MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Analogic Corporation First Quarter Conference Call for Fiscal 2010.

The following corporate officers are present: Mr. Jim Green, President and CEO; Mr. Michael Levitz, Vice President, CFO and Treasurer; and Mr. John Fry, Vice President, General Counsel, and Corporation Secretary.

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

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

Mark Namaroff, Director of Strategic Marketing and Investor Relations

Good afternoon, everyone. Welcome to Analogic's first quarter fiscal year 2010 conference call. I'm sure you have downloaded our press release issued earlier today describing our results for the quarter. If not, you can do so via our website at www.analogic.com.

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

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

James W. Green, President and Chief Executive Officer

Thank you, Mark. I recognize you just received three press releases a few minutes ago. Before we get into the quarterly results and our new relationship with Smiths Detection, I'd like to take a minute to discuss the press release related to the settlement with one of our large stockholders and the nomination of Burt Drayer to our Board of Directors.

Let me start by saying I am delighted to announce that Dr. Burt Drayer has been nominated to stand for election to our Board of Directors. Dr. Drayer is an Executive Vice President in Mount Sinai Medical Center, and a member of the faculty at Mount Sinai's Medical School. He is also the incoming Chairman of the Radiological Society of America. Dr. Drayer will bring to Analogic significant industry experience that he has gained as a practitioner, as a professor, and as a business executive. We look forward to him joining the Board.

I'm also pleased to report that our Board of Directors has agreed to appoint a new independent director by March 31st of next year. Both of these announcements are consistent with Analogic's long-standing commitment to good corporate governance, and we're pleased to have worked constructively with one of our large stockholders to achieve this outcome.

And finally, I want to confirm our commitment to our goal of double-digit operating margins by fiscal year 2012, achieving significant improvement in our operating margins by sticking to our knitting, and focusing on measures that are within our control.

So I'll move to slide five of the presentation. Revenues came in at $95.4 million, down 2.9 million from last quarter, and 6.2 million from the same quarter last year, impacted by lower security revenues. Medical Technology revenues rose to 85.9 million, an increase of 2.6 million from last quarter and up 0.3 million from last year. Security Technology revenues decreased 5.9 million from last quarter and down 6 million from last year.

Our GAAP earnings per share came in at break-even, and non-GAAP EPS were at $0.10. Medical Technology moved into an income position on higher revenues and lower costs. The Security loss on lower revenues offset income from Medical Technology. We achieved positive operating cash flows of $2.3 million despite the loss in Security revenues.

Moving on to slide six. Looking to CT and MRI, business improved from last quarter as healthcare markets began to improve. And we saw increased shipments of CT and MRI subsystems in the quarter. We signed an agreement expanding MRI subsystems into a large OEM. We've been outfitting our China facility to produce certain MRI subsystems with shipments expected in the second half of this year.

For Specialized Ultrasound, results were favorable year-over-year with a decrease versus last quarter from seasonality. And we see continued penetration of FlexFocus and ProFocus UltraView scanners.

Looking inside Digital Radiography, our Digital Mammography results continued favorable year-over-year, and favorable compared to last quarter. Lastly, for Security Technology, we experienced a significant drop in shipments of eXaminer 3DX. We have reduced full year shipment expectations. However, we do expect the 3DX run rate to return to previous levels as we enter the second half.

We received TSA certification for the eXaminer XLB high through-put system, and we received our first XLB purchase order after the quarter ended.

And finally, I am excited to note that after the close of the quarter, we signed a contract with Smiths Detection for the development of new CT subsystems for a next generation Smiths System.

Now we'll move onto slide seven, and I'll turn it over to Mike Levitz, our CFO.

Michael L. Levitz, Vice President and Chief Financial Officer

Thank you, Jim. Good afternoon, everyone. What I'd like do is, if you would look at slide seven, I would like to walk you through our total company results for the first quarter. And then we will dig deeper, looking at our segment results.

Our revenues in the first quarter totaled $95.4 million, which was down $6.2 million or 6% from the same quarter last year and down $2.9 million or 3% from last quarter. Product revenues were $89.5 million, which was down $5.5 million or 6% from last year, but that was consistent with last quarter. These results reflect decrease of approximately $6 million in our security revenues, related principally to fewer shipments of 3DX units to our current OEM customer. The decrease in Security Technology revenues in the quarter was partially offset by an increase in our Medical Technology business, as I will describe in more detail shortly.

Our gross margins improved to 32% in the first quarter, from 31% in both the first and fourth quarters last year, primarily reflecting cost reduction. The margins in the quarter were negatively impacted by the drop in revenues from the Security Technology business, which generally carries higher gross margins than the OEM portion of our Medical Technology business. We expect gross margins to improve as the Security Technology business run rates return to historic levels, and based on our continued focus on improving efficiencies and overall cost reduction.

Operating expenses were $30.9 million in the first quarter, a decrease of 6% from the same quarter last fiscal year, and a decrease of 5% from last quarter. Looking to the right hand side of the slide, you will see our adjusted non-GAAP financials. And on an adjusted non-GAAP basis our operating expenses in the first quarter were $29.3 million, a decrease of 1.5 million, or 5%, from the same quarter last fiscal year, and an increase of $300,000 or 1% from last quarter, primarily reflecting the level of funding we received for our engineering projects.

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

On an adjusted non-GAAP basis, our selling and marketing and G&A expenses both – in the first quarter both decreased from the same quarter last fiscal year, primarily reflecting a cost reduction.

We are break-even in the first quarter in terms of diluted earnings per share, as compared to earnings per share of $0.02 in the same quarter last fiscal year, and a loss per share of $0.02 last quarter. Our adjusted non-GAAP diluted earnings per share was $0.10 in the first quarter, a decrease of $0.09 from the same quarter last fiscal year, and a decrease of a penny compared to last quarter. The decrease primarily reflects the drop off in Security Technology revenues, offset by savings from cost reduction.

