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

Larry S. Solow – Analyst, CJS Securities, Inc.
Jiwon Lee – Analyst, Sidoti & Co. LLC
James M. Terwilliger – Analyst, The Benchmark Co. LLC
Gregory M. Macosko – Partner & Portfolio Manager, Lord, Abbett & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to Analogic Corporation's Second Quarter Conference Call for Fiscal 2013. The following corporate officers are present Mr. Green – 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'd like to remind everyone that the supplementary financial presentation will be used today 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 11, 2013.

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

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

Thank you. Good afternoon, everyone. Welcome to Analogic's second quarter conference call for fiscal 2013. I'm sure all of you have downloaded our press release issued earlier today describing our results for our second quarter. If not you can do so via our website at investor.analogic.com.

Please note the procedure for asking questions at the conclusion of our prepared remarks today. [Operator Instructions]

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

Also on today's call we'll be discussing certain non-GAAP financial measures not prepared in accordance with generally accepted accounting principles. These non-GAAP financial measures are meant to supplement and should be viewed in conjunction with our GAAP financial measures. An explanation and a reconciliation of our non-GAAP financials are provided at the end of the presentation and in our second quarter press release.

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. Good afternoon, everybody. Let's move to slide 4 of the presentation, please. I'll start by saying that Q2 keeps us solidly on track to deliver another year of healthy performance this quarter, delivering strong growth and double-digit operating margin across all our segments.

So looking to the quarter, our revenues came in at $139 million, that's up 10% from Q2 last year. Our gross margin improved to 40%, that's up 3 points from last year. Our operating margin measured 10% on a GAAP basis, that's up 4 percentage points from the same quarter last year. And our non-GAAP operating margin came in at 14%, that's up 2 percentage points. Our GAAP earnings per share came in at $0.78 and our non-GAAP EPS measured $1.05.

Let's more to slide 5 and take a quick look at the business highlights. And starting with ultrasound, we continue to expand and you can see that we're strategically realigning along our direct business and ultrasound. As such I'm happy to report that at the beginning at this month we completed the acquisition of Ultrasonix, which is key to our growth strategy going forward.

Now in the quarter prior to the closing of the Ultrasonix acquisition our overall ultrasound was down 2% from last year, so I want to take a minute and explain some of these moving parts. Starting with North America the investment to expand our direct sales force is really starting to pay off and we're seeing an acceleration of the business there. In this last quarter, we measured 7% growth.

And looking to Europe, Europe was actually a very strong quarter for us. And if not for the distributor transitions that you'll hear a little bit more about where we reduced sales by $2 million, we would have shown double-digit growth in Europe.

Also as we continue to focus on the direct business we're being more selective about the kinds of products and offerings in our OEM probe business. As such we exited what I would call a non-strategic low margin product line, which reduced our probe sales by approximately $2 million in the quarter.

Moving on to medical imaging, we have 7% growth over last year. Our CT business grew well above market, mainly driven by incremental new product sales of new products, which we recently introduced. MRI continued to show strong growth with both our existing customers and with more OEMs moving to our technology. Mammography revenues were down from last year's strong Q2, although our yields have strengthened and continue to support strong margins.

And looking to security, revenues were up 73% from last year and the new developing high-speed threat detection segment is expanding our market – and our market share and market size overseas. I'm excited to say that for the first we – actually we're the first to receive Europe's highest level of detection for liquids and laptops in carry-on luggage and we're starting to see excitement building for the application of advanced CT to be the technology of choice to improve both detection and throughput at the checkpoints.

So now I'm going to hand it over to Mike, our CFO. Mike?

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

Great. Thank you, Jim, and good evening, everyone. I'm going to walk you through the financial results for the second quarter and the first six months of fiscal 2013, which ended January 31, as compared to the same periods in last year. This information begins on slide 6 of the online presentation.

As Jim mentioned, the second quarter results were very strong with revenues of $139 million in the quarter, with 10% growth from Q2 of last year. This was our second highest revenue quarter in many years, driven by strong sales across our business with 7% in medical imaging segment and 73% growth in our security segment, offset partially by ultrasound revenues, which were down slightly compared to last year. I'll walk you through more detailed results by segment shortly.

