revenue was up 3% in the quarter and up 8% in the half. Our premium 3T MRI and digital mammography accounted for most of the growth in this quarter. We did see a slowdown in computed tomography shipments in the quarter mainly related to customer ordering patterns and some slowing in the Western markets. Our strategy of growing content in our OEM business continues nicely, as we just signed a new private label CT development agreement targeting a new CT Medical segment opportunity.

Moving to Ultrasound, our Ultrasound business continues to be a bright spot. Our revenues were up 21% in the quarter and 21% in the half. We had strong growth in both our direct Ultrasound business and in OEM transducer sales. We rolled out Quantum Technology, our new world-class imaging technology. I don't want to underplay the significance of this development and we have long been known for intraoperative imaging for surgical guidance, now we add a world-class external image resolution and that means imaging of the body from the outside. And this new capability positions Analogic to compete in additional adjacencies. We launched our new Flex Focus 500 with this Quantum Technology to drive share growth in our core urology market and also to help us explore some of these new segments and opportunities. Lastly, we launched the Flex Focus 800, also with Quantum, designed to best position our Ultrasound guidance technology for the fast-growing robotic surgery market.

Move to slide 6. Our Security business is really starting to take shape now and we continue to transition to product shipment based revenue growth. We saw 15% growth in product shipment based revenue in the quarter and were up 25% in the half, for the first half of the year. Total Security revenue was down slightly in the quarter on lower engineering revenue, as we're nearing the completion of the Smiths funded engineering project. We finalized the new L-3 long-term agreement, which positions us well for the upcoming U.S. recapitalization effort in certified checked baggage, and the TSA awarded L-3 a reduced size checked baggage contract, where we expect associated orders in the second half of this fiscal year.

Looking to some of the other business activities, Mike will give you some more color of the tax refund and the gain on sale of an equity stake where we received that $0.80 benefit to EPS. And operationally, we completed the last phase of Ultrasound manufacturing consolidation.

With that I'll turn it over to Mike to go through some more of the detailed financials.

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

Thank you, Jim. Good evening, everyone. I'm going to describe the financial results for the second quarter of fiscal year 2012, which ended January 31, as compared to the same period of fiscal 2011. This information begins on slide 8 of our online presentation.

Analogic's revenues grew 8% this quarter as compared to the same period of last year, with total revenue reaching $126 million. Growth in the quarter was driven primarily by 21% growth in Ultrasound revenue, with more modest growth in our Medical Imaging segment, where revenues rose 3% in the quarter. Security revenues were essentially flat year-over-year with lower engineering revenues offset by 15% growth in product revenues. Gross margin improved to 37% in the quarter, a two point improvement from Q2 of last fiscal year. This improvement reflects higher sales in our Ultrasound segment, which generally carries higher gross margins than our other segment, as well as the favorable impact of cost savings from the manufacturing consolidation we undertook last year, offset in part by lower manufacturing yield in our Mammography business in the quarter.

Our GAAP operating margin was 6% in the second quarter, an increase over the 5% we reported in Q2 of last fiscal year. The GAAP operating margin included the impact of $2.7 million, which was two points of operating margin, associated with contingent fees related to an IRS tax refund that we received in the quarter, which I will discuss in more detail shortly.

On a non-GAAP basis, our operating margin in the second quarter reached 12%, a significant improvement over the 8% we reported in Q2 of last fiscal year, with double-digit operating margins across all of our reportable segments. This improvement was driven by stronger revenues led by our Ultrasound business, along with the benefit of cost structure improvements from our manufacturing consolidation and other cost reductions we've made over the last year. The dollar impact of the margin improvement was significant, given the growth in revenues, with the 12% operating margin translating into a non-GAAP operating profit of $15 million, a 65% increase from Q2 of last year.

Turning to Slide 9 and a more detailed look at our P&L for the quarter; our total revenues rose 8%, as I said, to $126 million with product revenues up 10% in the quarter offset by lower engineering revenues as we approach completion of a significant security development project. As you can see in the non-GAAP results, this revenue growth along with improved operating leverage, drove significant improvements in both operating income dollars and operating margin percentage.

Now I would like to walk you through some of the details regarding the tax refund and related benefit we received in the second quarter. In the quarter, we received a cash refund from the IRS totaling $12 million, of which $10 million was recognized as a benefit to our P&L tax provision this period. The $10 million portion of the refund related to tax credits associated with research and development work performed during the years 1991 through 2000.