Turning to slide eight, and looking at our segment result. We are pleased to see our Medical Technology revenues increase to $85.9 million in the first quarter, up from 85.6 million in the first quarter of last fiscal year, and up from 83.3 million last quarter. The increase in revenues, along with the lower cost structure, enabled our Medical Technology business to return to profitability with pre-tax income of $1.2 million in the first quarter, an increase of $4.2 million from the same quarter of last fiscal year, and an increase of $5 million from last quarter. We expect this profitability to continue.

Our largest segment, CT and MRI, which was previously referred to as our Medical Imaging segment, had revenues of $57.7 million in the first quarter, a decrease of $1.5 million or 3% from the same quarter of last year, but an increase in revenue of $6.5 million or 13% from last quarter. The decrease year-over-year reflects the impact of the global economic crisis that impacted the company significantly in the latter half of last year. We are now seeing signs that the healthcare market is beginning to improve, as reflected in the significant improvement in revenues since the fourth quarter.

As noted, for the overall Medical Technology business, the higher revenues in this segment along with our lower cost structure enabled us to return to profitability in this segment in the quarter. Our Digital Radiography segment had revenues of $8.2 million in the first quarter which was an increase of $700,000 and 9% from the same quarter last year, and a slight decrease, $200,000, 2% from last quarter.

We continue to see growing demand for our Selenium-based mammography plate and we're pleased to see continuing profitability in this line of business. Our Specialized Ultrasound segment which was previously referred to as BK Medical, had revenues of $20 million in the first quarter, which was an increase of $1.1 million, or 6% from the same quarter last year, and a decrease of $3.7 million, or 16% from last quarter. The increase year-over-year reflects the introduction of two new products, the FlexFocus and the ProFocus UltraView, which were introduced in the second half of 2009. We are pleased with the reception of these new products in the marketplace.

A decrease from the fourth quarter reflects normal seasonality in this business, as the second and fourth quarters are consistently the stronger quarters, based in large part on the timing around the hospital budgeting process.

Our Security Technology business reported revenues of $6.9 million in the first quarter; it's a decrease of approximately $6 million or 46% from the same quarter of 2009 and from last quarter. The lower revenues reflect the decrease in shipments of 3DX products to L-3 Communications, our OEM customer.

We shipped six 3DX units in the first quarter, as compared to our historic run rate of 15 units per quarter. We understand that the decrease in shipments related to contracting order delays with the TSA and we expect to return to our historic run rate as we enter into the second half of fiscal 2010.

As a result of the lower revenues, we recorded a pre-tax loss in this segment of $1.7 million in the first quarter, a decrease of $3.2 million from the same quarter last fiscal year, and a decrease of $3.5 million from last quarter. We are committed to profitability in this segment for the fiscal year.

Turning to slide nine, we'll take a brief look at some financial metrics here. We continue to have a strong balance sheet with $159 million of cash and investments and no debt. Despite the drop in the Security business in the quarter, we're pleased to report positive operating cash flows of $2.3 million. We are committed to maintaining positive operating cash flows going forward.

With that, I'll turn the call back to Jim.

James W. Green, President and Chief Executive Officer

Okay, moving on to slide 10, in summary, with the lower cost position and revenue growth, our Medical Technology business returned to profitability, driven by increased customer demand as healthcare markets begin to improve. Delays in order flow in our Security business will impact segment revenues for this current fiscal year, but we expect to return to historic run rates as we enter the latter half of the fiscal year.

The new Smiths relationship provides a long-term growth opportunity. We're committed to continued improvement and profitability and operating cash flows through driving operational efficiencies. And finally, our continued focus on leading-edge technologies, along with innovative product offerings, position Analogic for improved profitability and a bright future.

Thank you. Now let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instruction]. Our first question comes from Larry Solow with CJS Securities.

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

<A – James Green>: Hi, Larry.

<Q – Lawrence Solow>: Jim, could you give us a little more color? You had a nice sequential increase in the MRI and CT sides of the market. And I guess, coming out of RSNA and now that I guess hospital budgets, I believe some even turn on November 1st and maybe most in the calendar year, but what – if you have any more color on the outlook? And do you see kind of sequential increases occurring as we head out into 2010? Or do you think this will see sort of a stabilization around these numbers for the next couple of quarters?

<A – James Green>: Well, I think as I said a quarter ago, maybe even two quarters, that we really wouldn't see a lot of real solid proof of where the orders are going to be until we got into January and we start to see the NIMA numbers and the actual orders coming in to the big OEMs, that's where they'll be reported.

In general, the feeling at RSNA, it was very well attended by radiologists and paying customers. There is a general feeling, and all the indications we've seen and we've all talked about, show that hospitals seem to be getting back to business. The CFOs at hospitals seem to be not quite so scared. So we're cautiously optimistic that things are starting to return back to a normal situation on the medical side. We saw it with an uptake here this quarter. And we're again optimistic as things are starting to come back to more normalcy on the medical side of the business.

<Q – Lawrence Solow>: Okay. And in terms of just the margin outlook, is there any way to sort of isolate the impact of what Security did on the gross margin line? And if revenues are sort of at a normal run rate, what your gross margin would be?

<A – James Green>: Yeah. Mike, you want to comment on that? I mean, certainly the Security products are very high margin products for us. So as you would expect, with the revenue drop off in the quarter like that, that would have a pretty market effect on the overall financials. Mike, you want to comment on that?

<A – Michael Levitz>: Yeah. Our Security business, I believe we talked about this in our Investor Day, generally has gross margins that are in the 40% area. And so, it represents higher margin typically than a portion of our OEM Medical business. And so, the drop off in the revenues definitely had an impact on the bottom line, to a greater degree. And you also saw that as an impact on gross margin.