Our gross margin in the second quarter was 40%, a 3-point improvement from Q2 of last year. Key drivers of the gross margin improvement in the quarter were the strong revenue, improved deals in our mammography product line and cost improvements in our supply chain, including the benefit of our Shanghai manufacturing facility.

On the improved gross margin, our operating margin increased significantly compared to last year, both on a GAAP and a non-GAAP basis, with our non-GAAP operating margin reaching 14% in the second quarter. This improved operating margin on our growing revenues provided a 29% increase in our non-GAAP operating income during the quarter as compared to the same period last year.

Please turn to slide 7 and a look at our P&L for the quarter.

Our P&L on a GAAP and non-GAAP basis reflects the significant growth in revenues, gross margin and operating margin and operating income that I just described. As a result of the strong performance, we recorded diluted EPS of $0.78 on a GAAP basis and $1.05 per share on a non-GAAP basis. The results in the second quarter included approximately $700,000 of expenses related to our acquisition of Ultrasonix which closed on March 2 of this year.

When comparing EPS to the same quarter last year, please recall that during the second quarter of last year, we had certain non-recurring favorable items, including a significant tax refund and proceeds from the sale of an equity investment. Together these two items provided $0.80 of favorable EPS in Q2 of last year. In addition, even after excluding these items from our non-GAAP results, our effective tax rate was unusually low in the second quarter of last year, due to timing of certain tax reserve reversals following favorable tax audits at that time.

Given the impact of these non-recurring items on EPS in Q2 of last year, for year-over-year analysis of operational performance, we believe that non-GAAP operating income is a more meaningful indicator. We were pleased to report the 29% increase in our non-GAAP operating income this quarter as compared to same period of last year, reflecting the significant growth in both our revenue and operating margin.

Turning to slide 8, which shows our P&L for the first six months of fiscal 2013, our revenues for the first half of the year totaled $258 million, which was a 6% increase over the same period of last year. The strong revenues in the second quarter helped to offset a weaker first quarter of the year. Our gross margin and operating margin improved notably during the first half of the year, based on our continued operational improvement. This margin improvement on growing revenues resulted in a 23% increase in non-GAAP operating income in the first half of the fiscal year, as compared to last year. And again, for EPS comparisons to last year, please note the significant non-recurring benefits last year from the tax refund and equity sale that I mentioned on a previous slide.

Now let's turn to slide 9 where I will discuss our operating performance by business segment. Our medical imaging segment revenue reached $81 million in the second quarter, which was a 7% increase or improvement over last year. This quarter we saw strong growth in our CT business with key contribution from new, higher value content products.

In addition, we saw another quarter of nice growth in our MRI business, both from existing customers as well as new OEM customers. Our Mammography sales declined from an exceptionally strong quarter a year ago on continued headwinds in the developed markets. In addition to the growth in revenues, we drove a significant improvement in operating margin in our medical imaging segment with non-GAAP operating margin reaching 15% in the second quarter. The margin improvement is a result of our continued focus on controlling costs while growing revenues, with positive results from our growing Shanghai operations as well as improved product yields in our Mammography product line.

In our ultrasound segment, we saw solid growth in revenues from our direct business with 7% growth in North America. But as Jim mentioned, the strong growth in our European business was offset by transitions in our Eastern European distributors. These transitions, along with lower revenues in our OEM transducer business resulted in overall segment revenues declining by 2% as compared to the same period last year. In our OEM transducer business, we made the strategic decision towards the end of last year to disengage from certain lower margin business, which resulted in the year-over-year reduction in OEM revenues.

We were pleased to report an 11% non-GAAP operating margin in the ultrasound segment in the second quarter as we continue to see benefits from our manufacturing consolidation efforts. Our operating margin was down from the same quarter last year due to increased investments in research and development and sales force expansion this year.

Our security business was a real highlight this quarter. Revenue was up 73% in the second quarter as compared to the same quarter last year. This growth was driven primarily by the new and growing market for certified high-speed checked-baggage threat detection systems, primarily outside of the United States, as airports replace x-ray systems with our CT systems that provide improved threat detection.