Associated with obtaining this refund, we incurred contingent consulting fees totaling $2.7 million or $1.7 million net of tax in the second quarter which we recorded within G&A expense and our operating expenses in the period. The net after-tax P&L benefit of the refund was therefore $8.3 million. Due to the nonrecurring nature of this refund and related costs, we have excluded the $8.3 million net benefit from our non-GAAP operating results.

During the second quarter, we also received $2.5 million in cash upon final regulatory approval of a sale in July of last year of a minor equity stake which has had a zero basis on our financial statements for over five years. The resulting $2.5 million gain was recorded within other income in our GAAP financial statements in the second quarter. Consistent with our historic practice, we have excluded this benefit for non-GAAP purposes.

Together with the tax refund, net of related fees, these items had an $0.80 EPS positive impact on GAAP EPS, all of which was excluded in our non-GAAP reporting. As a result of our growing revenues and improved gross margin and operating margin along with the benefit of the tax refund and equity gain, we recorded GAAP EPS in the quarter of $1.59, our highest quarterly profitability in years.

On a non-GAAP basis which excludes the tax refund, the equity gain and other items outlined in the appendix to this presentation, our earnings per share for the quarter reached $1.02, a 92% increase from the $0.53 per share reported in the second quarter of last fiscal year.

Turning to Slide 10, I will briefly discuss our results year-to-date through the end of the second quarter. For the six months ended January 31st, our total revenues grew over 10% as compared to the same period of last year. In addition, our non-GAAP operating margins also reached double-digits in line with our stated financial goal for the full year of fiscal 2012.

The benefits of our strong operating performance and the tax refund this quarter were reflected in our GAAP EPS growth in the period. Our GAAP EPS for the six months reached $1.88 as compared to $0.62 in the same period last year and our non-GAAP earnings per share reached $1.53, an increase of 55% from the $0.99 per share in the same period of last year.

As you can see, our effective tax rate for the first half of the fiscal year was a net benefit to the P&L, reflecting the $10 million P&L benefit from the IRS tax refund in the second quarter. Consistent with the guidance I have provided in the past, we expect the effective tax rate for the full year excluding the positive impact of the $10 million P&L benefit to be between 25% to 27%. This includes a $2.3 million discrete tax benefit we recorded in the second quarter related to reversal and remeasurement of tax reserves. As such, for the remainder of this fiscal year, I expect our effective tax rate to be between 30% and 32%.

Now I would like to walk you through our second quarter results by reportable segment. Turning to Slide 11. Revenues in our Medical Imaging segment grew 3% in the second quarter as compared to the same period of last fiscal year. Our MRI and mammography products saw strong double-digit growth growing ahead of the market due to new product introductions by our customers in new markets. At the same time, however, our CT shipments and related revenues declined in the quarter due largely to customer ordering patterns.

Our GAAP operating results for the period were negatively impacted by the allocated $2.2 million portion of the consulting fee from the tax refund I mentioned earlier, which reduced our GAAP operating margin in this segment by three points to 3% in the period. On a non-GAAP basis, however, our operating margin in this segment was 10%, a two point improvement over the same period last fiscal year, reflecting the benefit of our improved cost structure from optimizations we have made over the last year.

Turning to Slide 12. I will briefly discuss the financial results of our Ultrasound segment. As Jim noted earlier, we were very pleased with the financial results of our Ultrasound segment this quarter. Revenue grew 21% in the second quarter compared to the same period of last year reflecting growth from penetration of Flex Focus products and our direct systems business as well as growth in our OEM ultrasound transducer business. The revenue growth in our direct business is the result of continued strong global demand in our core markets, new products that we've recently added to our portfolio, and the benefit of our investment in expanding our direct sales channel.

Due to the revenue growth and significant reductions in our cost structure over the last year related to the manufacturing and consolidation and other operational efficiencies, we saw a dramatic improvement in operating margins in this segment in the second quarter. On a GAAP basis, we reported 11% operating margins, up from 6% in the same period last fiscal year. And, we reached 14% operating margins on a non-GAAP basis.

Turning to Slide 13 and our Security business. Revenue in the second quarter of fiscal 2012 was down slightly as compared to the same period of last year, at just over $10 million, reflecting lower levels of engineering revenue in the period due to timing of work on a significant engineering project which is nearing completion.

Offsetting the lower engineering revenues, our product revenue in this segment grew 15% from a year-ago due to increased shipments of our airport checked baggage automated explosive detection systems. This higher mix of product revenue versus engineering revenue resulted in improved operating results, driving our non-GAAP operating margin in this segment up to 15%, up from the 9% margin in the same period last year. GAAP operating margin was 6% in the second quarter, reflecting the five point negative impact of the allocation of the contingent fee for the IRS tax refund.