<Q – Lawrence Solow>: Great. What I'm trying to get at is, you guys have taken out a lot of costs out of the model, and even in last quarter, I know you had a couple of one-timers, you had this 1.3 million settlements claim, and you had a delayed order from Copley, and you had some low margin international tender purchases, so you had a bunch of sort of one-timers last quarter. And you've taken out a lot of expenses out of the model that – I know, I realize the volumes are down, but if I look out over the last few quarters sequentially your sales have been kind of flat, but yet your margins are not showing any improvement. So that's kind of what I'm just trying to figure out. When we may see some better improvement?

<A – James Green>: I think we commented last quarter that we expected it to take a couple of quarters for all the cost actions and leading actions that we're taking on here to really start to show in the numbers. We saw some improvement this quarter over the previous quarter in terms of gross margins, and we expect to continue to see those improvements rolling through. It's just a bit of a shame that we see the lumpy situation in Security, because it can have such an over-effect on the business. As you can see the medical side really did a pretty reasonable job of helping to offset that situation.

<Q – Lawrence Solow>: Got you. And then, on the Security side, the deal with Smiths, any more color on that? I think wasn't Smiths at one point – rumor, I don't know if you can comment on that, but you guys are maybe in talks that they may be even looking to acquire your Security business, I think several years back, but....?

<A – James Green>: That would be before my time and probably not appropriate to speak about.

<Q – Lawrence Solow>: No, agreed. And any more color you can just give on this agreement?

<A – James Green>: Yeah. I mean, I guess what I would say is like any overall agreement, it starts with the development side of products – Smiths is, I mean they are a solid player in this marketplace. And they're very strong in Europe. And we've been projecting that with the change in the regulations, with Europe moving to certified check baggage type requirements, as we get into 2012 that bringing somebody like Smiths coming into that market then is a real opportunity to really draft up that growth in the marketplace.

And I mean, a lot of tenders that go out often have multiple bidders. And it's just a great opportunity for us. So right now, we're really focusing on first getting, doing the development effort with them, it's a great opportunity for us, fully funded engineering development program, exactly the kind of thing that an OEM company like us would look to do.

<Q – Lawrence Solow>: Gotcha. And then just for financial purposes, I guess in the short term your expenses will sort of be offset by their funding revenue?

<A – James Green>: Yeah, I think that's fair to say that most of what we would see over the, this next couple years would really be offset of expenses as we work on this development effort. And I'm not really positioned to comment much beyond that at this point.

<Q – Lawrence Solow>: Okay, fair enough. Great, thanks a lot Jim, I appreciate it.

<A – James Green>: Thanks Larry.

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

Operator: Next question comes from Steve Levenson with Stifel.

<Q – Stephen Levenson>: Thanks. Good evening, Jim, Mike and Mark.

<A – James Green>: Thanks Steve.

<Q – Stephen Levenson>: Just a question, I'm sorry, I'm going to stick on the expenses a little bit. And whatever your best answer is would be appreciated. The restructuring obviously brought expenses down a bit but I thought they might have come out more, you know, a little bit lower. Can you give us an idea of what you think the run rate might be over the balance of the year? Or do you think this is the level where they are going to stay?

<A – James Green>: I'll let Mike talk a bit about what we saw in the quarter and what we think is really more one-time in nature. Mike, do you want to talk about that?

<A – Michael Levitz>: Yes, I mean there were a few one time items that occurred, nothing significant enough that we broke it out in non-GAAP. But they did impact our numbers. And also as

Jim said, the cost reductions take some time to come into effect. People didn't walk out the door on Day 1 and so those costs carried over into the quarter.

I think as we look out over the remainder of the year, we definitely see improvements in operating margin. And a large part of that is from cost reductions. So, also as our revenues increase we don't see a corresponding increase in costs such as G&A, and so we get further leverage of those costs through the balance of the year.

<Q – Stephen Levenson>: Okie doke, thank you. A question about the Smiths agreement, if you can answer. How does that sit with your current partner on explosive detection systems?

<A – James Green>: Well.

<Q – Stephen Levenson>: Did you have to make any adjustments there?

<A – James Green>: Yeah. We have a great relationship with L-3. Our – we have a – their success is – helps drive our success. So, as business developed there and with the new products that are going into testing, and the new contracts that will be better expected out of the TSA and around the world, we expect that we'll continue to have a great relationship there.

With Smiths being more on, very strong in Europe and that European market developing, and we see a lot of growth forecasting on that side of world. In many ways it's complementary to our business that we have. So we are an OEM provider with – in the medical side we deliver to multiple OEMs. And that's just the way our business model works. But we are very supportive of L-3 along the way here too.

<Q – Stephen Levenson>: Fair enough. Thanks very much.

<A – James Green>: Thanks Steve.

<A – Michael Levitz>: Thank you.

Operator: Thank you. Next question from comes from Dalton Chandler from Needham.

<Q – Dalton Chandler>: Good afternoon.

<A – James Green>: Good afternoon Dalton.

<Q – Dalton Chandler>: In your press release on the Ramius settlement, you talked about a pathway to the double-digit margins that are the 2012 goal. Could you elaborate on what the pathway is?

<A – James Green>: If you look at the press release, we've – it's – we are really very consistent with what we've said that our – in the past, our pathway and our commitment for continued – continuing to lean our business. You'll notice a few quarters ago we brought in new leadership on the operating side, some real professionals, to come in and work with us on setting up a lean manufacturing operations organization with strong focus on driving down overheads and working on designed-in improvements in some of these new products. It's really a focus.

I'm showing that even with the current revenue that we are sitting at that we have some real opportunity to underpin improvements in our profitability. And not just acquired growth in terms of improved profitability. So our focus really hasn't changed. But we really wanted to put emphasis on that. And I think that's a part of – that's really a part – that's really what this pathway is all about, just make that clear.