Our operating margin in this segment was 14% in the second quarter. This was down slightly from last year as the new high-speed products are in their first generation and do not carry the level of gross margin at some our more mature products. That said, the significant revenue growth in these new products, even on the slightly lower operating margin, enabled a strong 65% increase in non-GAAP operating income in this segment this year, as compared to last year and as in the second quarter.

Now turning to slide 10, I'll briefly walk you through some of our other financial metrics. Our cash and investments' balance increased to $175 million on operating cash flows from $14 million in the second quarter. Net of capital spending, we generated just under $7 million of free cash flows in the quarter and we used over $3 million of this to repurchase shares of our common stock. For comparisons to last year, please note that the second quarter of last year included just under $15 million of non-recurring cash inflows from the combination of a significant tax refund and the gain on sale of an equity investment.

In summary, we were very pleased with the strong financial performance in the second quarter. Both top line and bottom line results reflected our ongoing growth and profitability initiatives and we are looking forward to achieving strong results for the rest of the year. Also, we are very excited about the addition of Ultrasonix to the Analogic family, as it adds another building block in the execution of our growth strategy and we continue to expect it to be neutral to EPS this fiscal year, excluding acquisition-related costs, and nicely accretive going forward.

Thank you and now I'll turn the call back to Jim.

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

Thanks, Mike. Let's move to Slide 11. And we'll take a quick look and let me summarize our fiscal 2013 outlook. With medical imaging, we expect to outperform the markets and continue to deliver mid single-digit growth. Our technology enabling mid and premium CT detection systems will drive share growth. Our new generation high-power MRI steering amplifiers are further penetrating existing and new OEMs. The Selenium mammography detectors, however, will remain slightly down this year.

As for ultrasound, we expect to grow 10%. We expect our existing direct business to grow upper single-digits in spite of the initial challenges we saw in the first quarter of this year. We see double-digit growth in North America as our full sales force channel ramps the quota. Adding the point-of-care product line and ramping new distribution in Eastern Europe will drive solid growth outside the U.S.

Lastly, the Ultrasonix acquisition portion – the Ultrasonix acquisition positions us for strategic growth and this year's partial revenue will more than offset the short-term impact of the distributor transitions and the pulling of the non-strategic OEM probe offering.

Security continues to be a bright spot where we see continued strong double-digit growth of over 20%. The newly developing high speed segment is growing the market and accelerating demand. The medium speed replacement demand is expected to kick in in the second half and accelerate throughout FY 2014. And our XCT high-speed system shipments to Smiths began in the second half.

In summary, for the year, we're reaffirming our total company outlook of upper single-digit organic growth and when combined with Ultrasonix targeting 10% revenue growth over last year and we expect to improve annual non-GAAP operating margins by 100 basis points on a total company basis.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Our first question comes from Larry Solow from CJS Securities.

<Q – Larry Solow – CJS Securities, Inc.>: Hi, good afternoon, guys. Just a couple of medical questions, one on the security side. Just on medical imaging, you had pretty substantial margin improvement basically going that the last several quarters, but even year-to-date you're up I think like 400 bps. Is this sort of 15% number that you did this quarter, or mid-teens, plus or minus, is that a sustainable number going forward?

<A – Jim Green – Analogic Corp.>: Hi, Larry, this is Jim. At this point, as we continue to grow and pay attention to the mix, there's no reason not to assume that we'll continue to see improving margins in this business segment.

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

<A – Jim Green – Analogic Corp.>: We've given a pretty good high level overall view what we see when you put it altogether. But in general, we would – I'd expect us to continue to see improvement along each of our main operating segments.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. And then ultrasound, it sounds like so that you could – sort of a $4 million year-over-year drop in sales, if I heard it correctly, between the OEM transition and the distributors. Is that right? Sort of – you split the $2 million and $2 million on each?

<A – Jim Green – Analogic Corp.>: That's about right, yes.

<Q – Larry Solow – CJS Securities, Inc.>: And is that $4 million, I imagine, it doesn't sound like it was – I'm sure a lot less profitable with the direct sales, but I imagine there was some profit, operating profit you lost with that. Is that fair to say?

<A – Jim Green – Analogic Corp.>: Yes. Well, it definitely had an impact, but if you look at the two, and if you look at two components, they're very different. One is on the probe side that was a more OEM – as an OEM probe and becoming more, I would say, almost a commoditized type of product.