Now I would like to briefly discuss other key financial data from the second quarter. Turning to Slide 14. Our cash and investments balance grew to $174 million, reflecting $36 million of cash from operations in the second quarter. The significant growth in operating cash flows reflects the strong performance across our operating segment, along with improved working capital and the benefit of the $12 million tax refund. We continue to reinvest in the business, with capital spending in the quarter of $10.5 million, primarily associated with expansion of our facilities in Shanghai and in State College, Pennsylvania, both of which have added volume as a result of our manufacturing consolidation efforts.

In summary, we were very pleased with the strong perform in the second quarter of fiscal 2012. We are seeing the benefits of the organizational and structural changes that we've made over the last year, and for the first time, all three of our segments reached our corporate objective of double-digit non-GAAP operating margin.

I will now turn the call back to Jim.

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

Thanks, Mike. Let's move to Slide 15 and look at our summary and FY 2012 outlook. And let me just start by saying that all this consolidation and investments in Ultrasound are finally paying off. In the year, we expect double-digit revenue growth. Quantum Technology brings world-class imaging resolution at depth which lets us start growing into new adjacencies with our expanding sales force. The Flex Focus 800 will accelerate momentum in robotic surgery guidance and continued U.S. sales expansion will further improve coverage and underpin sustained revenue growth.

Medical Imaging is expected to continue faster than market growth. Mammo detectors and premium wide-bore MRI product continue to drive growth and share expansion. Higher content and new premium CT products more than offset any market softness.

And finally for Security, I was getting tired of saying next year and I'm excited to tell you that Security sees long-term growth starting this fiscal year. Our new multi-year L-3 agreement cements the relationship ahead of U.S. re-capitalization. Outside of the U.S., demand is picking up for high-speed certified electronic threat detection systems in advance of the new higher level detection standards.

Smiths high-speed certified program is moving closer to production, and we expect revenue shipment to begin in fiscal 2013. We maintain our double-digit non-GAAP operating margin outlook for this year and with the increased and earlier-than-expected demand for high-speed checked baggage EDS, we're raising FY 2012 revenue outlook to high single-digit growth.

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

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] First up is Dalton Chandler with Needham and Company. Please go ahead.

<Q – Dalton Chandler – Needham & Co. LLC>: Good afternoon.

<A – James Green – Analogic Corp.>: Hi, Dalton.

<Q – Dalton Chandler – Needham & Co. LLC>: Hi. I wanted to ask a little bit more about the – your comments on the CT business and first on the customer order. Is that something we should see, you know, like in the next quarter return to more normalized pattern and see an overall improvement there?

<A – James Green – Analogic Corp.>: Well, I mean, if you look at, you know, quarter-to-quarter, we tend not to talk a whole lot about these ordering patterns because you know they shift pretty substantially sometimes from one quarter to the next, but I think the key is with what we're doing with more content and by adding more at the premium level, that's helping us grow faster than what the underlying market is doing. We have heard and we have seen some softening in Europe in Medical Imaging, you know, but the U.S. seems to be running fairly smooth, Asia is still growing pretty quickly, but from our perspective, you know, what we have to do is to continue to make sure that we add content and share so that if there is – so that if it does continue to slow or to stay at this level that we are continuing to grow our business there.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. Well, you did say that you were seeing some weakness in Western countries. Do you think that was an anomaly or is that the start of a trend?

<A – James Green – Analogic Corp.>: We all look at the same calls with the big OEMs and most of them have seen some softening in Europe. The U.S., in general, seems to be flat to maybe slightly up. So I think the question is, is Europe going to continue to see some further erosion or not and at this point, I'd say – again, looking at what we see from the outlook of our big customers and such and looking at the various trends, it appears that it just has slowed some but I don't know that anybody's claiming – is expecting further erosion at this point.

<Q – Dalton Chandler – Needham & Co. LLC>: Okay. And just on the Security side, I don't think you gave us the number of units you shipped in the quarter. Could you do that?

<A – James Green – Analogic Corp.>: Yeah. I think, Dalton, we've decided that it's probably not a good idea for us to be giving unit level shipments because we now are dealing with more than one customer and we are – we do have obligations to be careful not to share too much competitive information. So, we'll need to be sticking with more on a financial basis.

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

<A – James Green – Analogic Corp.>: All right, thanks, Dalton.