<Q – Dalton Chandler>: Okay. So if I understood that correctly, we should expect to see more of the improvement come on the gross margin line?

<A – James Green>: Yes. You'll see – we would expect we're driving more improvement on the gross margin line, which will drop to the operating margin line. And as we continue to have these new products go into the field, they are also going to generate additional margin on top of that.

But we can't let our – we're committed to staying after the existing revenue line too, and not just focus on growth to generate the profitability. We are – we have to run this business in a lean fashion.

<Q – Dalton Chandler>: Okay. Thanks for that. And then, just back on the Smiths deal, what kind of security products are we talking about? Are these like check point, checked baggage type scanning systems, which I think they are very big in?

<A – James Green>: If you – I guess I would encourage you to look at what they go public with, but this is for checked baggage, certified checked baggage type of systems, which is where we specialize.

<Q – Dalton Chandler>: Okay. Okay, thanks a lot.

<A – James Green>: All right. Thanks Dalton.

Operator: Thank you. Our next question comes from Brad Evans with Heartland.

<Q – Bradford Evans>: Well, thank you for taking the call.

<A – James Green>: Hi, Brad.

<A – Michael Levitz>: Hi, Brad.

<Q – Bradford Evans>: Jim, good afternoon, Michael as well, congratulations on the pathway to profitability. I think that's a great step in the right direction. So, we appreciate your moving in that direction.

I had a question, first and foremost, just on deployment of capital going forward in terms of using the cash in the balance sheet, I'm just curios as to how you think about using free cash flow as well as liquidity in the balance sheet going forward in light of hopefully an improving profitability outlook for the company over the next several quarters?

<A – James Green>: Well, I can tell you that we've had some long discussions with the Board about this. And Mike you want to comment on it too?

<A – Michael Levitz>: Sure. Thanks, Jim. I think we're definitely aware of the cash on the balance sheet. And I'm looking at the best ways to put that cash to use. We've looked at a number of areas in terms of returning that, we already have a dividend, we're looking at – we've done cash buybacks in the past. And we've talked about looking at strategic opportunities near to our current lines of business.

So we're looking at a number of different ways to put that cash best to use for the benefit of our stockholders. I can tell you that, we're – as Jim said, we're actively discussing those with the Board. And we'll continue to do so. But it is an area, definitely an area of focus for us.

<A – James Green>: I'm glad to have the problem with having the cash on hand, as opposed to the problem that lot of other companies are having in not having that.

<Q – Bradford Evans>: Jim, is it fair to say that you see the pathway to getting to that double-digit opening margin, exclusive of making acquisitions? You're making the comment, the goal is to become, can you hit those operating margin targets with your existing asset base? Is that correct?

<A – James Green>: I think that's fair to say, that certainly our focus is to make sure we're getting where we need to get to with the things that we can control. And these are organic activities that's focusing on – on leaning the business and freeing up the capital to drive growth and to improve our profitability of the business.

So we're pretty confident with what we have to work with, that we don't have to go out and inorganically get there. But we're also continuing to look at inorganic opportunities that could really safely and cleanly fit into our business that we know can put us, that could give us a better multiple on the earnings side.

<Q – Bradford Evans>: Those would be more tuck-in in nature on the M&A side?

<A – James Green>: Yeah I would say so. More tuck-in, something that would fit well, easy to integrate, that clearly make sense. And is in a space, in our space, where we know, where we feel very confident we could make real success with it. But again our focus, we're not – we're clearly focusing on what's under our control here.

<Q – Bradford Evans>: And just back to the free cash flow for a second. Has the Board, how do you feel about perhaps a small buyback at the current level? Is that something that the Board might entertain?

<A – James Green>: Well, certainly the Board understands that we want to as a Group we're looking at what's the right level of, what should we look like in terms of capitalization. And in the past the Board's been very supportive of buybacks. We've done it even a couple of times in fairly large amounts since I've been here. They are certainly – they're certainly interested in discussing what are the right ways to deploy the cash. I think that's really all I can say at this point about it.

<Q – Bradford Evans>: Okay. And let me just ask some more questions in terms of your outlook for the second of this year with hopefully an improving landscape across the various business units. Is it possible for the company, if things fall in the right direction, that the company comes close to that double-digit operating margin sometime in the second half of this year? Or would that be aggressive at this point?

<A – James Green>: I think that could be – that would take an awful lot of green lights for something like that to happen, I think, that fast. But certainly there is a lot of, things come together, everything lines up, there is certainly – we would expect to see some very nice solid improvements.

<Q – Bradford Evans>: From the first quarter's level?

<A – James Green>: From the first quarter's level. We expect and even our pathway forward is driving this. So, we're expecting to see continued improvement sequentially as we move forward at the gross margin line and dropping to the operating margin line.

<A – Michael Levitz>: Okay. And I would just add to that our focus is on those goals is that they are three year goals coming from where we are today. We believe that we've got line of sight to those goals. But I think we were very clear on our Investor Day, that coming out of the economic issues from last year we're pleased to see recovery. We're focused on managing costs. But getting to those levels this year is probably not something I'm planning on, or I would suggest that you plan on. But we do expect significant improvements. We will continue to see significant improvements in operating margins as we go towards that three-year goal.

<Q – Bradford Evans>: Okay, thank you.

<A – James Green>: Thanks, Brad.

Operator: Thank you. Our next question comes from Josephine Millward with Dougherty & Company.

<Q – Josephine Millward>: Good evening.

<A – James Green>: Hi, Josephine.

<Q – Josephine Millward>: Hi, Jim. Can you give us an update on your security backlog?

<A – James Green>: Do you want to go through that?