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

<A – Jim Green – Analogic Corp.>: Something that it just didn't make sense for us to be doing. It doesn't meet the kind of targets that we shoot for. And it was not strategic in that it was really not in the diagnostic realm. So it just made sense to pull out of that particular offering.

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

<A – Jim Green – Analogic Corp.>: So that would be basically a reduction to revenue along that line. Now when you look to the distributors in Eastern Europe, that's a little different situation there. We're replacing those distribution – that distribution capacity with other distribution opportunities. But – and we – so we would expect to see that start to add back in. Now that's a little higher margin business because that's part of the direct business.

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

<A – Jim Green – Analogic Corp.>: But that I think as – I think you would see that that would be annualizing by next quarter anyway. So as the new distributors come up to speed, that starts to add to our overall base revenue growth.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. That was really my – one of my follow-ups so that – because I know those distributor issues have sort of been ongoing now. I guess this is the third quarter. But it sounds like: A, your comps will get easier; and B, hopefully on an absolute basis, they're just getting more up to speed. Is that fair to say?

<A – Jim Green – Analogic Corp.>: Yes, that's exactly right and you see the growth from the other areas, the expansion in the U.S. and the way our business is operating in Europe, it's really overcoming these kind of headwinds anyway. And it's that fundamental growth in the direct business, that is the primary driver and the strategic reason why we're in this business.

<Q – Larry Solow – CJS Securities, Inc.>: Okay. Just last question on the security side. Do you think there will be more of a focus in Europe on switching to the CT-based technology on the carry-on because I know, obviously, in the U.S., we've been down this road before and I imagine the technology is better today than it was with COBRA, but do you think that you just have a better chance and more of an easier opportunity as you – this market opens up?

<A – Jim Green – Analogic Corp.>: Yes, I think in general, the feeling is that in time CT is the likely technology that will end up at the checkpoint both in Europe and in the U.S. I've said in the past that we expect that the Europeans will adopt it sooner and that's where we're testing out our technology and making sure we have – we're the first to get the certifications to be able to do what they want to be able to do, which is to be able to leave their liquids and the laptops in bags and have a much more efficient type of operation, improved throughput and also have a product that's priced right this time that allows for an overall lower cost of ownership for the airports as they start to move with this technology.

<Q – Larry Solow – CJS Securities, Inc.>: Okay, great. Thanks very much.

Operator: Thank you. [Operator Instructions] Our next question comes from Jiwon Lee from Sidoti Company.

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

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

<Q – Jiwon Lee – Sidoti & Co. LLC>: Jim, I just wanted to ask about how Ultrasonix augment or strengthen your ultrasound position in the marketplace and if you could include some type of geographic color, that would be helpful. Thanks.

<A – Jim Green – Analogic Corp.>: Sure. If you were to look at our presentations like back at JPMorgan there's a very nice detailed write-up or discussion around this area, what Ultrasonix does for us as you probably know we've been looking to expand our guidance technology into the point of care. It's the fastest-growing segment of ultrasound. It's an area that is complementary to our technology and complementary to our existing sales channel in that our sales force doesn't call on that call point today. So by adding this sales channel, it allows the technology that we sell plus the technology that Ultrasonix brings in to be able to call on this new market. And again, by the fact that it's complementary it means it adds product and capacity to our existing ultrasound business and it's not an area where there's measurable cannibalization.

Geographically, it's primarily – we see the primary growth here in the U.S. and in North America. As of today, I think we would – we've said that it's about 25% of the revenue is North America and then about half of the revenue would be outside the U.S. and a lot of it targeted to Asia. And that being said, Asia is an area where historically we really haven't had much of a play, so this gives us distribution capability and a product into Asia which also lets us start to look at some of our other products to be able to move through that type of channel. So that's kind of the lay of it, but I think you would – I would expect to see the primary growth driver being North America and the complementary aspect of this technology and the sales channel that comes with it.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's very clear. Thank you. And then you mentioned in the MRI side there were some new OEMs and I wanted to get a little more color on that if I could.