Operator: [Operator Instructions]

<A – James Green – Analogic Corp.>: Okay. Well, I guess if there is no more questions, [indiscernible] (22:15)

Operator: We do have one further question...

<A – James Green – Analogic Corp.>: Sorry.

Operator: ...that is from Larry Solow with CJS Securities. Larry, please go ahead.

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

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

<Q – Larry Solow – CJS Securities, Inc.>: Just a couple quickies. In the Ultrasound, obviously, I realize I think that this quarter seasonally is the – the second and the fourth quarter are the two strongest quarters, is that correct?

<A – James Green – Analogic Corp.>: Yes, that's right, Larry.

<Q – Larry Solow – CJS Securities, Inc.>: So I mean in the – obviously, the 14% operating margin may be not sustainable on a quarter-to-quarter basis but is there anything in there unusual or is it just – because last year you did, I guess, some adjusted number, 6% operating margin. So anything unusual in there or do you think we can sort of maintain at least on an annual basis close to double-digit margins even in this segment?

<A – James Green – Analogic Corp.>: I would say that – so like I said, early on what we're really seeing now is all of the hard work and the structuring and the consolidation of the operations is really putting us on a much lower overall breakeven point, so any – as you see growth in a space like Ultrasound, which is our best gross margin business, the dropdown really becomes dramatic. So, I think the answer to your question is, no, this is the way it's supposed to be running and

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

<A – James Green – Analogic Corp.>: ...it's more like health – it's on the trend that this particular business should be on.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And the – I guess the gross margin was held back a little bit from – and this happened last quarter too – I guess this is still the tail end of the – you had some decreased yield in mammography. Has that been resolved? And any way to quantify what the impact was this quarter?

<A – James Green – Analogic Corp.>: Yeah, Mike, do you want to comment a little on scrap and warranty?

<A – Michael Levitz – Analogic Corp.>: Sure. The impact was about $600,000 this quarter.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And that do you think that – does that still sort of continue or is it hard to say or going out?

<A – Michael Levitz – Analogic Corp.>: We are actively working through those particular issues and we do expect an improvement. I don't think those things are fixed overnight, but we are definitely expecting improvement there.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And then just back to Ultrasound, I'm sorry to bounce around. This new Quantum Technology talked about sort of entering additional adjacent markets. Can you add any color to that? I mean is it markets – within Ultrasound that you've already spoken about or anything more?

<A – James Green – Analogic Corp.>: Yeah, I guess I would say, you know we have talked in the past about moving into some adjacent markets: anesthesia, interventional radiology, some of these newer adjacencies that are very close to what we already have call points.

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

<A – James Green – Analogic Corp.>: I would say that this technology really cements our ability to be more effective in those areas.

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

<A – James Green – Analogic Corp.>: And also as you know, we've been putting a lot more effort into the opportunities with robotic guidance too.

<Q – Larry Solow – CJS Securities, Inc.>: Right, got you. And in – just in terms of anesthesia, is there – has there been any lift in that market? Or do you think now with this Quantum Technology and the new products that'll drive it more, are you starting to see traction even before this new technology addition?

<A – James Green – Analogic Corp.>: Well, we've been seeing traction – more traction in – outside the U.S. where we have stronger sales rep coverage and the ability to go to more of these call points. And as you know, we've been building up our coverage here in the U.S. We continue to do that and will continue this year to further build on that because it's just we just don't have enough capacity and coverage to go to all these opportunities. So, we're pretty selective about where to spend this effort. Now, as we've been pretty excited about the robotic opportunity, that's an opportunity that's developing very quickly and I would say that more of our focus has been in that area more recently, but we've certainly not given up on anesthesia and other interventional opportunities.

<Q – Larry Solow – CJS Securities, Inc.>: Got you. And touching on Security, the – I guess there was an IDIQ, right, for the reduced footprint, if I'm not mistaken? I mean is there any more numbers behind that that you can give or is there anything...

<A – James Green – Analogic Corp.>: No, no, the IDIQ came out and in – but we are expecting to start to see hard orders associated with it and those would be coming here in the second – our second half this fiscal year. But what is developing and which I've mentioned was expansion of the new high speed opportunities outside the U.S. That's where we see more initial growth and the growth coming faster and sooner than what was anticipated even a couple quarters ago and that's why it's the main driver of taking up our revenue expectations in the year.

<Q – Larry Solow – CJS Securities, Inc.>: Right. So now, you expect Security to actually be above last year's total revenue number, it sounds like, right?

<A – James Green – Analogic Corp.>: Yes.