<A – Michael Levitz>: In terms of the 3DX, we as of the end of last quarter, did not have any units in backlog. But we expect that our run rate will return to historic levels as we enter into the second half of the year.

So in terms of formal backlog as in orders in place, as of the end of the quarter we did not have any. At the same time we were active discussions with L-3 and we have line of sight to returning to historic levels.

<Q – Josephine Millward>: Okay.

<A – John Fry>: And you're aware of – what the GSA is doing on the US side with the expectations of bridge orders....

<Q – Josephine Millward>: Right. I believe L-3 was anticipating renewing a bridge contract in December or January. Is that still on track?

<A – James Green>: Yeah we're still expecting to see an order flow through here in the next month or so. And just to clarify, I was referring to the 3DX. We do have an order to the XLB that we've received. And that was – we were pleased to see that. And I think we're seeing positive feedback on that from L-3. And we also have some orders for the SX.

<Q – Josephine Millward>: Can you tell us the size of that order? And whether you expect to ship that in the coming quarter, late in the current quarter?

<A – James Green>: We expect to ship that in – not in the second quarter, but in the third quarter.

<Q – Josephine Millward>: Okay. And it's – are we are talking a few units? Or are we talking about half of it, I mean can you give us a sense?

<A – James Green>: We're expecting the 3DX to pick back up here somewhat here in the second quarter and then get back to the typical run rate if they get into the third and fourth. It will be somewhat ad hoc with some of the other units as they go out. Prepping with the XLB for certification, with the new certification, that's going to require some additional units. So it's a – we are waiting to see a little more clarity on it, but at this point we're a little bit going on faith with our customer there..

<Q – Josephine Millward>: Okay.

<A – James Green>: In terms of what should be coming here.

<Q – Josephine Millward>: Okay. So, you think you might get some 3DX orders before the end of your Q2 and ship some of that?

<A – James Green>: That's, yes.

<Q – Josephine Millward>: And can you tell me what XLB you have in your backlog? Is it the number of units?

<A – James Green>: Right now, we only have one formally in the backlog...

<Q – Josephine Millward>: Okay.

<A – James Green>: The rest comes down to forecast as far as what we expect to get in terms of new orders for units that we would be shipping here over the next few quarters.

<Q – Josephine Millward>: Okay. And that one unit of XLB, you don't expect to ship until Q3?

<A – James Green>: That's right. It's correct, yeah.

<Q – Josephine Millward>: Okay. What about SX, how many of those do you have left in the backlog?

<A – James Green>: I believe we have two.

<Q – Josephine Millward>: Did you ship any during the quarter?

<A – James Green>: I'm sorry, I should correct that. I believe we had six units. I'm sorry, six units SX in the backlog.

<Q – Josephine Millward>: Okay. So you didn't ship any during the quarter then. Just, you just shipped 3DX?

<A – James Green>: For last quarter you mean?

<Q – Josephine Millward>: Last quarter, yes.

<A – James Green>: Q1? Hang on, we'll have to take a look.

<Q – Josephine Millward>: Okay.

<A – James Green>: Do you have any – let me get back to you on that, I don't have that. Can we get back to you on that?

<Q – Josephine Millward>: Sure, sure. So based on – I know there is still some uncertainty surrounding the Security business. Based on your current outlook, do you expect Security to grow in this fiscal year?

<A – James Green>: You know what, we expect for this fiscal year is to not lose money in this fiscal year on the Security side. As far as growth, I don't – given where we are with some of the delays that the TSA and what's coming through, how that works through L-3. It's kind of hard to say, what the top line, as far as any looking to top-line this year. But we do again assuming we get to the kind of run rates that we got into the second quarter here and we get the bridge orders through the TSA on through L-3 to us, we'll at least be back to having a reasonably decent business there.

And then as the real upside comes as we look out a little further with the new orders that will be coming through for the large types of, orders coming through from the TSA and around the world. So, that's...

<Q – Josephine Millward>: So, you are referring to the competitive procurement, the solicitation that's going on with TSA right now?

<A – James Green>: That's correct

<Q – Josephine Millward>: For explosive detection systems. When do you expect that to be awarded? And also in terms of your relationship with Smiths, does Smiths plan to compete in this upcoming competition against L-3? And how – I guess, how does that sit with your existing partner?

<A – James Green>: That – I really couldn't comment on.

<Q – Josephine Millward>: All right.

<A – James Green>: On that, as far as Smiths' intention and where are they plan to market, yeah.

<Q – Josephine Millward>: Jim, can you remind me, I thought you have an exclusive OEM-relationship with partner L-3 on 3DX, SX and XLB in the US, is that correct?

<A – James Green>: We have with the – similar to the products that we sell on the medical side.

<Q – Josephine Millward>: Sure.

<A – James Green>: When we work with an OEM on the design of a product, we will typically make – have it that product is exclusive for that customer. So, if – but if we work with other customers on other subsystems and things, we certainly have every right to develop new products and subsystems and such for meeting their specifications.

So, our exclusivity with our current customer is, certainly with 3DX, has been in place for a long time. We have certain conditions for exclusivity for the XLB and SX also. So I think the answer to your question is yes. But on the other hand that doesn't preclude us from doing other things under the way we do business.

<Q – Josephine Millward>: Okay, that's helpful. Can you give us an update on Digital Mammography in terms of any news on potential timing, when Siemens and Philips might receive FDA approval? Is that – is this deal first half of next year?

<A – James Green>: Yeah, we're still assuming that we'll see the TMA approval through the primary customer on that side, which is Siemens, here in the first half of the calendar year. So for us, the second half of the fiscal year. That's all – it's all in play at this point. I mean it's all turned over, the FDA is doing their thing. But we are very hopefully and optimistic that that's going to come through.