<A – Jim Green – Analogic Corp.>: Yes. It – part of our business model is to develop a technology that we can be a key enabler to a given very large OEM, we have a large reach and then to apply this technology, since we designed and own all of the intellectual property for the kind of products that we sell to expand our business and through approaching and designing our technology into other OEMs, we have had some very good success in this space and even in the CT space. But in this particular space we see this kicking up fairly quickly. It's been a part of our growth and our growth faster than the market because we're able to add other OEMs, large and new entrants into these spaces. So that is a part of this. I do have to be careful in that they tend not to want us to talk a whole lot about the specifics of who we're teaming with as we add these technologies into some of these new OEMs. But that is a part of, again, why we're growing faster than the market.
23:37
<Q – Jiwon Lee – Sidoti & Co. LLC>: All right, understood. And more questions for Mike, I guess. The mammography yield improvement and how that may help your margin side even as the revenue kind of stalled a little bit, how much is that lag in the second half of this year?

<A – Mike Levitz – Analogic Corp.>: Well that was a real challenge for us in the middle of last year, and we had started to see success and improvements towards the end of the year. But we really saw most of the improvement in Q1 and then carried forward into Q2. So I expect that our yield improvement and the fixes that we made there will continue to benefit us through the remainder of this fiscal year as compared to last year.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. I'll step off for now. Thank you.

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

Operator: Thank you. [Operator Instructions] Our next question comes from James Terwilliger from Benchmark Company.

<Q – James Terwilliger – The Benchmark Co. LLC>: Hello?

<A>: Hello.

<A>: Hi, Jim.

<Q – James Terwilliger – The Benchmark Co. LLC>: Hi. A couple quick questions. Nice quarter, first of all. Thanks for taking my question. The tax rate was a little bit lower than what I was modeling. Can you discuss what influenced the tax rate for this quarter? And what should be looking for – what should we be looking for for the fiscal 2013 tax rate?

<A – Mike Levitz – Analogic Corp.>: Sure. During the quarter, we saw the benefit of Congress' decision to renew the R&D tax credit. And one of the interesting things about Analogic's fiscal year with it being a July 31 year-end is certain years we get less of that benefit depending on when Congress renews the R&D tax credit; in certain years we get more. So when I gave guidance at the beginning of this fiscal year, I believe I said somewhere between 28% to 30% is what I expected our effective tax rate to be for the year assuming Congress would renew the R&D tax credit, which they did.

And so if you recall Q1 was a higher tax rate and that's somewhat typical. We tended to see that each year. And then in Q2 we got a nice benefit from both this year switching to the – we're having the R&D tax credit as well as the benefit that we couldn't take last year, last fiscal year for a portion of the year because Congress hadn't renewed it.

So I still expect our guidance for the full year to be what I said at the beginning of the year of between 28% to 30%. And I expect it to come back into more of a normal range here as we get into Q3 and Q4.

<Q – James Terwilliger – The Benchmark Co. LLC>: Okay. Thank you. My next question is really on the sales and marketing line. The number – the expense number was a little bit lower than what I was looking for. So you did a great job in terms of expense control and I know you put in the Ultrasonix acquisition, but could you discuss or update me in terms of the progress you made during the quarter in terms of building your internal sales force for the ultrasound business, excluding the gain from the Ultrasonix acquisition?

<A – Jim Green – Analogic Corp.>: Yes. Hi, Jim, this is Jim again. Much of the hiring that we did organically and internally happened in Q4 of last year and maybe even a little before that and a little bit in Q1. So I would – there wasn't a lot of additional base hiring brought in, but what you saw, and as we'd expect to see, with the newer folks being added and I think it was on the order of around 10 people, it takes them a while to really get up to quota. So it takes – a lot of their compensation is variable in nature, so as they grow, we start to see that line grow a little faster along with, they're moving more toward a standard sales volume. So it's pretty much where we would have expected. So maybe that's where you would have thought it would have been higher as – but as you look forward, certainly the people that we've brought on organically, they start to move to quota and then with that we start to see the corresponding sales expense associated with them.

<Q – James Terwilliger – The Benchmark Co. LLC>: Are you – one follow-up question on that one. Are you pretty fully well-staffed in terms of where you want to be internally? And it's more like letting these 10 people kind of grow into the role? Or do you look to continue to add to the Ultrasound?