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

<A – James Green – Analogic Corp.>: Yes, that's true.

<Q – Larry Solow – CJS Securities, Inc.>: And then last question, I know it's not always easy to answer, but just obviously great cash flow again. Uses of cash, it's obviously a very high class problem, but maybe another acquisition? I know you don't want to force anything, but how's that environment looking? Anything – pricing changing at all and what we might see just another – more share repurchases or any thoughts on that?

<A – James Green – Analogic Corp.>: I guess, at this point, I – there's not much to say about acquisitions. We've talked about it a lot. We've been looking hard and really doing our homework but I wouldn't say that there's anything right on the horizon immediate and very imminent right there. We have been authorized for a stock buyback and we are looking – with the Board, we're looking at more of an overall structured view of use of cash and exploring buyback and exploring what's the right – are we at the right level with our dividend and such?

<Q – Larry Solow – CJS Securities, Inc.>: Great, okay. Great, thanks a lot, guys. I appreciate it.

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

Operator: Our next question is from Jiwon Lee with Sidoti & Company. Please go ahead.

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

<A – James Green – Analogic Corp.>: Good afternoon, Jiwon.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Yeah, thanks, Jim. If you could comment a little bit about the Ultrasound, what geography or application specifically drove that growth in the quarter and do we expect that trend to continue?

<A – James Green – Analogic Corp.>: I think just in general by adding the reps, it's giving us the ability to look at all the opportunities and I would tell you that overall, our Ultrasound, in general, is doing quite well across all of our offerings. The new incremental piece that's driving in now is with the guidance for the robotic surgery, that's a newly developing opportunity, but it is also dependent on us getting the right amount of – the right amount of coverage for direct sales reps that are providing the product and demoing it and getting it into these deals. So, I think the answer is we are seeing it across our Ultrasound business driving this growth.

<A – Michael Levitz – Analogic Corp.>: And in the quarter, we saw growth globally. So, we saw growth in the U.S. with our expanded sales force and we saw growth outside the U.S. both in our direct business but also significantly in our distributor business. That's a business where like other parts of our business, it can be lumpy. And so, we continue to see increased penetration of the Flex Focus, whether it's in our own sales force or whether it's through distributors. And I think we're optimistic about the opportunities there.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's very helpful. And then moving back to the Security side, did I hear correctly part of the reason why you feel a little more optimistic about the second half of the revenue is the expansion of high-speed business coming out of the overseas market?

<A – James Green – Analogic Corp.>: That's exactly right, exactly right.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. But there hasn't been much – not much changes on the U.S. growth from this idea to whatever the -

<A – James Green – Analogic Corp.>: Yeah, that's true. The U.S. has been going through the process of getting prepared for the re-capitalization as the U.S. TSA would say. The initial order is coming out, again, with the IDIQ that came out a few months ago that will point to orders coming from the reduced side for the first sets of orders. But it's going to be followed on very quickly by the mid-size, which is really the sweet spot for the U.S. So, I think the good news here is the U.S. is on target to be a big driver for us, but at the same time, we are seeing traction and adoption in the high-speed area outside the U.S. So, it's starting to move toward – running on all cylinders.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Are there, Jim, a lot of margin barriers between your high-speed versus low to mid-speed?

<A – James Green – Analogic Corp.>: Yeah, as I see it, they are – I mean, they're all very good margin products, and especially when you look at incremental growth in these spaces as they come out, it all contributes very nicely. So, I would think about Security as being all good margin business.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. Lastly, as the Security revenue steps up and obviously your Medical business is doing fairly decently and you're already at your operating margin goal. So, if the revenue continues to tick up in fiscal 2013, where do the margins go from here? Would you like to take a stab at that?

<A – James Green – Analogic Corp.>: I think that's probably a discussion that we would want to have – I'd want to have as we get to the end of the year and we start to look at meeting the first target. We set the target about three years ago for getting to 10% operating margin in this fiscal year. So, getting there now and then sitting with the Board and going through what are the right level of targets for operating margin for, you know, what level of profitability and what level of investment in the business. So, again, I think it's just a little too soon to start to think about targets there, but there's no question you raise a good point. As we see further growth coming out of this year we should expect to see continued expansion of our operating margin opportunities.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. And one more then, if I could, the cash, obviously, you have a lot of it. Does the acquisition remain sort of a priority there right now?