There is an awful lot of buzz around the world, or especially in the US now for Digital Mammography. So that's going to – we're still very excited about this product. It continues to do well. As we look inside Digital Mammography specifically, we continue to see improvement year-over-year and quarter-on-quarter, and we are anxiously awaiting the approval for this to get access to the US.

<Q – Josephine Millward>: Can you help us to think about, say Siemens gets this approval first half of next year, how soon could we see order flows, and how long would it take for them to start taking market share away from competition in the US?

<A – James Green>: Right now, Siemens private labels, uses a private label unit, so they already have share in the US. And we would expect that they would very, very quickly ramp up demand for these products, very quickly.

<Q – Josephine Millward>: So, they already have distribution in place and...?

<A – James Green>: Absolutely. They have a very solid market share, very solid access. In the US, I mean their market connection in the US is really incredible. So, these guys are solid. And as they get this new product, we expect immediate demand, incremental demand with it.

<Q – Josephine Millward>: Great, thank you very much.

<A – James Green>: Thank you. And Josephine just to answer your question there, there were no SX units shipped during the quarter.

<Q – Josephine Millward>: Okay. And do you expect to ship them next quarter?

<A – James Green>: [inaudible]...

<Q – Josephine Millward>: Pardon me.

<A – James Green>: I'm sorry.

<Q – Josephine Millward>: Do you expect to ship them in the coming quarter?

<A – James Green>: Let me look at that. Just one moment. Yes, we expect three SX shipped.

<Q – Josephine Millward>: Thank you very much.

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

<Q – Josephine Millward>: Thanks.

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

<Q – Jiwon Lee>: Thanks. Coming back on your goal to improve financial metrics, it's a three-prong question. What was the head count a year ago, what's the current head count now? And the second part of question. Do you expect some significant cash expense as a result of your cost cutting goals? And thirdly, what would be some of the more immediate steps and a little bit longer step?

<A – James Green>: I think on the head count, is that something Don you want to comment on, you have that handy? Headcount from a year ago?

<A – Donald B. Melson>: I don't have that.

<A – James Green>: We'll have to pull that into side effects how to communicate that. As far as, you had asked if we would expect there to be major charges, cash charges, associated with these changes, I would say certainly there is always going to be some. But I wouldn't, I think given the nature of an ongoing leaning effort that we're going through here, I don't project any large specific severance related ones, in terms of large numbers.

I think what you're going to see is, now the focus on the kind of running of the leaning effort as it runs through. And you said in terms of – I think the last question if you could repeat that for me, I'd appreciate it.

<Q – Jiwon Lee>: Yeah. I was wondering what would be some specific immediate steps and a longer term step to get to your double digit operating margin?

<A – James Green>: I mean these actions take place, they don't all roll out exactly the same time. But it's really a combination of things. We put a world-class team in place now to really go after this. We're going to be further consolidating manufacturing operations. There is certainly an expected improvement on the planning and supply chain side, as the tools are now being used with the processes and are substantially improved.

An increased use of automation, we've installed a new robotics system for the automatic pick and place for putting together our detection system. So that kind of thing not only improves our yield, it also reduces the costs side and then the overheads associated with it.

And then with designed-in, product design activities, that design-in lower cost activities and lower cost supply, and then when you add that having much more access to a low cost country supply that's another natural improvement on the cost side. So, we...

<Q – Jiwon Lee>: So I guess....

<A – James Green>: To roll in here quarter-to-quarter and with successive improvements moving forward.

<Q – Jiwon Lee>: So I guess I was wondering as we watch this progress going forward, what would be perhaps first or second, some of the important milestones that we could look out for?

<A – James Green>: Well, with the China operation coming online and those certain sets of products certainly come under there, that's something, that as that kicks in that's a specific activity where you start to see the cost reductions. The leading of the overheads, those tend to be a little more gradual.

And I think that's really about all I can say at this point, as far as specifics on that. I think the most important thing was to be – was to show a very dedicated, how dedicated we are to focusing on this. And that's really the first step. And you should expect to just see these improvements as they roll forward.

<Q – Jiwon Lee>: Okay, that does help. And my last question is, your agreement with Smiths, does the potential revenue contribution play into your revenue line when you think about this long-term financial goal?

<A – James Green>: The revenue associated with that, probably we don't expect to see product level revenues on something like that for a couple of years. So I would say that no, it's not really a part of the long-term what we expect to see hitting our number. So that should be – if things go well and it goes according to what we would like to see happen, then that would be an additional opportunity for us.

<Q – Jiwon Lee>: Okay, great. Thank you.

<A – James Green>: Thank you.

Operator: [Operator Instructions]. Our next question comes from Larry Solow with CJS Securities.

<Q – Larry Solow>: Just a quick follow-up. Do you have the contribution from Copley, is there any way to break that out or is it sort of integrated...?

<A – Michael Levitz>: Yeah, Larry, this is Mike. That is not something that we have available to break out. We've done a great job of integrating the business. And so those numbers are all intermingled as we've – one of the things we are trying to do is leverage the workforce here and drive these efficiencies. And part of that has been – we announced last quarter reduction size of that facility down in Canton. And so we've got the teams intermingled and are continuing to drive efficiencies across our lines of business.

<Q – Larry Solow>: Got it. And then on the Digital Radiography, is it fair to assume that's essentially, it's just Seimens and Philips, right? Toshiba is not contributing revenues yet. Is that correct?

<A – Michael Levitz>: That's right. They are not contributing revenues yet at this point.

<Q – Larry Solow>: So basically it's around low 30s run rate annualized just for the two customers in Europe? That's basically...

<A – Michael Levitz>: Yeah, as of right now...

<Q – Larry Solow>: Right.

<A – Michael Levitz>: It's really just one – it's just Siemens in Europe, as of right now as far as mammography revenues.