<A – Jim Green – Analogic Corp.>: That's a very good question. We're – I'd say we're in pretty decent shape. We came from out of nowhere a couple of years ago. We've got a pretty good core group of people in place now for calling on surgery and urology and starting to go into interventional radiology. And then with the addition of the new sales coverage that we get with Ultrasonix, we're able to bolt on this complementary group of people who are now calling on those point-of-care spots for us.

So there will certainly be some level of additional growth in both of those areas, but at this point, I don't see a substantial growth. I mean it's got to be a little bit slower as people will get used to the territories. All the territories have been set now. Their compensation plans are all in place, we've got a good running start at this but it'll take a little while as this develops yet again. So I don't expect to see substantial immediate growth in that space. It's going to be more the teams all getting up to speed.

<Q – James Terwilliger – The Benchmark Co. LLC>: Okay. One other question. When you look at the ultrasound market as a whole and I know internally you've got some – you've added to the sales force and they're growing into the roles, but is there anything happening in the ultrasound market as a whole that you can talk about as this is the second quarter in a row that the revenue has been down year-over-year?

<A – Jim Green – Analogic Corp.>: Well, on the direct basis, our direct business in ultrasound is actually up and up nicely. In North America, we're up 7% organically. Europe as I said was up double-digit, would have been double digit except for the transition of one or a couple of distributors, which we've transitioned out of. So the base underlying business of the direct ultrasound business is growing fairy rapidly and if you look at our expectations for the year, you can see that we're expecting to be solidly into the double-digit region for our Ultrasound business, certainly on the direct well above 10% and we've said on a net basis when you put all this together, will be at 10%. So this is not – the Q2 was not, I would say, a slow quarter by any means. You just have to subtract out some of the one-time offsets with again the transition notice of the distributor in Eastern Europe and the pulling out of one of the product lines on the OEM part of the business, the OEM probe portion.

<A – Mike Levitz – Analogic Corp.>: And what I would just add to that is that I think most of that distributor transition is behind us now so I know we talked about that for the last couple of quarters but I really think that for the most part is behind us.

<Q – James Terwilliger – The Benchmark Co. LLC>: Okay. Thank you. And I'll ask one more question and thank you again for taking my questions and nice quarter. When you look at the Ultrasonix acquisition and it seems to me to be a great transaction with tremendous synergies across the board, how should we think – and I know you didn't do it for expense savings, but how should we think of maybe any type of expense reduction and maybe R&D or manufacturing or sales and marketing as we look in 2014?

<A – Jim Green – Analogic Corp.>: Yes. What we said early on with the acquisition is that we would be bringing in certain operations because we have – we put the effort into building a solid performing manufacturing operations and supply chain, so we're in the process of bringing in the operation side of it but from the R&D standpoint and from the sales and marketing standpoint those we see as real assets that we'll be building on.

So as we look forward, as you – and we discuss our outlook, you'll see that all built in to the overall business. And the way we run the business, now that it's all come together, I have to look at this as one ultrasound business. And so there may be differences between one channel, maybe an existing channel versus the new areas that we're calling on that it may be difficult to call out specifically how the ultrasound team is doing – I mean the Ultrasonix team is doing. But in general, we'll be driving them both as one consistent overall business that's now calling on an additional call point.

<A – Mike Levitz – Analogic Corp.>: And what I would just add to that is just as a reminder of what we've talked about from an operating margin standpoint, one of the nice things about Ultrasonix, they ran a really solid ship and were generating positive operating income. And we expect to be able to get their operating income in line with our levels. And so, yes, there are definitely synergies there in leveraging our business. But just in terms of outlook it really becomes very much in line with our overall company outlook from an operating margin standpoint.

<Q – James Terwilliger – The Benchmark Co. LLC>: Thanks – again, thank you for taking my questions and congratulations on a nice quarter. Thank you.

<A – Mike Levitz – Analogic Corp.>: Thank you, Jim.

Operator: Thank you, sir. Our next question comes from Gregory Macosko from Lord Abbett.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: Yes, thank you. Just in regard to the G&A line. I see that sell in the quarter. You made an acquisition. Could you explain why that number went down in dollar terms?