<A – James Green – Analogic Corp.>: Well, we've been tending to look more toward bolt-on acquisitions, things that fit well into – especially into our direct space there. At this point there's not a lot out there. What we have looked at, it takes a lot of time and effort to make sure it's going to be right. It's got to be something we know we can integrate and otherwise I mean the way our business is growing, we can be selective here about what – where we're putting our attention. So, as these opportunities come up we're absolutely looking at them, but right now there is just not a lot.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay, very good. Thank you very much.

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

Operator: Next is Josephine Millward with Benchmark. Please go ahead.

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

<A – James Green – Analogic Corp.>: Hi, Josephine.

<Q – Josephine Millward – The Benchmark Co. LLC>: Hey, Jim. I jumped on the call late; did you guys give Security backlog?

<A – James Green – Analogic Corp.>: You're on just in time. Mike's sitting here kind of smiling. He'll give you the backlog.

<A – Michael Levitz – Analogic Corp.>: Hi, Josephine. The backlog in Security is $59 million.

<Q – Josephine Millward – The Benchmark Co. LLC>: $59 million, that's fantastic. Can you give us an update on the medium speed EPS solicitation? When do you think we could see an award on that?

<A – Michael Levitz – Analogic Corp.>: Yeah, what we're told is the first award came out on an IDIQ basis for the small footprint and the order should start to follow here as we look over the next few months. Our expectation is that the IDIQ and then the orders for the medium-speed should be coming soon after that. So, it's kind of hard to predict exactly with the TSA, but certainly as we look to the fall, we would expect to start seeing that really start to happening on the mid-speed, and as you know, the mid-speed is – that's really the sweet spot and the prize when you look at the U.S., when you look at security.

<Q – Josephine Millward – The Benchmark Co. LLC>: Right, right. So – but do you think we could see that this fiscal year or late calendar year?

<A – Michael Levitz – Analogic Corp.>: Yeah, I wouldn't – I certainly – I wouldn't predict in advance that we would see the orders for mid-speed in the fiscal year. Certainly, we could potentially, again, I'd be guessing to say that we will see the IDIQ come out in this fiscal year, it could, but of course like I said earlier, the great news is that we're starting to see traction now at the high speed level completely incremental to all of this, and that's being driven outside the U.S. So it's nice to see that starting to come in now and coming in with shipments in this fiscal year.

<Q – Josephine Millward – The Benchmark Co. LLC>: I'm glad you brought that up. Is that in Europe? Or is it...

<A – Michael Levitz – Analogic Corp.>: It is.

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

<A – Michael Levitz – Analogic Corp.>: Yeah, you could say it's outside the U.S. and it's – I don't have a lot and sometimes I can't share detail on specific airports and such, but there's no question that there's a lot more opportunity coming up now and there's a push towards providing with new ship – or with new technology going in to going ahead and getting to the certified EDS level outside the U.S. So, it's exactly what we were working toward.

<Q – Josephine Millward – The Benchmark Co. LLC>: Okay and it sounds like this – is this driven by a new regulation? Any – can you just give us a little more color?

<A – Michael Levitz – Analogic Corp.>: Well, it's certainly a combination of places that either a flight to the U.S. that are required to be in – that are required to use certified U.S. level, but also areas that are flying out to other areas outside the U.S. So, it's kind of hard to say specifically whether it's the new regulation driving it or not but it's certainly all developing and it's developing sooner than we had expected at least in the last few quarters.

<Q – Josephine Millward – The Benchmark Co. LLC>: Okay, that's helpful. Did you provide – can you tell us what you did from robotic surgery during the quarter or I don't know if you talked about that earlier. Sorry...

<A – Michael Levitz – Analogic Corp.>: Yeah, we don't really break that out as a reporting kind of level, except to say that it is a big opportunity and we are very well-positioned for it, and we're putting the effort in to make sure that we're the best company able to secure that.

<Q – Josephine Millward – The Benchmark Co. LLC>: Thank you and congratulations on a good quarter.

<A – Michael Levitz – Analogic Corp.>: Thank you, Josephine.

Operator: Ladies and gentlemen, that was our final question. I will now turn the conference back to Mr. Green for closing remarks.

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

Well, let me just say thank you for joining us this afternoon. I thank you for your interest in Analogic and we'll invite you to call in again in June when the company will review our third quarter fiscal 2012 results. Thank you and have a good evening.

Operator: Thank you very much. For listeners who may have come in late, this conference has been recorded. You can access the telephone replay by dialing 1-866-206-0173 or for international callers, 1-646-216-7204, and entering the playback reference code 268683#. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time Saturday, April 7, 2012.

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 Saturday, April 7, 2012.

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