<A>: We also have smaller OEMs that we are providing plates too as well. So I mean we've been seeing increasing interest from those smaller OEMs. But clearly Siemens is our number one customer.

<A – James Green>: Yeah, I think you're really looking to see what you would expect as they all come up to speed in their regions of strength, and then as they move to – as Siemens, Philips move to the US, is that what you're trying to get to?

<Q – Larry Solow>: Exactly. I mean it seems like just looking at it in the market, your opportunity seems like it's at least, just on an opportunity basis, at least a double from here. Is that a fair statement? I'm not saying you're going to, when and if you're going to achieve that, but just the opportunity, would you agree with that?

<A – James Green>: Yeah, I would certainly agree with that.

<Q – Larry Solow>: Right. And then just looking out, with that as my basis and sort of the backdrop of your long-term goal, double-digit operating profit across the spectrum, it seems like would this segment potentially being at the operating margin that these levels are already kind of have been in the high single-digits, even a little higher one quarter ago, maybe that was an aberration. But is it fair to say that the operating margin in this segment could be mid teens and up? I mean or even higher? I mean it seem that's to be the case if they reach sort of somewhere near the full opportunity?

<A – James Green>: Yeah, I mean it really depends on how much – what kind of additional costs hit it below the gross margin line, the gross margins on products like that are consistent with most of our OEM products.

<Q – Larry Solow>: Right.

<A – James Green>: As that grows in volumes and as we improve yields, that continues to get better. And then it – so it's kind of hard to comment on how much engineering expense might be – might have to hit it below that line. But it's certainly is a good solid business and it's good as most of our OEM businesses.

It will be hard for me to say that it's going to – to expect it to do substantially better than double-digit. I mean getting to double-digit is a good solid first step here over the next couple of years.

<A>: And just as it relates to the – getting to the operating margin goal, I mean obviously we've got a number of various lines of business. We've spoken historically about our direct to end user business, and we are very excited about that business.

And I think that's going to be a solid contributor as we get to the double-digit operating margins. Also, I think Security is an exciting area of the business. We're very pleased to see the addition of Smiths. And I think that we've got some real good opportunity for us.

<Q – Larry Solow>: Got it. And then on to the ultrasound business or BK Medical, I guess or ultrasound, Specialty Ultrasound. That also, I imagine, has an end user market with potentially higher margins than your OEM business. I imagine that 10% double-digit number is probably a very attainable number as you look out the next few years?

<A – James Green>: Yeah, absolutely. That's a business that – it's been sub critical in size. So I mean it really needs – we need – we've got to move forward with at least one or two new products through that organization. And we have to optimize the field infrastructure so that we are really leveraging the – what we've got out there. But a business like that really should be driving dramatic operating margins.

<Q – Larry Solow>: And just on a housekeeping question. The – on the currency impact, I imagine you are, there's some exposure? Or do you hedge against the pound for that business?

<A – James Green>: Yeah, I will let Mike talk about it, but we're – we just over the last few quarters started looking at how to hedge that business. Now with that business, a lot of that business is done in Canadian dollars.

<Q – Larry Solow>: Okay.

<A – James Green>: So that's really where – I don't know if Don, if you wanted to say anything about that?

<A – Donald Melson>: Were you referring to the...

<Q – Larry Solow>: The BK – the ultrasound business, so I think that's the Specialty Ultrasound in the UK, all right, so...?

<A – Donald Melson>: Yeah, my mistake.

<Q – Larry Solow>: So I guess you can – I mean I guess also for Digital Mammography, I guess so you're both Canadian dollar and pound exposure I guess, right?

<A – Donald Melson>: Well, the – on direct ultrasound with BK that would be more the Danish kroner.

<Q – Larry Solow>: Right, exactly. That's it. Okay.

<A – Donald Melson>: Just to follow the euro, we've got – a good portion of that business is outside the US in euros and Danish kroner, but we also have a significant business in the US. So what we find in that business is somewhat of a natural hedge.

<Q – Larry Solow>: Got it.

<A – Donald Melson>: Across that business. And when you see the FX, I think there is, as they say, a natural hedge in that business. And we see some FX exposure on the Canadian dollar side with the mammography business. And that's something we are actively looking at, how to best manage that exposure.

<Q – Larry Solow>: Okay. And then just two final questions. The effective tax rate, is that sort of a low 30s number?

<A – Donald Melson>: Yeah, right now our effective tax rate for the fiscal year that we expect is 30%.

<Q – Larry Solow>: 30%. And then the wholesale business, is that running on a break-evenish or a little profitable or...?

<A – Donald Melson>: It's slightly profitable.

<Q – Larry Solow>: Slightly profitable.

<A – Donald Melson>: It's not a meaningful figure.

<Q – Larry Solow>: Right, yeah. Okay, great. Thanks a lot guys.

<A – James Green>: All right, thanks.

<A – Donald Melson>: Thank you.

Operator: Thank you. Your next question comes from Brad Evans with Heartland.

<Q – Bradford Evans>: Just a follow-up. It appears that, if you are able to hit your targets Jim, that the company should generate a very attractive earnings profile, something in excess of $3 in earnings power on a normalized basis, which would very attractively value the company on a debt adjusted cash flow basis. You've got a lot of cash, as you've already discussed.

I guess I would just – this is more of a statement than a question. I just would urge that the members of the Board, to consider buying stock personally, especially in light of their desire to potentially put some of our capital to work through acquisitions. I think it would be very healthy for members of the Board to buy positions – increase their positions in the company, especially at this level. Especially at the current valuation, in light of the outlook that you have here over the next year or two or three.

And it will put them in shareholders' shoes in terms of, I think a greater governor on their willingness to spend capital on a risk adjusted basis. So that was more of a comment than a question, but I just would urge the Board to step up to the plate for their personal accounts. Thank you.