<A – Mike Levitz – Analogic Corp.>: Sure. So that relates to something I talked quite a bit about but not on that line item, which is the tax refund that we had in Q2 of last year. So we received a significant tax refund, $12 million last year. But there were some professional fees associated with the work associated with getting the refund. That was about $2.7 million pre-tax and that was included in the G&A line.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: Okay. I see. Okay, fine. With regard to the MRI, you mentioned the growth there was both existing and new customers and I assume those are OEM customers. Are you seeing new components or different types of components being sold to existing – the existing customers so that your penetration of their total need – it's not just a volume issue, but you're having greater penetration of components within their systems?

<A – Jim Green – Analogic Corp.>: It's kind of a mixed bag. In general, yes. We – but there's two very key areas of technology in MRI that we've developed over the years and that's in the RF chain and in the gradient amplifier chain. Those are two very key critical areas of steering amplification for MRI. We are adding – as we add new customers and new large OEMs, we go after both of those books of business. So, yes, it's true, we are able to add some additional penetration with existing customers; we're also seeing some of our existing customers doing well in the market, the market's growing. But then in addition, being able to add a new customer really gives us substantial opportunity to drive overall growth.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: And in terms of that penetration and more components sort of per system, do you – I mean, is there more to come on that or is it really taking the same components you're manufacturing at this point and selling them to customers that don't buy them yet?

<A – Jim Green – Analogic Corp.>: Again, it's a bit of a mixture of both. Certainly we go after trying to get the full product offering with existing customers if we don't already have it and then also applying that to other large OEMs. So we don't – and we wouldn't necessarily split out discussion in any more detail than that.

<A – Mike Levitz – Analogic Corp.>: One thing I would just add is when we think about – part of our strategy we outlined in our medical imaging segment is increasing value content and higher level of content. Principally we're talking about our CT business where we can do anything from a low end detector to a full CT system. In MR, we have a really strong product offering around these gradient and RF amplifiers, even amongst various levels of power, 1.5 Tesla, 3 Tesla, and so while there is room to move, add RF by gradient or add various levels of power, when we talk about growing higher level of value content, principally we're talking about our CT business.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: And then with regard to the inventory, it went up quite a bit. Is it – is that going to adjust over time, I mean, with regard to the acquisition?

<A – Jim Green – Analogic Corp.>: Yes, there's a few pieces to that. One is where – we've said that we expect to continue to see good growth in the second half of the year so building inventory toward that growth. You see that in security. And then also with the completion of – and the laying out of what's happening in our China facility versus here, there is some additional inventory associated with that. But I would say the majority of the inventory growth is really associated with expected growth of revenues and revenue shipments in the second half and beyond.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: Good. And then finally, with regard to the cash, anything with – I see it went down a little bit but it's a nice, chunky number, any thoughts on what to do with that?

<A – Mike Levitz – Analogic Corp.>: Sure. So we had $175 million at the end of the quarter. With the acquisition of Ultrasonix, that's going to be approximately $83 million, so that will bring that balance down. And in terms of our strategy for cash, our first priority is investing in our organic business to drive revenue and earnings growth; second is to look for good fit bolt-on-type acquisitions; and then, third is just keeping in mind a return of capital to our shareholders. And we have – we've used vehicles in the past there with our dividend and our buybacks. And so we have a multi-pronged strategy around our cash. The balance, obviously, will come down quite a bit after the Ultrasonix acquisition.

<Q – Greg Macosko – Lord, Abbett & Co. LLC>: Thank you very much.

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

Operator: Thank you. There are no further questions at this time. I would now like to turn the call back over to Mr. Green for closing remarks.

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

Yes. Thank you, everyone, for your interest in Analogic, and I'll invite you to call in again in June when we have our review of our third quarter fiscal 2013 results. Thank you very much. Good evening.

Operator: For listeners who may have come in late, this call has been recorded. You can access by the telephone replay by dialing 1-877-919-4059, or for international callers 1-334-323-7226 and entering passcode 40398358. The telephone replay will be available at the number beginning two hours from now and running until midnight Eastern Time Thursday, April 11, 2013. The webcast replay will also be available on the Investor Relations page of our website at www.analogic.com beginning about three hours from now and will be available through Thursday, April 11, 2013. Thank you for joining Analogic Corporation's second quarter earnings conference call. You may now disconnect.