<A – James Green>: I'd be glad to forward that message on, Brad. Thanks.

Operator: Thank you. The next question will come from Edwin Fowler with Small Cap Report.

<Q >
Hi, Jim.

<A – James Green>: Hi, Ed.

<Q>: Just a couple things that haven't been covered. At the analyst meeting back a month or so ago, Michael Brock talked about adding more salespeople for the new products coming out of BK. Has he been able to implement that yet?

<A – James Green>: Yeah. We're going through now and we've actually started – we've hired I know at least one new person into one of the nice territory down in Southeast side. So we're looking now to make sure that we have the right coverage. And there is no question that we're expanding the number of feet on the street there. And we also have plans for new products or some additional products for them to carry with them. So that's a key part of real strong profitable growth for this business.

<Q>: So what would you think would be BK's optimal growth rate?

<A – James Green>: No, that's a hard one to say, but I can tell you that I have very high expectations in that you could look at a number of different companies with similar profiles, where they have one product and they're selling at a average selling price. That kind of keeps them down below, the CEO of the hospital having to get heavily involved.

And adding one new product to those touch points can have some very substantial improvement in the business. So let me just say, I have very high expectations of very, very strong growth in that area.

<Q>: I mean, BK is kind of like a standalone company. They have their own direct sales force, they have their own products that are unrelated to the products you're making. I mean, is there any reason to sell BK or spin it off?

<A – James Green>: I guess, the first point is, if you look at what goes inside of BK labeled products, the majority of it comes from – the engines are manufactured off our production lines in Boston. Much of the supply comes through our normal supply chain. So it's, the technical connection is probably closer than somebody might think from the outside, just looking at a business card and looking at the product itself.

And as you know, when you have a business where you have a large OEM group of customers, and you also play in some of these high profit niche areas, you do need to be careful as far as branding and naming so that you keep enough of a distance from the various customers that you don't – that you're able to grow in those areas without generating other problems, in other sides.

<Q>: But, basically BK is getting some engineering from the Peabody headquarter? Or a kind of a standalone company on its own.

<A – James Green>: Well, I mean it's – if you look at the way we're organized, you might – a lot of the design work and end market analysis happens in Denmark. But there is also a large brain contingent here in the Boston area for covering the US.

And then, if you look at our Sound Technology team down in – that came out of State College, Pennsylvania, that's another piece to the puzzle. So you really have to stitch it together to come up with the product lines that we have.

So as far as – your question about selling BK, my thought is the most important thing we do right now with that product, with that business unit, is to dramatically grow value in that line. I mean that's an opportunity for Analogic to drive value growth in that business through growth and through profitability improvements.

<Q>: Did BK make a profit in the quarter?

<A – Michael Levitz>: This is Mike. No, they did not. No, they did not. They improved their operating results year-over-year and quarter-over-quarter they were essentially flat. But they were just below break-even. And Q1 is always the weakest quarter in the Ultrasound side of the business, so...

<Q>: So, 20 million in revenue and no profit.

<A – Michael Levitz>: So, 20 million...

<A>: That's correct.

<Q>: And Anrad, did Anrad make a profit in the quarter?

<A – Michael Levitz>: Yes. Anrad made a profit in the quarter.

<Q>: And could you tell us what it was?

<A – Michael Levitz>: Yeah. If you refer back to slide eight, you'll be able to see it most readily. So, Anrad had $600,000 – Anrad digital radiography, that's $600,000 of pre-tax income in the period.

<Q – Ed Fowler>: Thank you, Mike.

<A – Michael Levitz>: Thanks Ed.

<Q – Ed Fowler>: Have a good night.

<A – Michael Levitz>: Thanks.

<A – James Green>: Why don't we take one more question?

Operator: Okay. Our last question comes from Rick Tortell with Columbia Management.

<Q>: Yeah. This is something that's been asked, but I just wanted to probe a little harder. The new relationship with Smiths, I'm thinking back to the time when you guys were introducing the smaller security machine, and there was not an L-3 link out of the gate on that. And they were not very happy about that. And ultimately you negotiated with them and they were included in that. I guess, what I am asking is, is L-3 aware of this new relationship before now, I guess?

<A – James Green>: I mean they are aware that we now have a relationship with Smiths for the development of some advanced CT Technologies for Smiths new checked baggage system. So yes, they are certainly aware.

<Q>: Okay. And I mean, I don't know. Are you trying to shoot something across their bow? Or is this something that they seem to be perfectly happy with, and it doesn't interfere with your relationship that you have with L-3 right now?

<A – James Green>: L-3 and Analogic have a shared success model in that, if L-3 they have access through their distribution and service and such, to and their connections to government entities to work with us on new products. So as opportunities come for L-3 to grow their business that works with us too.

But we are an OEM company and for us to only do business or to only engineer designs and systems for one company, it's kind of questionable. So if you look at our medical side, we've always work with multiple companies on the Security side. We expect to work with the right companies to extend our operation, or extend and grow our business, and to deliver the kind of life-saving products that we do. There is a handful of companies on the planet that can do high precision CT systems. And it's the kind of thing that we do. And we do it with multiple companies all of the time.

<Q>: So this does not jeopardize anything that you currently have with L-3 is, I guess, is what you are saying?

<A – James Green>: Well I would certainly hope not. I mean as opportunities come up for the different tiers of products that L-3 can take to the US and around the world, that's a good business for all of us.

<Q>: Okay. Thank you.

<A – James Green>: Okay, thanks Rick. Okay. Well, with that, I'll turn it back over I think to the operator.

Operator: Okay. 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 35516804. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time, Friday, January 8, 2010. The webcast replay will be available on the Investor Relations page of our website at www.analogic.com beginning about three hours from now, and will be available through Friday, January 8, 2010.

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